APPENDIX 1

Capital Strategy Report 2024/25

Maldon District Council

Introduction

This capital strategy report for 2024/25 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 technical areas.

Decisions made this year on capital and treasury management 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.

Capital Expenditure and Financing

Capital expenditure is where the Council 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. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

Governance: Service managers bid annually in September to include projects in the Council's capital programme. Bids are collated by the finance team who calculate the financing cost (which can be nil if the project is fully externally financed). The Corporate Leadership Team (CLT) and Finance Members Group appraise all bids based on a comparison of service priorities against financing costs and makes recommendations to Strategy and Resources committee. The final capital programme is then presented to Council in February each year.

Projects that generate savings or income may be progressed in year subject to a valid Business Case and Committee Approval.

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).

CAPITAL FINANCING AND BORROWING

The Capital Financing Requirement (CFR) is essentially a measure of the Council's underlying borrowing need. Any capital expenditure which has not immediately been paid for will increase the CFR. The CFR is reduced by the application of resources such as capital receipts, grants or charges to revenue.

Table 1: Capital Financing Requirement

	2022/23 Outturn	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget
Opening CFR	**452**	**226**	**3,969**	**3,473**	**2,977**
Capital Expenditure	1,093	5,311	1,748	811	586
Finance Lease payments	-226	-226			
MRP			-496	-496	-496
External sources (Government & Other Grants)	-629	-728	-1,275	-639	-539
Capital Receipts	-464	-614	-473	-172	-47
Closing CFR	**226**	**3,969**	**3,473**	**2,977**	**2,481**

Debt is only a temporary source of finance, since loans and leases, including internal borrowing, must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The Council's full Minimum Revenue Provision statement is shown at Appendix 4.

Asset management

To ensure that capital assets continue to be of long-term use, the Council is developing an asset management strategy. There is a risk that without a strategy, future repairs work will not identified, leaving an under-provision in the budget.

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 on service transformation projects until 2030.

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. The Council is typically cash rich in the short-term as revenue income is received before it is spent.

The Council currently has £0m of external borrowing and £37m treasury investments at an average rate of 5.3%. However it has agreed to use internal borrowing to fund £3,969k of waste vehicle expenditure in the capital programme for 2023/24 and will make appropriate MRP for this.

Borrowing strategy: The Council does not currently have any external borrowing; however per the above it has agreed internal borrowing of £3,969k for waste vehicle expenditure in 2023/24 and will make appropriate MRP for this. The Council does not currently have plans to borrow for any other future capital expenditure; however, if any substantial commercial investment projects are considered in the future then the Council would need to agree how these would be financed.

Authorised borrowing limit: The Council is legally obliged to set an authorised borrowing limit each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 4: Prudential Indicators: Authorised limit and operational boundary for external debt

	2022 / 23 limit £000	**2023 / 24 limit £000**	**2024 / 25 limit £000**	**2025 / 26 limit £000**	**2026 / 27 limit £000**
Authorised limit – borrowing	16,500	16,500	16,500	16,500	16,500
Operational boundary – borrowing	7,000	7,000	7,000	7,000	7,000

Treasury investment strategy: Treasury investments arise from receiving cash before it is paid out again. 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 maximise investment return where satisfactory results of due diligence are found and risk mitigated, although security and liquidity are still the primary considerations. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-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.

Table 5: Treasury Management Investments in £thousands

	31.3.2024 Forecast	31.3.2025 Budget	31.3.2026 Budget	31.3.2027 Budget	31.3.2028 Budget
Near-Term Investments	30,000	25,000	25,000	25,000	25,000
Longer-Term Investments	5,000	5,000	5,000	5,000	5,000
TOTAL	**35,000**	**30,000**	**30,000**	**30,000**	**30,000**

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by Council. Half yearly reports on treasury management activity are presented to Overview & Scrutiny Committee. The audit committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

The Council does not make investments to assist local public services.

Commercial Activities

The Council currently does not have any significant commercial activities for investment returns, however with the continuing pressures on external funding and inflationary costs, consideration is being given to potential projects, which, when evaluated, will follow the appropriate governance route.

Liabilities

The Council is committed to making future payments to cover its pension fund deficit and has also set aside £0.9 m to cover risks including Business Rates appeals, Planning appeals and Insurance claims.

Governance: Decisions on incurring new discretional liabilities are taken by managers in consultation with the Director of Resources. The risk of liabilities crystallising and requiring payment is monitored by departments in conjunction with the finance team and are reported to committee/management as appropriate.

Revenue Budget Implications

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. 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.

Prudential Indicator: Proportion of financing costs to net revenue stream

	2022 / 23 Actual	2023 / 24 Forecast	2024 / 25 Budget	2025 / 26 Budget	2026 / 27 Budget
Financing costs (£m)	0	36	189	125	117
Proportion of net revenue stream	0.00%	0.20%	1.14%	0.74%	0.67%

Sustainability: 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 the duration of any borrowing arrangements. The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable because for the main General Fund programme, there are existing reserves to fund the expenditure. Projects will only be progressed where they prove to generate savings or an income stream to the Council, and the Business Case will assess the risks and mitigations of the projects.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council pays for staff to study towards relevant professional accounting qualifications and for ongoing professional development training.

Where Council staff do not have the detailed knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs LINK as treasury management advisors and the Valuation Office as property advisors. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

The Council's Treasury Management policy on the use of external advisers is available on request.