Appendix 2

Ards and North Down Borough Council

Capital Strategy Report 2025/26

Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of Council services along with an overview of how associated risk is managed and the implications for future financial sustainability.

Decisions made on capital and treasury management will have financial consequences for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised where relevant in this report.

From 1 April 2024, due to a change in accounting rules, the Council is required to bring onto its Balance Sheet any 'right of use' assets which it currently accounts for as operating leases. Operating leases are currently treated as 'pay as you go' arrangements, with rentals expensed (charged to the General Fund) in the year they are paid. In recognising any rights acquired under such leases to use an asset, the new rules now require that these assets are included on the Balance Sheet with a corresponding liability to repay the lease over its term. This has resulted in changes to the prudential indicators for 2024/25 and subsequent years, summarised where relevant in this report.

Capital Expenditure and Financing

Capital Expenditure

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 may include spending on assets owned by other bodies. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £5,000 are not capitalised and are instead charged to revenue. In addition, expenditure incurred on enhancing an existing asset can be capitalised if it either extends the asset's useful life or significantly enhances the service potential of the asset.

In 2025/26, the Council is planning capital expenditure of £26.3m, as summarised in the table below:

Appendix 2

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £m

Capital Expenditure by Directorate	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Community & Wellbeing	5.899	16.133	21.698	19.118
Environment	0.865	3.639	2.935	2.928
Place & Prosperity	2.380	5.753	10.999	19.953
Other	1.254	0.739	0.643	9.762
Total Capital Expenditure	**10.398**	**26.264**	**36.275**	**51.761**
Add Leases onto Balance Sheet	4.514			
Total Capital Expenditure (including Leases)	**14.912**	**26.264**	**36.275**	**51.761**

Further details of the three-year capital plan from 2025/26 to 2027/28 are included in Appendix 3. £4.51m shown against leases for 2024/25 arises from the change in the accounting for leases and does not represent cash expenditure.

Capital Financing

Capital financing refers to how capital expenditure is financed, which can be from several different sources as follows:

- Capital grants
- Capital receipts from the disposal of assets
- Usable reserves
- Debt - borrowing
- Debt - leasing

The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £m

	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Capital Grants & Contributions	5.335	8.745	14.550	19.840
Capital Receipts	1.067	1.951	0.459	0.212
Revenue/Reserves	0.024	0.654	0.100	-
Debt (Borrowing)	3.972	14.914	21.166	31.709
Debt (Leases)	4.514	-	-	-
Total Financing	**14.912**	**26.264**	**36.275**	**51.761**

Debt is only a temporary source of finance since loans and leases must be repaid. Therefore, where capital expenditure is financed from borrowings or leases, the capital expenditure and associated borrowing costs are met from annual revenue budgets over time. Together, these costs are referred to as capital financing charges and are made of two separate elements:

- MRP (minimum revenue provision) – this is the amount charged to revenue each year over the life of an asset until the total cost of the asset has been matched e.g. an asset costing £1m with a 10-year life will result in an annual MRP charge of £100k for each year of the asset's life.

- Loan Interest – this is the annual interest repayments on borrowings that are taken out to finance capital expenditure upfront.

The forecasts for MRP, which now include a provision for leases, are as follows:

Table 3: Replacement of debt finance in £m

	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
MRP	6.784	7.798	8.110	7.802

The full MRP statement for 2025/26, which is required to be approved by the Council, is set out in Appendix 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. Based on the above figures for expenditure and financing, the Council's estimated forecast CFR is as follows:

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

Capital Financing Requirement (CFR)	31.03.25 Forecast £m	31.03.26 Estimate £m	31.03.27 Estimate £m	31.03.28 Estimate £m
Opening CFR	**75.068**	**76.771**	**83.887**	**96.943**
Capital Expenditure	10.398	26.264	36.275	51.761
Leases onto Balance Sheet	4.514			
Less Capital Grants	(5.335)	(8.745)	(14.550)	(19.840)
Less Capital Receipts applied	(1.067)	(1.951)	(0.459)	(0.212)
Less Reserves Financing	(0.024)	(0.654)	(0.100)	
Less MRP (Borrowing)	(6.410)	(7.448)	(7.778)	(7.487)
Less MRP (Leases)	(0.373)	(0.350)	(0.332)	(0.315)
Total CFR	**76.771**	**83.887**	**96.943**	**120.850**

As can be seen from the above table, the CFR is expected to increase by approx. £44m over the next three years, reflecting the Council's ambition for capital investments during this period.

Appendix 2

Capital Strategy and Governance

Capital financing is the second largest revenue expenditure area after payroll costs and the Council's capital strategy therefore forms a fundamental part of the annual revenue budget setting process.

In considering its strategy for this year, the following key principles were identified:

- Long-term impact of capital decisions considered – financial planning based on an indicative 10-year capital programme.
- Major projects are prioritised in line with corporate objectives - all major schemes (ie. one-off projects with gross capital expenditure greater than £500,000) have been ranked using a formal matrix based on corporate alignment, need, risk, readiness and cost-benefit score.
- Capital ambition is balanced with affordability, measured by the impact of the capital programme on annual district rate increases, which can be smoothed by planning to raise additional MRP when affordable in order to facilitate the taking of MRP holidays when less affordable.
- Minor purchases limited to availability of capital receipts and revenue financing, subject to approval of business cases.

The following risks have also been considered:

- Increased costs of both the capital programme and the cost of borrowing.
- Impact of external funder obligations.
- Adequacy of recurring capital expenditure budgets due to emerging issues e.g. vehicle decarbonisation strategy and building energy saving initiatives.
- Deliverability of the capital programme in the medium term, considering Officer resources and other external factors.

The following additional governance arrangements are in place:

- Maintenance and replacement strategies provide a framework within which this capital expenditure is incurred. Currently these are in place for property, vehicle replacement, parks equipment replacement and artificial pitches replacement. Others are currently being drafted for business technology, waste management and leisure
- Projects cannot proceed until there has been some form of assessment of need. For one-off projects this takes the form of a business case. For expenditure incurred because of a strategy, this assessment is in the form of condition surveys or other relevant forms of appraisal.
- Major capital schemes are overseen by individual project boards and a Corporate Projects Portfolio Board, which reports to the Council's Place and Prosperity Committee.

Appendix 2

In determining the District Rate increase for 2025/26, sufficient provision has been made to maintain the current estimated delivery timeframe of 10 years for major capital projects, include adequate funding for operational capital expenditure and make provision for future developments in vehicle decarbonisation and energy saving initiatives for buildings.

Commented [DA1]: @Grieve, Stephen can you provide guidance to updating highlighted

Commented [SG2R1]: Reviewed and a few amendments made

However, given the significant impact on future rate setting and exposure to risks identified, the Council proposes to undertake a thorough review of the 10-year capital programme in the incoming year.

Asset management

To ensure that capital assets continue to be of long-term use, the Council:

- for land and buildings, approved an estates strategy and an estates management plan, in December 2018 and September 2019 respectively; and
- for all other assets, approved an asset management policy in March 2023.

The Estates strategy has three overarching objectives:

- To support a refreshed focus on communities and people, economic regeneration and tourism, the quality of our environment and the core services provided by the Council and is partners.
- To generate capital and revenue efficiencies to support the delivery of corporate objectives and improved social outcomes.
- To create linkage between capital receipts and revenue efficiencies and the process of developing and prioritising capital investment programmes.

It has been designed to align with the spirit of the *Big Plan* ‘Creating Positive Outcomes for Everyone’ – the Community Plan for Ards and North Down and to support the Council’s Corporate Plan which was launched in April 2024.

The Estate Strategy will run until 2025 at which point in time a review will be considered in order to align with the new Corporate Plan which was launched in April 2024.

Commented [SG3]: @Ashfield, David this needs discussed with both SCD, APS and also Lands

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. The Council has included capital receipts in its three-year financial plan as follows:

Table 5: Capital receipts in £ millions

	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Asset sales	0.044	0.075	0.075	0.170

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 in holding that cash. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or unauthorised 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, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Council currently has, at 31 December 2024, £56.9m of long-term borrowing at an average interest rate of 3.9% and £11.5m short-term treasury deposits at an average rate of 4.7%.

Borrowing strategy

The Council's main objectives, when borrowing, are to achieve a low but certain cost of finance, while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council may therefore seek to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher.

Projected levels of the Council's total outstanding debt over the next three years are shown below, compared with the capital financing requirement (see above).

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

	31.03.25 Forecast £m	31.03.26 Estimate £m	31.03.27 Estimate £m	31.03.28 Estimate £m
External Debt – Borrowing	56.876	60.927	75.426	99.627
External Debt - Leases	4.142	3.792	3.460	3.145
Total External Debt	61.018	64.719	78.886	102.772
Capital Financing Requirement	76.771	83.887	96.943	120.850
Internal Borrowing	**15.753**	**19.168**	**18.057**	**18.078**

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

The difference between the external debt and the capital financing requirement represents the Council's internal borrowing i.e. the amount of cash backed reserves the Council has available to defer the need to externally borrow for capital purposes.

Liability benchmark

To compare the Council's forecast borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £5m at each year-end. This benchmark is currently £59m and is forecast to rise to £106m over the next three years.

Table 7: Borrowing and the liability benchmark in £m

	31.03.25 Forecast £m	31.03.26 Estimate £m	31.03.27 Estimate £m	31.03.28 Estimate £m
Forecast outstanding borrowing	61.018	64.719	78.886	102.772
Liability benchmark	58.793	67.819	81.307	105.767

Affordable borrowing limit

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.

As the Council's underlying need to borrow is determined by its CFR, the operational boundary is set at the same level as the CFR. The authorised limit is set at level higher than this to allow 'headroom' for timing changes in estimated cashflows for capital expenditure.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2024/25 limit £m	2025/26 limit £m	2026/27 limit £m	2027/28 limit £m
Authorised limit – borrowing	84.784	85.095	98.483	122.705
Authorised limit – leases	4.142	3.792	3.460	3.145
Authorised limit – total external debt	88.926	88.887	101.943	125.850
Operational boundary – borrowing	79.784	80.095	93.483	117.705
Operational boundary – leases	4.142	3.792	3.460	3.145
Operational boundary – total external debt	83.926	83.887	96.943	120.850

Treasury Investments Strategy

Treasury investments arise from receiving cash before it is paid out again. Council only makes short term deposits as part of this investment strategy as they are all with term of less than 365 days.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. 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. Short-term investments may also 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.

Governance

Decisions on treasury management investments and borrowing are made daily and are therefore delegated to the Director of Corporate Services and his senior Finance staff, who must act in line with the treasury management strategy approved annually by Council. Reports on treasury management activity are presented to the Corporate Services Committee both during the year and the end of each financial year.

Further details on treasury investments are included in the Treasury Management Strategy Statement for 2025/26, set out in Appendix 5.

Liabilities

In addition to external debt set out in table 6 above, the Council has also set aside £700k to cover various risks, including public and employee liability insurance claims and other environmental and legal liabilities. The Council is also at risk of having to pay a share of potential financial penalties associated with the procurement process of a residual waste treatment project. Council has not put aside any money for this purpose.

Commented [DA4]: @Grieve, Stephen how do I update?

Commented [SG5R4]: Look up provisions and contingencies in the Financial statements - note 25 or thereabouts

Commented [DA6R4]: £700k note 20

Governance

Decisions on incurring new discretional liabilities are taken by members of the Corporate Leadership Team in consultation with the Director of Corporate Services. The risk of liabilities crystallising and requiring payment is monitored by individual directors and reported to the appropriate standing committee as necessary.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP, known as capital financing costs, are charged to revenue. These financing costs are compared to the net revenue stream i.e. the amount funded from District Rates and general government grants, to show the proportion of the net revenue stream which is made up of capital financing costs.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Financing costs (£m)	9.060	10.111	11.075	11.956
Proportion of net revenue stream	13.7%	14.7%	15.4%	15.7%

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 up to 50 years into the future. Due to the significant capital investment programme, Council has prioritised major capital expenditure with a view to ensuring that the proposed capital programme is prudent, affordable and sustainable in the longer term.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Corporate Services, along with his senior Finance team, are qualified accountants with substantial experience. In addition, the Strategic Capital Development team is led by a well experienced qualified architect and supported by an experienced quantity surveyor.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management consultants. 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.