Capital Strategy - Financial Years 2025/26 -2028/29

Committee considering report:	Council
Date of Committee:	27 February 2025
Portfolio Member:	Councillor Iain Cottingham
Date Head of Service agreed report:	17 January 2025
Date Portfolio Member agreed report:	30 January 2025
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	C4632

1 Purpose of the Report

1.1 To outline the Capital Strategy period and the supporting funding framework, providing 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.

1.2 Decisions made on capital and treasury management have financial consequences for the Council for many years into the future. Decisions are therefore subject to both a national regulatory framework and to local policy framework.

2 Recommendation

2.1 It is recommended that Council:

(a) Approve the Capital Strategy and supporting capital programme for financial year 2025/26 in Appendix A.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	The MTFS assumes a significant increase in the revenue capital financing budget for financial year 2025/26 and over the MTFS period. The financing of the capital programme needs to be considered alongside the Investment & Borrowing

	Strategy, which sets out the economic constraints and impacts of capital financing on the Council.			
Human Resource:	Part of the Council's establishment is funded directly by the Capital Programme per annum. Salaries are funded from capital where it can be demonstrated that staff directly support and help to deliver the capital programme.			
Legal:	The Capital Strategy contains Prudential Indicators that are mandatory under the CIPFA Prudential Code for Capital Finance in Local Authorities. When the final programme has been approved by Council, the budget managers will have the authority to let contracts for the schemes included in the approved programme in accordance with the Council's Contract Rules of Procedure.			
Risk Management:	Assumptions as to the anticipated cost of external borrowing are aligned to current guidance as set out by the Bank of England and potential interest rate changes. Significant / unanticipated rises in borrowing costs over and above those assumed within the budget setting will impact on the affordability of the overall programme.			
Property:	The proposed Capital Programme will provide funding for maintenance and improvements to a number of existing Council buildings.			
Policy:	The Capital Strategy is closely aligned to the delivery of the Council Strategy through enabling key projects to be financed and delivered. The Council has reviewed two key policies: The Flexible Use of Capital Receipts and the Minimum Revenue Provision Policy. Both policies have been reviewed with a view to minimising charges against the Council's General Fund and maximising use of revenue provision, including the existing capital financing budgets. Both policies are appended to this report.			
	Positive	**Neutral**	**Negative**	**Commentary**
Equalities Impact:				

A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		None directly from the Strategy. Any impacts from individual proposals within the programme will be assessed and publicly consulted upon where necessary.
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		As above
Environmental Impact:	X			There are a number of schemes included to enhance the environmental impact of the Council, for example carbon management, walking and cycling infrastructure and solar energy generation.
Health Impact:	X			Proposals included to encourage more walking and cycling as well as use of the district's environment.
ICT Impact:	X			Opportunities included in the programme for IT projects to enhance efficiency
Digital Services Impact:	X			Opportunities included in the programme for improved digital access to services.
Council Strategy Priorities:	X			The planned programme is aligned to supporting the Council Strategy.
Core Business:	X			The planned programme provides funding for projects focused on improving business as usual functions.
Data Impact:		X		

Consultation and Engagement:	Corporate Board Budget Board

4 Executive Summary

4.1 The Council is statutorily required to produce a Capital Strategy with supporting capital programme, and a treasury management strategy. The Council's treasury management strategy is called the Investment and Borrowing Strategy. Council is required to formally adopt both the Capital Strategy and the Investment & Borrowing Strategy. This report and supporting appendices focus on the Capital Strategy.

4.2 The capital strategy report gives a high-level overview of how capital expenditure and capital financing 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. Decisions made regarding capital and capital financing 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.

4.3 The Council's ability to deliver capital programmes has been constrained by a high-interest rate environment, Public Works and Loan Board (PWLB) rates on average being around 6% compared to a historic 2-3% average. Although capital is not charged directly to the revenue budget, the financing of capital (i.e. capital financing costs) is chargeable to revenue.

4.4 Financial years 2024/25 (actual) and 2025/26 (proposed) have required significant investment into the revenue capital financing budget to enable delivery of key capital projects, such as enhancements to the educational estate across the district and main infrastructure. Financial implications associated with the financing of the Capital Strategy are detailed in the Council's Investment & Borrowing Strategy and the Medium Term Financial Strategy (MTFS). Consideration to both of these strategies should be given when approving the Capital Strategy.

4.5 In response to the financial pressures, the Council has focused on not only building on its strengths, enhancing local infrastructure, the leisure offering across the district, environmental management and improvements to the educational and operational estate, but also on projects that provide benefits for residents and generate income in support of delivering Council Strategy objectives. A key area of investment in 2025/26 is the development of a solar farm within the district, providing clean energy, supporting the Council on its journey to net zero and generating income for the Council.

4.6 The Council is proposing a total capital programme of £72.9m of which £37.9m is proposed to be funded from external sources of finance (S106, Community Infrastructure Levy and grants). £35.2m of which £18.5m relates to development of the solar farm is proposed to be funded via borrowing /debt. The attached strategy is focused on projects to be undertaken in financial year 2025/26 and the longer term financial impacts of those projects. The strategy also includes a future years work pipeline of projects to be considered and designed for later years implementation. The shorter scoping of the Capital Strategy is in response to the economic pressures faced by the Council. Continuation of a high interest rate environment and continuing constraints on the Council's revenue position will potentially impact on delivery of the Capital Strategy. On 9th January the Council submitted a request for Exceptional Financial Support from central government totalling £16m. A decision on the request is anticipated in late February 2025. Without additional support or in the absence of financial support, a robust efficiencies plan presented to Executive, there is a significant risk of a s114 being issued.

5 Supporting Information

Medium Term Financial Strategy

5.1 The Medium-Term Financial Strategy (MTFS) highlights the financial planning, high level proposals, and sensitivity analysis that underpins the financial resources that deliver the Council Strategy. The MTFS also includes information on financing the capital strategy and how the scale and profile of this strategy has an impact on the overall financial position of the Council. The proposed MTFS details a significant funding gap for financial year 2025/26. An element of the gap is being driven by the revenue capital financing requirement (debt servicing), incurred supporting delivery of the Council's Capital Strategy and supporting programme.

Investment & Borrowing Strategy

5.2 Financial planning supporting the delivery of the Capital Strategy is detailed in the Council's Investment & Borrowing Strategy. The Council predominately borrows to support delivery of capital projects and for short term cashflow requirements. Capital expenditure is not directly chargeable to the Council's revenue budget; however, the Council is required within the revenue budget to make provision for repayment of financing undertaken in support of capital expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the resources underpinning investment.

5.3 The traditional driver for the CFR is the Capital Strategy and supporting capital programme. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR during the term of the Medium-Term Financial Strategy (MTFS). The Council is required to publish a Liability Benchmark in conjunction with the CFR. The Liability Benchmark is effectively the net borrowing requirement of a local authority plus a liquidity allowance. In simple terms, it is calculated by deducting the level of investable resources available within the Balance Sheet from the amount of outstanding external debt and then adding back a minimum level of investments required to manage daily cashflow needs. The Council's Liability Benchmark is published within the separate Investment & Borrowing Strategy.

Capital Strategy

5.4 The Capital Strategy proposes planned capital investment in district-wide improvement programmes and an allocation of resources to reflect enhancements to the Council's existing business systems to deliver long-term improvements to services. The Capital Strategy and supporting capital programme is aligned to the Council's approved Council

Strategy. Each individual capital project is aligned with a Council priority as detailed below:

Services we are proud of
£3.13m

A fairer west Berkshire with opportunities for all
£12.08m

Tackling climate change and ecological emergency
£25.61m

A prosperous and Resilient West Berkshire
£23.40m

Thriving communities with Strong Local Voice
£0.36m

5.5 The Council also seeks to invest within its operational infrastructure, such as ICT and other digital platforms, supporting business as usual activities, enhancing through planned maintenance programmes and investing in operational assets such as corporate buildings. £8.4m of expenditure is planned in order to maintain operational infrastructure.

5.6 Funding of the Capital Strategy and supporting capital programme is financed from a combination of external sources (government grants and other contributions), or the Council's own resources (revenue, reserves, and capital receipts) or debt (borrowing, leasing and Private Finance Initiatives).

5.7 The Prudential Code (2021) requires the Council to review capital and investment plans whilst taking into consideration overall organisational strategy and resources to ensure that operational decisions are made with sufficient regard to the long-term financing implications and wider risks to the Council. To demonstrate compliance, the Code sets out indicators which are reviewed within this report and in the Council's Investment and Borrowing Strategy.

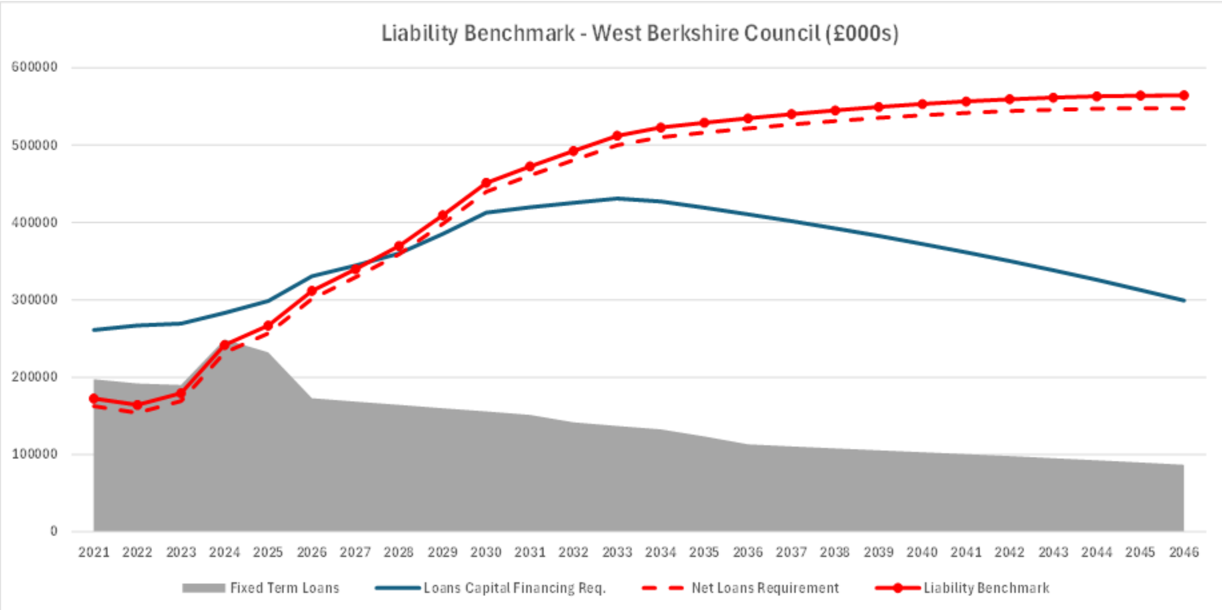
5.8 **Full details of the Capital Strategy and supporting programme are detailed within the Capital Strategy in Appendix A**.

6 Other options considered

No other options considered. The Council is required to approve a Capital Strategy and supporting programme whilst also taking into consideration longer term financial implications of the programme and its affordability.

7 Conclusion

7.1 A key consideration is the long term affordability of the capital programme alongside deliverability. Based on the proposed Capital Strategy and supporting programme, the proposed borrowing levels for 2025/26 remain within the prescribed thresholds detailed in the Investment & Borrowing Strategy. However, the Council expects the Loans CFR to breach the overarching CFR during financial year 2027/2028. The driver for this is the increasing externalisation of the CFR due to the depletion of Balance Sheet resources, being working capital and internal borrowings. This depletion is not being driven by the Capital Strategy but by the High Needs Block deficit. The High Needs Block Deficit (related to the Dedicated Schools Grant), which is currently subject to a statutory override, (i.e. the deficit is held within the Council's Balance Sheet in unusable reserves as opposed to impacting the Council's General Fund), is forecast to be £17.5million at 31 March 2025, increasing to £30million by 31 March 2026, and further estimated annual increases of £15million have been assumed. The deficit is effectively reducing working capital amounts in the Council's Balance Sheet, increasing overall borrowing requirements, and ultimately exceeding the CFR in 2027/2028, as demonstrated in this graph:



7.2 Councils are only permitted to borrow to finance capital expenditure, refinancing of existing debt and short term cashflow, and the above benchmark demonstrates that the Council will no longer be compliant from financial year 2027/28, if the High Needs Block deficit continues as forecast. This is a picture reflected nationally and not purely applicable to the Council. Without national resolution, the Council, along with other councils nationally will be required to constrain planned capital expenditure on delivery of capital programmes.

7.3 The revenue budget papers separate to this strategy set out a significant investment in the revenue capital financing budget to enable delivery of the Council funded element of the Capital Strategy and supporting programme. The Council's proposed MTFS clearly documents an organisation under financial stress. On 9th January 2025 the Council wrote to the Ministry of Housing, Communities and Local Government (MHCLG), requesting exceptional financial support. A request for £16m was submitted with a view to supporting in year expenditure pressures (detailed in the Council's Quarter Three Financial Performance Reports), support the funding gap for 2025/26 and enhance the Council's reserves. The Council's reserves are forecast to be within £3.4 - £3.9m at 31.3.2025. A decision on the request is anticipated in late February 2025.

8 Appendices

8.1 Appendix A – Capital Strategy and Supporting Capital Programme Financial Year 2025/26 and supporting appendices.

Background Papers:

None

Subject to Call-In:

Yes: ☐ No: ☒

The item is due to be referred to Council for final approval	☒
Delays in implementation could have serious financial implications for the Council	☐
Delays in implementation could compromise the Council's position	☐
Considered or reviewed by Scrutiny Commission or associated Committees, Task Groups within preceding six months	☐
Item is Urgent Key Decision	☐
Report is to note only	☐

Wards affected: All

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