

This Report will be made public on 23 January 2024

Report Number **C/23/82**

**To:** Cabinet  
**Date:** 31 January 2024  
**Status:** Key Decision  
**Corporate Director:** Lydia Morrison – Interim Director Governance and Finance  
**Cabinet Member:** Councillor Tim Prater – Deputy Leader and Portfolio Holder for Finance and Governance

**SUBJECT: CAPITAL STRATEGY 2024/25 AND MINIMUM REVENUE PROVISION STATEMENT 2024/25**

**SUMMARY:**

This report sets out the Council's proposed strategy in relation to capital expenditure, financing, and treasury management in 2024/25 to be approved by full Council. The report also sets out the Prudential Indicators for capital expenditure and the Minimum Revenue Provision Statement for 2024/25 to be approved by full Council.

**REASONS FOR RECOMMENDATIONS:**

Cabinet is asked to agree the recommendations set out below because: -

- a) The Council must have regard to both CIPFA's Prudential Code for Capital Finance in Local Authorities and the Department for Levelling Up, Housing and Communities' (DLUHC) Investment Guidance when carrying out its duties under Part 1 of the Local Government Act 2003.
- b) The Council is required to approve a Capital Strategy for the forthcoming year.
- c) The Council is required to approve a Minimum Revenue Provision statement for 2024/25 in advance of the start of the financial year.

**RECOMMENDATIONS:**

1. To receive and note report C/23/82.
2. To recommend to Council that the 2024/25 Capital Strategy, including the Prudential Indicators, set out in appendix 1 to this report is approved.
3. To recommend to Council that the Minimum Revenue Provision (MRP) Statement for 2024/25 set out in appendix 2 to this report is approved.

## 1. INTRODUCTION AND BACKGROUND

1.1 The Capital Strategy is a requirement of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code. The Prudential Code is a framework which should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent, and sustainable. Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

1.2 The main purpose of the capital strategy is to provide a high level summary of how capital expenditure, capital financing and treasury management activities 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 is intended to be written in a way to enhance stakeholders understanding of these sometimes technical areas. The capital strategy for 2024/25 is set out in **appendix 1** to this report.

The areas to be covered in this strategy are:

- Capital expenditure
- Borrowing
- Minimum revenue provision
- Investments (treasury, service and commercial)
- Guarantees and loan commitments
- Knowledge and skills

1.3 The capital strategy also includes the Prudential Indicators for capital expenditure that set controls to ensure the authority's capital investment plans are affordable, prudent, and sustainable, required under the Prudential Code. The Prudential Indicators are required to be approved by full Council as part of the capital strategy.

1.4 The capital strategy also sets out the Minimum Revenue Provision (MRP) Statement for 2024/25 required to be approved by full Council and is set out in **appendix 2** to this report. The proposed Statement is broadly unchanged from that approved for 2023/24, however the section dealing with capital expenditure on loans to third parties met from prudential borrowing has been updated to reflect changes from a recent government consultation on MRP charges, outlined below in the underlined text:

- i) For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the authority will make nil MRP unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the

assets become operational. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the government in its recent MRP consultation and in the authority's view is consistent with the current regulations. While this is not one of the options in the DLUHC Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

1.5 **Capital Flexibilities** – DLUHC has also recently announced a consultation with local government on Capital Flexibilities aimed at providing authorities with more options to use capital resources to meet one-off or exceptional revenue expenditure to help manage budget pressures without seeking exceptional financial support. The four options identified by DLUHC are:

- i) allowing authorities to capitalise general cost pressures and meet these with capital receipts,
- ii) extending the flexible use of capital receipts to allow authorities to borrow for the revenue costs of invest-to-save projects,
- iii) providing additional flexibilities for the use of the proceeds of selling investment assets, such as using capital receipts to increase revenue reserves, and
- iv) discounting PWLB rates by 0.4% for invest-to-save projects, matching the current HRA rate.

There is no commitment to take any of these options forward and, equally, the Government is interested to hear alternative options. The call for views is due to close on 31 January 2024.

1.6 The capital strategy should be considered alongside the investment strategy, due to be considered separately as part of this agenda. Like the capital strategy, the investment strategy is also required to be adopted by full Council.

1.7 The capital strategy is required to be reviewed annually as part of the authority's budget setting process. However, if the nature and structure of the authority's proposed capital expenditure and financing was to change significantly during the year it may be necessary to revise the strategy at the same time.

1.8 The capital strategy contains links to the proposed General Fund and Housing Revenue Account (HRA) medium term capital programmes, the investment strategy, and the treasury management strategy statement (TMSS) being considered on this agenda as part of the current budget process. With the exception of the TMSS, these documents are required to be approved by full Council on 28 February 2024 as part of the budget process. It is therefore proposed to add these links to the capital strategy once it is adopted in February and to create a dedicated web page to provide a link for it together with those for:

- Investment Strategy 2024/25

- Medium Term Capital Programme to 2028/29
- HRA Medium Term Capital Programme to 2028/29

## **2. RISK MANAGEMENT ISSUES**

- 2.1 A key element of the capital strategy is to consider the risks associated with our approach to the capital programme, capital financing and treasury management activity. These issues have been addressed in the body of the appendix and no other risk management issues have been identified as relevant to this report.

## **3. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

### **3.1 Legal Officer's Comments (AK)**

There are no legal implications arising directly out of this report other than those already stated. For each financial year, the Council should prepare at least one Capital Strategy which should contain the disclosures and reporting requirements specified in the Prudential Code. The Strategy should be approved by full Council.

### **3.2 Finance Officer's Comments (DL)**

This report has been prepared by Financial Services and there are no direct financial implications arising from it.

### **3.3 Diversities and Equalities Implications (DL)**

There are no direct diversities or equalities issues arising from this report.

### **3.4 Climate Change Implications (OF)**

There are no climate changes implications arising directly from this report. The report sets out the Council's proposed strategy in relation to capital expenditure, financing and treasury management, the Prudential Indicators for capital expenditure and the Minimum Revenue Provision Statement. It is an overarching document and detail will be found in subsequent reports to Cabinet and Council.

## **4. CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

Councillors with any questions arising out of this report should contact the following officer prior to the meeting.

Dani Loxton – Senior Finance Specialist (Capital and Treasury)  
Tel: 01303 853583 Email: [daniella.loxton@folkestone-hythe.gov.uk](mailto:daniella.loxton@folkestone-hythe.gov.uk)

The following background documents have been relied upon in the preparation of this report:

Arlingclose Ltd – Capital Strategy Report 2024/25 Template  
Arlingclose Ltd – MRP 2024/25 Template

**Appendices:**

Appendix 1: Capital Strategy 2024/25

Appendix 2: Annual Minimum Revenue Provision Statement 2024/25