

**Cabinet – 24 January 2024**

**Capital Strategy 2024/25 and Minimum Revenue Provision Policy 2024/25**

**Recommendation of the Cabinet Member for Finance**

**Report of the Director of Finance**

**Introduction**

1. The Prudential Code for Capital Finance in Local Authorities ('the Code') sets a framework to ensure that the capital expenditure plans of local authorities are affordable, prudent, and sustainable.
2. The Code, which is published by the Chartered Institute of Public Finance and Accountancy (CIPFA), has legislative backing. As part of the prudential approach the Code requires authorities to have in place a capital strategy.
3. The capital strategy is vital in forming the foundations of the Council's long-term planning and delivery of its capital investment programme and enabling the organisation to turn its ambitions into reality. It provides a high-level overview of how capital expenditure and capital financing 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.
4. Longer-term, the capital strategy enables the council to plan effectively for the future needs and ambitions of the county and to have a pipeline of key investments in place, even where funding has yet to be secured.
5. The strategy will be reviewed annually, updated, and presented to the County Council for approval. It is a key document, informing the authority's integrated revenue and capital financial planning and will be used as a point of reference when reviewing the Council's capital programme.

**Capital Expenditure and Financing**

6. Capital expenditure is described as *'costs incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing asset'*. It is where the Council spends money on assets that will be used for more than one year, such as the road network, schools, and economic development schemes.
7. In local government, this can also include spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

8. In 2024/25, the Council is planning capital expenditure of £168m, as summarised below.

*Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions*

	<b>2024/25 budget</b>	<b>2025/26 budget</b>	<b>2026/27 budget</b>	<b>2027/28 budget</b>	<b>2028/29 budget</b>
<b>Total</b>	<b>£168m</b>	<b>£70m</b>	<b>£47m</b>	<b>£46m</b>	<b>£40m</b>

9. The main capital projects include:

- **Schools:** Delivery of a new 1 FE (Form Entry) Primary School in Tamworth (c£3.4m anticipated spend in 24/25); Design a new 2 FE Primary School in Tamworth (c£1.92m spend in 24/25); and new Sports Hall and Teaching Spaces at Oldfields Hall Middle School (c£2.9m in 23/54). All these developments have been commissioned in response to rising pupil numbers in their respective locations.
- **Economic Planning & Future Prosperity:** Continuation to completion of Chatterley Valley project which will create an employment site which could generate 1,700 jobs (depending on the nature of the end users), Gross Value-Added Benefits of £67 million per annum and £60 million of private sector investment (c£1.9m in 24/25); Newcastle Enterprise Centre Extension (anticipated spend of c£1.2m in 24/25). The development will create an additional 4,500 Ft<sup>2</sup> of workshop space for letting to small and start-up businesses.
- **Communities:** Ongoing work to deliver the Stafford History Centre which will include new storage extension of the existing Staffordshire Record Office site on Eastgate Street, a new covered courtyard area, restore and repurpose the Grade 2 listed William Salt Library building and create a public pathway linking North Walls to Eastgate Street. Revised anticipated total budget of c£6.3m, with £2.9m anticipated spend in 24/25 funded by £1.2m SCC borrowing and £1.7m Heritage Lottery grant and a few other smaller grants and contributions.
- **Social Care:** Extension and refurbishment of Hawthorne House with anticipated total cost of c£5.8m with c£2.6m projected spend in 24/25.
- **Waste:** The Household Waste Recycling Centre mobilisation 5-year plan is currently programmed to deliver £3.3m of improvements in 24/25. This is to be financed from revenue savings.

- Highways: Currently anticipated spend of c£40.4m on Carriageway Maintenance and c£16.2m on Levelling up Schemes in 24/25 (part of a total Highways programme of £83.469m).

10. All capital expenditure must be financed, either 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). The planned financing of the above expenditure is as follows:

*Table 2: Capital financing in £ millions*

	<b>2024/25 budget</b>	<b>2025/26 budget</b>	<b>2026/27 budget</b>	<b>2027/28 budget</b>	<b>2028/29 budget</b>
External sources	£116m	£45m	£34m	£34m	£34m
Capital resources	£10m	£1m	£0m	£0m	£0m
Revenue resources	£10m	£5m	£2m	£1m	£1m
Debt	£32m	£19m	£11m	£11m	£5m
<b>Total</b>	<b>£168m</b>	<b>£70m</b>	<b>£47m</b>	<b>£46m</b>	<b>£40m</b>

11. 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). Planned MRP is as follows:

*Table 3: Replacement of debt finance in £ millions*

	<b>2024/25 budget</b>	<b>2025/26 budget</b>	<b>2026/27 budget</b>	<b>2027/28 budget</b>	<b>2028/29 budget</b>
Revenue resources	£19.9m	£20.0m	£19.1m	£18.2m	£17.8m

12. The Council's full minimum revenue provision statement is attached at the end of this report.

### **Capital Financing Requirement**

13. The Capital Financing Requirement (CFR) incorporates the impact of previous capital expenditure decisions, the future capital expenditure plans, and the liabilities in respect of PFI schemes and leases.

14. The CFR will increase due to adoption of IFRS 16 Leases. IFRS 16 introduces a single lessee accounting model, requiring a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
15. The liabilities recognised under IFRS 16 represents the amount of capital expenditure related to lease that is still to be financed, forming part of the capital financing requirement.
16. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

*Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions*

	<b>2024/25 budget</b>	<b>2025/26 budget</b>	<b>2026/27 budget</b>	<b>2027/28 budget</b>	<b>2028/29 budget</b>
Loans CFR	£579.6m	£579.1m	£571.7m	£564.6m	£551.5m
Other Debt Liabilities CFR	£66.8m	£59.4m	£52.0m	£45.8m	£40.6m
<b>Total CFR</b>	<b>£646.4m</b>	<b>£638.5m</b>	<b>£623.7m</b>	<b>£610.4m</b>	<b>£592.1m</b>

### **Asset Disposals**

17. 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. Repayments of capital loans and investments also generate capital receipts. The Council plans to receive £10.5m of capital receipts in the coming financial year as follows:

*Table 5: Capital receipts in £ millions*

	<b>2022/23 actual</b>	<b>2023/24 forecast</b>	<b>2024/25 budget</b>	<b>2025/26 budget</b>	<b>2026/27 budget</b>
Asset sales	£2.5m	£15.2m	£10.5m	£5.2m	£0.0m

18. This is subject to re-phasing as sales progress and the figures include earmarked receipts.
19. **Governance:** Capital expenditure programmes are contained within the Medium-Term Financial Strategy (MTFS) and follow the governance arrangements associated with the MTFS.

## **Prudential Indicators**

20. The County Council uses several regulatory Prudential Indicators that govern the performance parameters within which the Treasury Management function is managed.
21. The Prudential Code was revised in 2021 and set out the minimum required Prudential Indicators that should be published.
22. We have a Treasury Management strategy and an Investment strategy which follows this report.
23. **External Debt:** Projected levels of the Council's total external loans.

*Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions*

	<b>2024/25 budget</b>	<b>2025/26 budget</b>	<b>2026/27 budget</b>	<b>2027/28 budget</b>	<b>2028/29 budget</b>
External loans	£508m	£477m	£446m	£430m	£414m
Loans CFR	£579.6m	£579.1m	£571.7m	£564.6m	£551.5m

24. The local authority should ensure that borrowing does not, except in the short term, exceed the total capital financing requirement.

### **Authorised Limit**

25. The authorised limit represents the absolute maximum debt that the council may have at any one time. Allowance has been afforded to allow for the possibility that the council may wish to take its entire annual borrowing requirement early in the year where this is the most financially prudent course of action.

### **Operational Boundary**

26. This limit represents a measure of the realistic level that the County Council is to borrow including any credit arrangements that are not in the form of borrowing. It is, therefore, based on the estimates of borrowing used for the capital financing budget which represents the most 'likely' circumstances to arise during the year using the current known plans and economic conditions.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget	2028/29 budget
Authorised limit – Borrowing	£625m	£624m	£617m	£610m	£597m
Authorised limit – Other	£77m	£69m	£62m	£56m	£51m
<b>Authorised limit – total</b>	<b>£702m</b>	<b>£693m</b>	<b>£679m</b>	<b>£666m</b>	<b>£648m</b>
Operational boundary – Borrowing	£487m	£490m	£485m	£478m	£475m
Operational boundary – Other	£77m	£69m	£62m	£56m	£51m
<b>Operational boundary – total</b>	<b>£564m</b>	<b>£559m</b>	<b>£547m</b>	<b>£534m</b>	<b>£526m</b>

### **Affordability**

27. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable.

### **Ratio of Financing Costs to Net Revenue Stream**

28. This indicator expresses the resultant cost in future years of net capital financing costs, interest, and principal of unsupported debt (both historic and planned), as a proportion of the County Council's total estimated net revenue stream. The net revenue stream is the estimate of the amounts to be met from governments grants and local taxpayers.

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

	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget	2028/29 budget
Net financing costs (£m)	21.7	28.3*	29.6	29.7	31.3
Proportion of net revenue stream	3.2%	4.1%	4.2%	4.1%	4.1%

\*The increase in net financing costs between 2024/25 and 2025/26 is due to the assumed decrease in the base rate over the next few years coupled with the decrease in cash available to invest due to decreasing reserves. The amount of income earned on investments is expected to decrease resulting in higher net financing costs.

**Treasury Management (Corporate Indicators)**

29. It is a fundamental requirement of the Prudential Code that an authority has proper treasury procedures in place. This requirement will be met if the authority adopts and implements CIPFA's 'Code of Practice for Treasury Management in the Public Sector'.
30. The Treasury Management strategy and the Investment strategy follow this report.

**Conclusion**

31. There is a planned capital programme amounting to £168m in 2024/25. If any borrowing is planned, then the costs of repaying it are reflected in the capital financing budget. The Prudential Indicators are included within the Capital and Minimum Revenue Provision Strategy and these show that the planned level of borrowing is affordable.

## Minimum Revenue Provision (MRP) Policy Statement

### Introduction

Where the County Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends several options for calculating a prudent amount of MRP.

The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

### MRP Policy Statement 2024/25

- In respect of historic debt prior to the introduction of the Prudential Code, MRP will be charged at the rate of 4%, in accordance with the recommendations and intent of Option 1 – Regulatory Method of the Guidance.
- Expenditure incurred within the debt liability from 31<sup>st</sup> March 2010 will, under delegated powers be subject to MRP under Option 3 – Asset Life Method – Equal Instalment Method. MRP will be charged over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure using the equal instalment method.
- For assets acquired by leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the County Council. However, the County Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.



- As some types of capital expenditure incurred by the County Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure.
- Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26 or later.
- Where the County Council incurs borrowing to lend funds to a third party MRP is to be provided over the useful life of the asset created.

The County Council may apply capital receipts, grants, and other advances available at the end of a financial year, which it is considered will be used in the following or subsequent financial year to offset what would otherwise be an increase in their debt liability. In anticipation of such use, which will be determined according to the nature of expenditures deemed at the time to be financed for MRP purposes, the County Council considers it prudent that the debt liability assessed for MRP purposes at the end of a financial year will be reduced by applying those capital receipts, grants, and other advances.