Appendix 1

Capital Strategy 2025/26

Section

Capital Strategy

1. Introduction

1.1 CIPFA's Prudential Code for Capital Finance in Local Authorities (2021) and MHCLG's Investment Guidance, requires all local authorities to provide a Capital strategy report to demonstrate that the authority:

- takes capital expenditure and investment decisions in line with service objectives,
- properly takes account of stewardship, value for money, prudence, sustainability and affordability,
- sets out the long-term context in which capital expenditure and investment decisions are made,
- gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

1.2 The capital strategy forms the framework and understanding of the longer-term policy objectives for capital investment decisions and will inform the future capital budgets, along with an overview of how associated risk is managed and the implications for future financial sustainability.

2. Strategic Objectives

2.1 The Capital Strategy is a 'living document' and will be periodically updated to reflect changing circumstances and other significant developments. It is good practice to review it and revise it to meet the changing priorities and circumstances of the Council. The strategy has also been developed to deliver a capital programme that meets the aims of the Council's vision which is based around four key themes:

- Improving the wellbeing of Arun
- Delivering the right homes in the right place
- Supporting our environment to support us
- Fulfilling Arun's economic potential

2.2 The aim of the Capital Strategy is to drive the authority's capital investment ambition, ensuring capital expenditure, capital financing and treasury management are appropriately aligned and managed to support the Corporate Plan priorities whilst also enabling sustainable, long-term delivery of services. To enable delivery the following key objectives have been identified:

- To take a long-term perspective on capital investment and to ensure this contributes to the achievement of the Corporate Plan through allocation of funding to key priorities.
- To ensure investment is prudent, affordable, and sustainable over the medium term and adheres to the Prudential Code and other regulatory requirements.
- To maintain the arrangements and governance for investment decision making through the established Committees.
- To make the most effective and appropriate use of the funds available in long term planning and using the most optimal annual financing solutions.
- To establish a clear methodology to prioritise capital proposals that ensure the Council's resources are focused in the most appropriate way.

2.3 The Council will achieve this by:

- Ensuring our resources are allocated to meet our short, medium and longer-term corporate priorities and spending plans are affordable and integrated with the Medium Term Financial Forecast.
- Undertaking an asset management review and subsequent development of an Asset Management Plan (AMP) to help manage and understand ongoing revenue maintenance costs and how capital investment can help to reduce these while identifying the potential social value of surplus or underperforming assets against the potential disposal value and where possible maximise the use of assets to enhance social value across the asset management plan. This may include the generation of capital receipts from the disposal of surplus or underperforming assets and deploy the proceeds from the sale of capital assets for:
  - ➢ for reinvestment in the capital investment programme, or

  - for modernisation of council services including using the government's 'capital receipt flexibilities' that allows revenue costs to be capitalised and funded from capital receipts where this generates efficiencies, or;
  - for repayment of debt or for investment, for example, to offset any loss of rental income in the revenue budget
- Using any prudential borrowing for:
  - service improvements where a business case has been developed and approved and can demonstrate that the investment will provide value for money and that the additional financing costs are reflected in the revenue budget.
  - purchase of vehicles and plant where an options appraisal demonstrates borrowing provides the best value for money and the financing costs are reflected in the revenue budget.
  - investment to support Corporate Plan priorities where the financial impact of any decision is treated as a commitment in future years' budgets and is affordable.
  - restructuring the funding of the approved capital programme when this provides a more efficient use of capital and revenue resources.
- Exploring all funding options including partnerships and one-off bidding processes. The council can bid for capital investment through various external funding streams such as the Warm Homes Fund and the Local Authority Housing Fund.
- Ensuring the net receipts from 'right to buy' sales from council housing are reinvested directly into additional housing.

3. Capital Expenditure and Financing

3.1 Expenditure

3.1.1 Capital expenditure occurs when the Council spends money on assets such as property or major equipment that will be used for more than one year. In local Government this includes spending on assets owned by other bodies or individuals (e.g. disabled adaptations) and loans and grants to other bodies enabling them to buy assets.

3.1.2 The Council has some limited discretion on what counts as capital expenditure, for example assets costing below a de-minimis level (£25,000) are not normally capitalised but are instead charged to the revenue budget. The Council's capitalisation policy is included in the Statement of Accounts.

3.1.3 Capital expenditure projects and plans are approved in accordance with the Council's constitution. The capital programme approved by Full Council on the 26 February 2025 is shown in Table 1 below:

Table 1: Estimates of Capital Expenditure

Committee	Current Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28	Budget 2028/29	Budget 2029/30
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Corporate Support	242	120	280	100	250	160
Economy	3,188	8,376	1,637	1,000	1,000	1,000
Environment	2,045	5,200	1,726	1,670	1,680	1,680
Housing & Wellbeing	16,648	13,552	10,086	8,686	5,956	5,956
Policy & Finance	7,167	12,649	4,327	-	-	-
Total Capital Budget	**29,290**	**39,897**	**18,055**	**11,456**	**8,886**	**8,796**

3.1.4 The Housing Revenue Account (HRA) is a ring-fenced account which cannot subsidize, or be subsidized, by general fund resources. HRA capital expenditure is recorded separately, and the strategy is informed by the HRA Business Plan.

3.1.5 In October 2018, the MHCLG removed the HRA borrowing caps to enable growth in the number of homes that can be built or purchased within the HRA. However, the HRA remains subject to the Prudential Framework and as such all new borrowing decisions require a business case to demonstrate that they are affordable, prudent and sustainable.

3.2 Financing

3.2.1 All capital expenditure must be financed, either from external sources (grants and other contributions), the Reserves, Capital Receipts or borrowing/leasing. The financing of expenditure in Table 1 is presented in Table 2 below:

Table 2: Capital Financing Sources

	Budget 2024/25 £'000	**Estimate 2025/26 £'000**	**Estimate 2026/27 £'000**	**Estimate 2027/28 £'000**	**Estimate 2028/29 £'000**	**Estimate 2029/30 £'000**
Capital receipts	552	1,416	0	0	0	0
Capital grants (inc S106)	16,440	15,800	3,310	3,310	1,580	1,580
Capital reserves (inc. MRR)	5,901	5,956	5,956	5,956	5,956	5,956
Revenue	0	45	0	0	0	0
Total	**22,893**	**23,216**	**9,266**	**9,266**	**7,536**	**7,536**
Borrowing	**16,278**	**16,681**	**8,789**	**2,190**	**1,350**	**1,260**

3.2.2 Debt is usually repaid from the revenue budget via the Minimum Revenue Provision (MRP) charge, which is a statutory amount that Councils must set aside within their budget. Capital receipts may also be used to repay debt. The Council does not currently have any General Fund borrowing and therefore is not required to make a MRP charge. All external debt relates to the HRA and whilst MRP is not required, a provision is set aside to repay these loans when they become due.

3.2.3 The Council's MRP policy statement 2025/26 can be found within the Treasury Management Strategy Statement (Appendix 3).

3.2.4 The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP, and capital receipts used to replace debt. The Council is currently maintaining an under borrowed position. This means that the CFR has not had to be fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels. The Council's estimated CFR can is presented in Table 3 below.

Table 3: Estimates of Capital Financing Requirement (CFR)

	Actual 2023/24 £,000	**Current Budget 2024/25 £,000**	**Estimated Outturn (P7-Q3 forecast) 2024/25**	**Estimate 2025/26 £,000**	**Estimate 2026/27 £,000**	**Estimate 2027/28 £,000**
	Capital Financing Requirement					
Non HRA	119	6,451	816	21,267	26,395	25,070
HRA	51,765	60,538	53,709	58,210	59,245	58,880
Total CFR	**51,884**	**66,989**	**54,525**	**79,477**	**85,640**	**83,950**

4. Treasury Management

4.1 Introduction

4.1.1 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 utilises all its available cash before borrowing, which in the current climate is more economic. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing; this is known as 'internal borrowing'.

4.1.2 As at 31 December 2024, the Council had long term borrowing of £35.46m at an average interest rate of 3.41%, and investments of £55.51m with average rate of 5.01%.

4.2 Borrowing

4.2.1 Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below in Table 4, against the underlying capital borrowing need, (CFR), highlighting any over or under borrowing.

Table 4: Prudential Indicator: Estimates of Gross Debt and the Capital Financing Requirement and under/(over) borrowing

	2023/24 Actual £'000	2024/25 Estimated Outturn £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Estimated gross debt at 31 March	38,560	42,570	68,880	76,410	76,090
Capital Financing Requirement	51,880	54,520	79,480	85,640	83,950
Under / (over) borrowing	13,320	11,960	10,590	9,230	7,860

4.2.2 Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from Table 4, the Council complies with this.

4.2.3 The Council is legally obliged to set an affordable borrowing limit (also termed the "Authorised Limit" for external debt) each year. In line with statutory guidance, a lower "Operational Boundary" is also set as a warning level should debt approach the limit.

Table 5: Authorised Limit and Operational Boundary for External Debt

	31 March 2024 Actual £'000	2024/25 Original £'000	2025/26 Original £'000	2026/27 Original £'000	2027/28 Original £'000
Authorised Limit	63,000	83,000	90,000	96,000	94,000
Operational Boundary	59,000	78,000	85,000	91,000	89,000

4.2.4 Further details on borrowing are contained in the Treasury Management Strategy.

5 Revenue Implications

5.1 Financing Costs

5.1.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue (excluding investment income receivable). The annual charge is known as financing costs and this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general Government grants.

Table 6a: Prudential and Treasury Indicators

Prudential Indicators	***31 March 2024 Actual £'000**	****2024/25 Original Budget £'000**	**2024/25 (Q3,P7) Forecast £'000**	**2025/26 Original Budget £'000**	**2026/27 Original Budget £'000**	**2027/28 Original Budget £'000**
Ratio of financing costs to net revenue stream:						
Non - HRA	(8.37)%	(6.22)%	(7.61)%	(7.73)%	(7.08)%	(6.50)%
HRA	18.25%	16.96%	17.57%	15.13%	14.36%	13.94%

5.1.2 Due to the long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for many years into the future.

6. Prioritisation Principles and Obligations to deliver a scheme

6.1 The capital investment process is to ensure that money available for capital expenditure is prioritised in the way that best meets the Council's objectives and must be achieved within the constraints of the capital funding available. The Council need to demonstrate that it uses a clear, understandable method of comparing projects to prioritise expenditure and continue to allow schemes to be ranked according to Council's need, whilst ensuring the best allocation of the Council scarce resources in the most efficient/sustainable way and thus ensuing value for money.

6.2 In common with other local authorities Arun is facing a challenging financial climate, and it is therefore essential that systems are in place to ensure that scarce resources are allocated in the most effective possible way and therefore generally expenditure should be prioritised as follows:

Priority	Type of Projects
Highest Priority	Unavoidable capital expenditure due to an emergency such as one affecting service continuity or business critcial infrastructure
	Projects that deliver strategic outcomes as per the Council's vision
	Projects necessary to deliver statutory, mandatory and legal/contractual obligations
	Projects that give rise to revenue savings or income generation. These can be developed as invest to save projects
	Projects attracting additional external funding
	Projects which improve and repair Council assets and reduce the need for revenue maintenance
Lowest Priority	Projects that are not for statutory or mandatory purposes, attract low external support, have little or no payback or result in increases in revenue costs

7. S151 Officer Assurance Statement

7.1 This Capital Strategy is compiled in line with the requirements of the 2021 CIPFA Prudential Code and the 2021 Treasury Management Code

7.2 The Section 151 Officer has reviewed the strategy against best practice advice from CIPFA and expert advisers and considers the strategy to be prudential, sustainable and affordable within the risk framework of the council and has ensured that it is fully integrated with the council's Medium Term Financial Forecast and Treasury Management Strategy Statement.