Appendix 5

Capital Strategy 2025/26 – 2027/28

1. Introduction

The Capital Strategy is intended to provide a high-level overview of how the Council’s capital expenditure, capital financing, and treasury management activity contribute to the provision of services to the residents of Broxtowe along with an overview of how associated risk is managed and the implications for future financial sustainability.

The Capital Strategy should be considered in conjunction with the Treasury Management Strategy Statement in **Appendix 6** and the Investments Strategy at **Appendix 7**.

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. As such, they are subject to both a national regulatory framework and a local policy framework, summarised in this report.

2. Background

The Capital Strategy is intended to ensure that decisions about capital spending are taken in alignment with agreed corporate priorities and make the best use of scarce resources. It has been developed in conjunction with the Council’s Corporate Plan, ICT Strategy, Asset Management Strategy and People Strategy and seeks links to other approved strategies and policies. The Council will have regard to the following in determining its capital spend plans:

- Corporate objectives (e.g. strategic planning)
- Stewardship of assets (e.g. asset management planning)
- Value for money (e.g. appraisal of options)
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing)
- Affordability (e.g. implications for long–term resources and ultimately on the level of council tax)
- Practicality (e.g. the achievability of the Corporate Plan)

The production of the capital programme will be based upon the following eight core principles:

(i) All assets will be periodically reviewed to determine whether they remain fit for purpose.

(ii) Asset management systems will be used to increase the proportion of expenditure on planned as opposed to reactive maintenance and to determine appropriate levels of contingency in each planning period.

(iii) Capital expenditure, particularly in respect of investment in commercial assets, will be undertaken within the context of the Council's defined risk appetite and adopted priorities.

(iv) The decision to procure or build new assets will take into account the full revenue implications of the life cycle of the asset.

(v) Income from asset disposals will be retained centrally for the funding of future capital programmes.

(vi) Capital submissions produced by departments will be included in the third year of the three-year rolling capital programme unless they meet the specific criteria outlined above.

(vii) Capital submissions will be reviewed by the Council's Deputy Chief Executive and Section 151 Officer in conjunction with General Management Team (GMT) using a pre-determined scoring matrix set out in the submission template.

(viii) Borrowing will only be pursued as an option for financing capital expenditure after all other potential financing options have been considered.

The capital programme is a three-year rolling programme with new submissions, based upon an agreed template, accepted only for year three unless they meet the following criteria:

- The project has health and safety implications which must be addressed as a priority or is a statutory requirement.
- The project generates more income over time than the investment required (an "invest to save" project).
- The project is required to match income from external sources that would otherwise be lost.

Unforeseen factors may arise which will require schemes to be swiftly incorporated within the capital programme. These schemes will be subject to the same appraisal process set out above and funding will be assisted by the inclusion of suitable contingencies within the capital programme to avoid disrupting other planned capital schemes.

3. Capital Expenditure and Financing

Expenditure on assets that the Council will use for more than one financial year, such as buildings, vehicles, and equipment, is known as Capital expenditure. In local government this includes expenditure on assets owned by other bodies and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion as to what to classify as capital expenditure and this is set out in its Accounting Policies.

Capital expenditure can be paid for immediately by applying capital resources, such as capital receipts, capital grants, or by using revenue resources. However, if these resources are insufficient then any residual expenditure will add to the Council's borrowing need.

The following table summarises the three-year capital programme along with the intended financing:

	2023/24 Actual £000	2024/25 Revised £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Capital Expenditure					
General Fund	5,064	31,502	14,571	2,792	2,141
Housing Revenue Account	12,813	32,445	17,913	15,388	13,313
Total	**17,877**	**63,947**	**32,484**	**18,180**	**15,454**
Financed by:					
Borrowing GF	1,770	5,817	1,750	1,992	1,341
Borrowing HRA	5,142	20,375	7,818	7,236	6,823
Major Repairs Reserve HRA	4,836	4,003	5,015	4,752	4,890
Capital Receipts GF	-	800	-	-	-
Capital Receipts HRA	2,404	2,090	2,400	1,600	1,600
Direct Revenue Financing GF	-	82	-	-	-
Direct Revenue Financing HRA	-	-	-	-	-
Better Care Fund	958	1,645	800	800	800
Section 106 Receipts	65	947	1,750	1,000	-
Levelling Up (Towns Fund)	1,308	14,477	2,952	-	-
Levelling Up (Kimberley)	886	7,314	8,300	-	-
UK Shared Prosperity Fund – *capital funding*	68	1,090	-	-	-
Other Bodies	440	5,307	1,699	800	-
Total	**17,877**	**63,947**	**32,484**	**18,180**	**15,454**

One of the key risks to the capital expenditure plans above is the level of resources available within the Housing Revenue Account (HRA) to support capital expenditure. In previous years the HRA has made a revenue contribution to the financing of the capital programme. It has however become unsustainable to continue this as it would pose a serious risk to maintaining the HRA minimum balance (£1m).

The three-year capital programme from 2024/25 includes £1.4m per annum for the acquisition of former right to buy and other properties by the HRA as set out in the Housing Delivery Plan. Each acquisition will be subject to an appraisal process before a decision to purchase is made to ensure that the acquisition meets the Council’s needs and provides value for money. It is anticipated that the rental income from the properties acquired will meet the accompanying ongoing borrowing costs.

Similarly, a risk to General Fund capital expenditure plans is that some of the estimates for other sources of funding may also be subject to change over this timescale. The table above, for example, assumes a figure of £800,000 from the Better Care Fund, however the actual value of the grant will not be confirmed until the new financial year has begun and therefore there is a risk that this may be different than forecast.

No assumptions have been made with regards to either the value or timing of any further capital receipts that may subsequently be received.

The Council’s land and property holdings will continue to be reviewed in line with a new Asset Management Strategy to be produced that will, among other things, seek to identify opportunities to bring forward recommendations to dispose of or make alternative use of surplus assets.

As can be seen in the above table, borrowing makes up the largest proportion of the capital financing over the next three years. 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 may sometimes be 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 but slightly higher.

4. The Capital Financing Requirement

The Capital Financing Requirement (CFR) represents the Council’s underlying need to borrow for capital purposes. It is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The CFR will change each year in accordance with the value of the approved capital programme and the financing available. The capital expenditure above which has not been financed from available internal resources or from grants or third-party contributions will increase the CFR.

	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Capital Financing Requirement				
CFR – General Fund	34,440	35,298	35,240	34,305
CFR – HRA	109,526	117,344	124,580	131,403
Total CFR – 31 March	**143,966**	**152,642**	**159,820**	**165,708**
Movement in CFR represented by:				
Borrowing need for the year	26,191	9,568	9,228	8,164
MRP/VRP/other financing movements	(1,343)	(1,692)	(2,050)	(2,276)
Movement in CFR	**24,848**	**7,876**	**7,178**	**5,888**

As debt is only a temporary source of finance, since loans and leases must be repaid, this is therefore repaid over time by other financing, usually from revenue which is known as the Minimum Revenue Provision (MRP).

5. Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's needs whilst managing the risks involved. Surplus cash is invested until required whilst an anticipated shortage of cash is met by borrowing to avoid an overdraft in the Council's bank current account.

The Council usually has surplus cash available in the short-term as revenue income is normally received before it is spent but can have a cash deficit 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.

i) Borrowing Strategy

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 may sometimes be conflicting and the Council therefore seeks to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but slightly higher.

Projected levels of the Council's total borrowing when compared with the capital financing requirement are shown in the table below.

	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Gross Borrowing				
- PWLB and Market Loans	104,422	110,517	118,000	125,000
- Bramcote Crematorium	400	400	400	400
Gross Borrowing – 31 March	**104,822**	**110,917**	**118,400**	**125,400**
Capital Financing Requirement				
CFR – General Fund	34,440	35,298	35,240	34,305
CFR – HRA	109,526	117,344	124,580	131,403
Total CFR – 31 March	**143,966**	**152,642**	**159,820**	**165,708**

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen in the above table, the Council expects to comply with this in the medium term.

In order to provide some context, the Council's fixed assets, as at the latest (unaudited) Balance Sheet valuation date (31 March 2024), including Broxtowe's share of the Bramcote Crematorium assets, were valued as below:

Asset Class	Valuation £'000
Council Dwellings	260,575
Other Land & Buildings	34,009
Vehicles, Plant, and Equipment	2,872
Infrastructure Assets	3,175
Community Assets	291
Assets Under Construction	3,815
Intangible Assets (e.g. software)	62
Heritage Assets	522
Total Assets	**305,321**

Council dwellings are valued in the Balance Sheet at 42% of its open market valuation, meaning that the market value is over £620 million.

ii) Affordable Borrowing Limit

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit) each year. In line with statutory guidance, a lower 'operational boundary' is also set as a warning level should borrowing approach this limit.

	2024/25 Revised £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Authorised Limit for External Debt	134,500	142,150	151,500	160,250
Operational Boundary for External Debt	107,620	113,720	121,200	128,200

The authorised limit and operational boundary as set out above assume that the Council will not be entering into any private finance initiatives or leases over the period shown. The Council presently has no plans to enter into such arrangements.

iii) Treasury Investment Strategy

Treasury investments arise from when there is a gap between the timing of the receipt of cash and the timing of the subsequent expenditure of cash. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield. In other words, the objective is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the short-term is invested securely with, for example, the government, other local authorities or selected high-quality banks and funds to minimise the risk of loss. Money that will be held for the long-term is invested more widely to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and long-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.

The table below highlights the expected change in investment balances.

Total Investment Exposure	2024/25 Revised £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Investments as at 1 April	16,852	10,000	10,000	10,000
Expected Change in Investments	(6,852)	-	-	-
Investments as at 31 March	10,000	10,000	10,000	10,000

Unlike in previous years where the investments at the end of the financial year have typically exceeded the minimum £10m balance, it is expected that the 31 March balance will likely remain around the minimum in the medium term. This is because many of the large cash receipts we have seen over recent financial years, such as grant receipts related to the Stapleford Towns Fund, will not be received in future years. In addition, higher interest rates on borrowing make it very expensive to hold cash and therefore Finance Services are carefully controlling cash balances in order to minimise borrowing interest costs.

iv) Risk Management

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 and details the extent to which financial derivatives may be used to manage treasury risks.

v) Governance

Decisions on treasury management investment and borrowing are made daily and are delegated to the Deputy Chief Executive and Section 151 Officer and colleagues who must act in accordance with the Treasury Management Strategy approved by Cabinet. Reports on treasury management activity are also presented to Cabinet (or equivalent) whose Members are responsible for scrutinising treasury management decisions.

6. Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and minimum revenue provision (MRP) are charged to revenue albeit offset by investment income receivable. The net annual charge is known as financing costs and is compared to the net revenue stream (i.e. the amount funded from council tax, business rates and general government grants).

	2024/25 Revised %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %
General Fund	15.2	21.2	24.1	25.7
HRA	17.2	18.7	19.5	20.1

The estimates of financing costs reflect current commitments and the proposals in the revenue and capital budget reports elsewhere on the agenda.

As can be seen in the above table, the indicators for both the General Fund and the HRA are set to rise over the next three years. This is due to increased borrowing to finance the capital programme, particularly the Bramcote Crematorium cremator replacement, Chilwell Quarry works, and the vehicle replacement programme for the General Fund and the Housing Development Programme and major improvement/maintenance works for the HRA.

The Council will undertake a prudent level of borrowing to support the capital programme during the period covered by its medium-term financial plans.

7. 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 following individuals all hold the Chartered Institute of Public Finance and Accountancy (CIPFA) or other CCAB (Consultative Committee of Accountancy Bodies) professional accountancy qualifications:

- Deputy Chief Executive and Section 151 Officer (CPFA)
- Head of Finance Services (CPFA)
- Chief Accountant (CPFA)
- Chief Audit and Control Officer (ACCA)
- Principal Accountant (ACCA)

The Council also pays for employees to study towards relevant qualifications such the Association of Accounting Technicians (AAT) qualification.

Where officers do not have the knowledge and skills required, use is made of external advisors and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisors. The contract with Arlingclose is due to expire on 31 March 2025. An exercise is to be undertaken to establish the service provider from 1 April 2025.

The services currently provided by Arlingclose include:

- technical support on treasury matters and capital finance issues
- economic and interest rate analysis
- debt services (including advice on the timing of borrowing)
- debt rescheduling advice surrounding the existing portfolio
- generic investment advice on interest rates etc.
- credit ratings/market information service comprising the three main credit rating agencies.

Whilst the treasury advisors provide support to the internal treasury function, the current market rules and the CIPFA Treasury Management Code confirms that the final decision on treasury management matters rests with the Council.