

## Decision Report - Council Decision

Forward Plan Reference: FP/23/04/05

Decision Date – 20/02/2024

Key Decision – Yes



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### Capital Strategy 2024/25 to 2026/27

Executive Member(s): Councillor Liz Leyshon – Deputy Leader and Lead Member for Resources and Performance

Local Member(s) and Division: All

Lead Officer: Jason Vaughan – Executive Director Resources and Corporate Services (Section 151 Officer)

Author: Peter Robinson, Strategic Finance Consultant and Nicola Hix, Director Finance and Procurement

Contact Details: [peter.robinson@somerset.gov.uk](mailto:peter.robinson@somerset.gov.uk)      [nicola.hix@somerset.gov.uk](mailto:nicola.hix@somerset.gov.uk)

### Summary

1. This document sets out the proposed Capital Strategy for Somerset Council for the three-year period between 1 April 2024 and 31 March 2027.

CIPFA's Prudential Code for Capital Finance (2021) includes the requirement for local authorities to put in place a Capital Strategy which:

- explains how proposed capital expenditure contributes to Council objectives and supports delivery of essential services,
  - sets out the funding strategies for new items of capital investment identified, and
  - provides an overview of how the risks associated with capital investment are being identified and addressed.
2. This report is designed to meet those requirements and summarises the Council's capital investment priorities and funding plans over the next three years, taking account of financial stewardship, value for money, prudence, sustainability and affordability.
  3. Incorporated into this strategy is the Council's Minimum Revenue Provision (MRP) Policy for 2023/24 and 2024/25 to be approved. The MRP Policy is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from available resources. The Policy outlines an approach for 2023/24 and 2024/25 and is subject to work being undertaken to establish more accurate records from the abolished authorities over the next 12 months. Once undertaken, the

MRP policies will be reviewed where necessary in order to move to a consistent MRP policy across the whole Council and one which fully complies with the Statutory MRP Guidance.

## **Recommendations**

4. That Council approves:
  - a) The Capital Strategy including the key prudential indicators for 2024/25
  - b) The Flexible Use of Capital Receipts Policy for 2024/25
  - c) The Minimum Revenue Provision (MRP) Policy for 2023/24 and 2024/25

## **Reasons for recommendations**

5. The Capital Strategy is a key element of the Council's Budget Framework which must be considered and approved by Full Council prior to the start of each new financial year.

## **Other options considered**

6. Developing a fit-for-purpose Capital Strategy and ensuring that all proposed capital investment can be properly funded is a regulatory requirement.

## **Links to Council Plan and Medium-Term Financial Plan**

7. This Capital Strategy sits alongside the Medium-Term Financial Strategy and the 2023-2027 Council Plan. The contents of the Capital Strategy are consistent with other Budget reports, namely the Revenue and Capital Budgets for 2024/25 and the Treasury Management Strategy for 2024/25.

## **Financial and Risk Implications**

8. The proposed capital strategy aligns with the 2024/25 Capital Programme and the updated Medium Term Financial Plan. Those reports seek to establish approval of spending and funding requirements to meet the Council's priorities.
9. Three key risks have been identified as:
  - resources will not be allocated to the capital projects most closely aligned to Council priorities or judged to be most necessary to address identified operational risk,
  - ineffective project monitoring means that major capital projects will not be delivered within budget, or to the timescales agreed, and

- expected capital funding does not materialise.

10. Each of these risks is considered in turn below.

#### *Allocating Resources to Capital Projects - The Capital Appraisal Process*

11. Capital investment decisions are now required to be underpinned by a robust business plan that sets out the full costs and risks and any expected financial return alongside the broader outcomes including economic and social benefits.
12. General Fund service managers bid annually to include projects in the Council's capital programme. Bids are collated by corporate finance who calculate the financing cost (which can be nil if the project is fully financed). The bids are then appraised against a set criterion including a comparison of service priorities against the affordability of expected financing costs.

#### *Project Monitoring*

13. Capital monitoring is reported quarterly by the S151 Officer and Deputy S151 Officer to the Executive. Any matters of concern are specifically brought to the attention of the relevant Executive portfolio holder.
14. Each scheme has a nominated budget holder who is responsible for ensuring the scheme stays within budget, and for providing information on spend to date and projected total spend over each financial year and over the life of the project.
15. Re-profiling of capital projects and related funding takes place when necessary and is reported to members via in-year budget reports.

#### *Capital funding*

16. Capital grant claims are completed in accordance with grant terms and conditions to ensure all eligible funding is accessed and maximized. Grant claims income is monitored to ensure that:
  - conditions stipulated in funding agreements are complied with (so no claw back situations arise), and that,
  - payments in account are received as anticipated.
17. Capital receipts are analysed monthly to ensure that all expected receipts have been banked and that funding has been allocated to projects correctly.
18. Operational cash flow management ensures that there is sufficient cash available to meet contractual liabilities as they arise, and that new borrowing is taken out only when

necessary and in accordance with Treasury Management Strategies approved by Full Council in February each year.

### **Legal Implications**

19. The Council's annual Budget setting processes must operate within specified legal and regulatory parameters. The Capital Strategy is designed to support those processes and to ensure that the Budget Framework approved by members for 2024/25 is and represents a "balanced budget" in line with the requirements of the Local Government Finance Act 1992.

### **HR Implications**

20. There are no HR implications.

### **Equalities Implications**

21. There are no equalities implications directly associated with this report. Equality Impact Assessments (EIAs) will be carried out on individual capital projects at these progress towards the delivery stage.

### **Community Safety Implications**

22. There are no community safety implications.

### **Climate Change and Sustainability Implications**

23. There are no climate change or sustainability implications directly associated with this report, however some of the detailed budget proposals included in Appendix A and Appendix B are designed to meet the Council's statutory responsibilities, and its own objectives, with regard to climate change and sustainability.

### **Health and Safety Implications**

24. There are no health and safety implications directly associated with this report although some of the individual capital projects referred to will be undertaken in order to meet the Council's existing Health and Safety responsibilities or to address areas where a specific Health and Safety risk has been identified.

### **Health and Wellbeing Implications**

25. There are no health and wellbeing implications directly associated with this report although some of the capital projects referred to have Health and Wellbeing objectives,

especially those projects related to Leisure Services, Town Centre regeneration and social housing.

### **Social Value**

26. Not directly applicable to this report. The social value of individual capital investment projects is assessed at the appraisal stage.

### **Scrutiny recommendations**

27. The Audit Committee is responsible for reviewing the Capital Strategy prior to its approval by elected members. This review took place on 25 January 2024 and suggested amendments have been made to this paper.

### **Background and Introduction**

28. CIPFA's Prudential Code for Capital Finance (2021) includes the requirement for local authorities to put in place a Capital Strategy which:

- explains how proposed capital expenditure contributes to Council objectives and supports delivery of essential services,
- sets out the funding strategies for new items of capital investment identified, and
- provides an overview of how the risks associated with capital investment are being identified and addressed.

29. This Capital Strategy is a key element of the Council's Budget Framework and supports both Revenue and Capital budgets for 2024-25.

### **Proposed Capital Programme**

30. The proposed Capital Programme for the General Fund (GF) is shown below in summary with more detail provided in Appendix A. Approval of the capital programme is a separate report on this agenda.

Table 1 – General Fund Capital Programme 2024/25 to 2026/27

Directorate	2024/25 £m	2025/26 £m	2026/27 £m	Total All Years £m
Adults Services	2.512	1.368	0	3.880
Childrens Services	21.712	8.241	5.810	35.763
Community Services	1.538	0.221	0	1.759
Climate and Place	91.402	62.510	25.311	179.223
Resources and Corporate Services	14.659	2.899	0.065	17.623
Strategy and Workforce	0.135	0.136	0	0.271
<b>Total Programme</b>	<b>131.958</b>	<b>75.375</b>	<b>31.186</b>	<b>238.519</b>

31. Capital investment programmes for the Council’s social housing function are developed on a longer-term basis culminating in a 30-year Business Plan. This Plan is based on:
- expected future rental income and anticipated Right to Buy Sales,
  - expected need for social housing,
  - stock condition surveys, and
  - government guidelines on the quality of social housing, see [www.gov.uk/government/collections/social-housing-quality](http://www.gov.uk/government/collections/social-housing-quality) for further details.
32. The Council is required to maintain a separate Housing Revenue Account (HRA) which is ring-fenced to ensure that the social housing function neither subsidises, nor is subsidised by, local taxpayers. Somerset Council acts as Landlord to the tenants of properties in the former Somerset West and Taunton Council, whereas the properties in the former Sedgemoor Council are managed through an ALMO (Arms-Length Management Organisation).
33. Table 2 below summarises the proposed Capital Programme for the HRA. Further detail is provided in Appendix B.

Table 2 – HRA capital programme 2024/25 to 2026/27

	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m
Major Works	22.85	20.29	19.15	62.28
Fire Safety	2.59	1.51	0.51	4.60
Related Assets	0.40	0.40	0.58	1.38
Exceptional & Extensive	1.54	1.57	1.17	4.28
Vehicles	0.28	0.29	0.29	0.86
ICT & Transformation	-	-	-	-
Aids & Adaptations & DFGs	0.37	0.37	0.37	1.11
<b>Major Works &amp; Improvements</b>	<b>28.02</b>	<b>24.42</b>	<b>22.06</b>	<b>74.51</b>
Social Housing Development	22.03	19.46	13.51	54.99
<b>Total HRA Capital Expenditure</b>	<b>50.05</b>	<b>43.88</b>	<b>35.57</b>	<b>129.50</b>

34. Therefore, in the three-year period between 1 April 2024 and 31 March 2027, total approved capital expenditure is £238.5m for the General Fund and £129.5m for the HRA, a combined total of £368m.
35. Within these overall budgets, reprofiling of expenditure between financial years is expected to be an ongoing process which is necessary to reflect:
- any identified slippage
  - additional grant funding or other changes to available financial resources.
  - new or emerging operational risks.
36. All significant changes will be identified and reported to members as part of the Council's in-year budget monitoring.
37. Capital budgets for 2023/24 were primarily a compilation of anticipated spending plans and existing contractual commitments already put in place by the previous five authorities together with new schemes approved in February 2023. Those spending plans have now been revisited with the objective of:
- reducing pressure on General Fund revenue budgets by minimizing debt charges and maximizing asset use, and
  - reprofiling capital investment into future years where appropriate.
38. On this basis, new programme approvals have been restricted to which are either Health and Safety related, represent legal requirements, demonstrate a clear link to Council priorities, Invest to Save or can be externally funded.

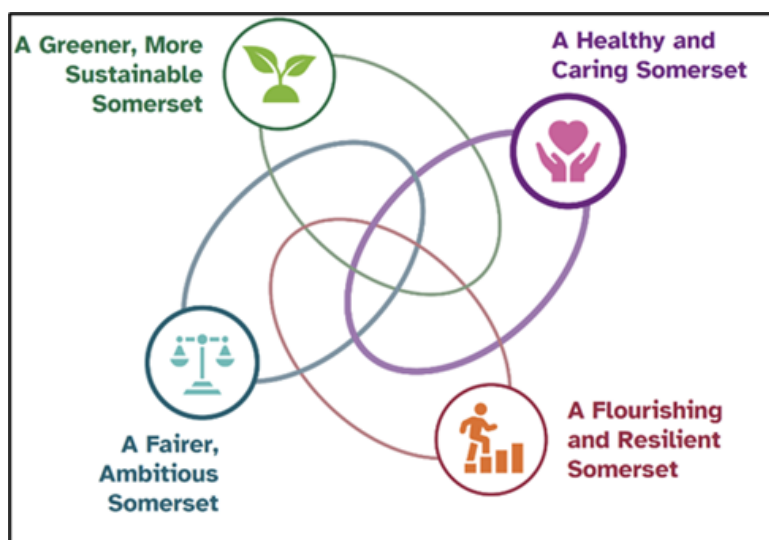
39. Table 3 below compares the Council’s proposed capital investment plans for 2024/25 - 2026/27 against the 2023/24-2025/26 plans approved by the vesting authority in March 2023. This shows a net reduction in total spending of £82.5m.

Table 3 – Current and previous capital investment plans

	General Fund £m	HRA £m	Total £m
2023/24 to 2025/26 capital expenditure approved in March 2023	332.2	118.3	450.5
2024/25 to 2026/27 capital expenditure proposals - March 2024	238.5	129.5	368.0
<b>Net (increase)/reduction</b>	<b>93.7</b>	<b>(11.2)</b>	<b>82.5</b>

### Capital Investment Plans and Council Priorities

40. This Capital Strategy sits alongside the Medium-Term Financial Strategy and the 2023-2027 Council Plan. The Council Plan sets out the agreed vision for the new Council and its priorities over the next four years, which are set out below. Further information about the Council Plan can be accessed via [www.somerset.gov.uk/council-and-democracy/somerset-council-council-plan-2023-2027](http://www.somerset.gov.uk/council-and-democracy/somerset-council-council-plan-2023-2027).



41. Table 4 below sets out the major capital projects which contribute to these four priorities. These projects represent over 90% of proposed capital spending. Other projects mainly relate to:

- the maintenance of Council property, vehicles and equipment, (£18m, see paragraph 62 below), or to
- expenditure which is necessary to meet Health and Safety or other legal requirements.



Table 4 – Major Capital Projects 2024/25 to 2026/27

<b>Council Priorities</b>	<b>Investment 2024/25 to 2026/27 £m</b>
<b>A greener, more sustainable Somerset</b>	
Transport is a key contributor to the Council’s carbon footprint. This work includes improvements to the local roads and highways network, developing alternatives to car travel and encouraging the use of clean energy.	121
<b>A Healthy and Caring Somerset</b>	
Good housing is key to good health, and the Council will contribute to this objective by building new social housing for local people as well as maintaining and improving its own housing stock.	129
<b>A Fairer, Ambitious Somerset</b>	
The Council wants all local children to get an excellent education which will help them to achieve their goals in life. It continues to invest in schools’ facilities for all age groups and abilities.	33
<b>A flourishing and resilient Somerset</b>	
The Council is working to maintain a stable and flourishing local economy in Somerset, focusing in this financial period on the communities of Bridgwater and Glastonbury in particular.	52
<b>Total</b>	<b>335</b>

42. Further information on major capital schemes is provided in Appendix C.

### **Capital funding strategies**

43. Capital expenditure represents the acquisition of assets with an expected useful life of more than 12 months. Funding is available as follows:

- capital grants from Government departments together with a limited amount of third-part funding, eg from developers in the form of section 106 contributions.
- disposal proceeds from the sale of existing property and other assets,
- contributions from revenue budgets
- use of available cash resources not required for day-to-day service delivery, and
- external borrowing.

44. More detail on these various sources of funding is provided in Appendix D.

45. Due to the long-term nature of capital investment, the revenue implications of decisions taken by the Council now will extend into future years the Section 151 Officer must be satisfied that any new capital investment plans are prudent, affordable and sustainable. In practice this means that:
- the Council's usual approach is only to approve the use of external borrowing when the proposed item of expenditure is a necessity, but no alternative source of financing can be identified,
  - only schemes that have fully identified funding in place are included in the proposed capital programme, and
  - the cost impact of borrowing forms part of the 2024/25 revenue budget medium term financial planning.
46. The main source of funding for the GF capital programme are government grant receipts, which accounts for 81% of forecast expenditure. The only other significant funding source is borrowing, which accounts for 19%. Principal sources of financing for the HRA Capital Programme are prudential borrowing (28%) and the Major Repairs Reserve (53%).
47. The 2024/25 Budget Update Report which is due to be presented Full Council in February 2024 identifies the potential need for a Capitalisation Directive of £36.9m to bridge the shortfalls identified in revenue budgets for 2024/25. The same report has also identified further budget shortfalls of £104.1m and £148.0m for the following two years respectively. If approved, the majority capitalised expenditure is forecast to be financed from asset disposals but £29.7m would need to be financed from borrowing in 2026/27 which is included in table 5 below.

### **Flexible use of Capital Receipts**

48. Central Government outlined in December 2015 that local authorities would be able under certain circumstances to utilise capital receipts for revenue expenditure in certain circumstances. The criteria for the application of capital receipts for revenue spend has gradually changed over time. The current rules that were introduced in 2021 outline that:
- Only receipts received within the timescales that authorities have a Flexible Receipts Strategy can be used;
  - Only receipts from PPE (Property, Plant, and Equipment) can be used where the authority ceases to have an interest in the asset;
  - The authority must be able to demonstrate that ongoing savings are a result of the application of receipts; and

- Discretionary redundancy payments cannot be funded from capital receipts, but statutory redundancy and pension strain payments are allowable.

49. Table 5 below summarises the expected capital funding position for 2024/25 to 2026/27.

Table 5 – Net funding position 2024/25 to 2026/27

	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>
General Fund	132.0	75.4	31.2
HRA	50.1	43.9	35.6
	<b>182.0</b>	<b>119.3</b>	<b>66.8</b>
<b>Funding</b>			
<b>General Fund</b>			
Capital Grants	(93.8)	(66.3)	(25.3)
Capital Receipts	(0.0)	0.0	0.0
Contributions	(7.0)	(1.0)	0.0
Reserves	(0.8)	0.0	0.0
<b>HRA</b>			
Major Repairs Reserve	(18.3)	(17.7)	(19.1)
Capital Receipts	(4.5)	(5.6)	(3.1)
Capital Grants	(12.3)	(1.1)	(0.4)
<b>Funding for capital programme</b>	<b>(136.7)</b>	<b>(91.7)</b>	<b>(47.9)</b>
<b>Financing need for capital programme</b>	<b>45.4</b>	<b>27.6</b>	<b>18.8</b>
<b>Capitalisation Direction</b>			
Capitalised expenditure	36.9	104.1	148.0
Funding from Capital Receipts	(36.9)	(104.1)	(118.3)
<b>Financing need for CD</b>	<b>0.0</b>	<b>0.0</b>	<b>29.7</b>
<b>Net Financing need for the year</b>	<b>45.4</b>	<b>27.6</b>	<b>48.5</b>

50. As shown by Table 6 below, the total new borrowing requirement over the three-year period from 1 April 2024 to 31 March 2027 is therefore currently estimated at £121.5m.

The Council's overall borrowing is expected to increase from £867.1m at 1 April 2024 to £939.7m at 31 March 2027, after allowing for the repayment of PFI liabilities during this three-year period.

*Tables 6 – Impact of new Borrowing 2024/25 to 2026/27*

*New Borrowing Requirement 2024/25 to 2026/27*

	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>	<b>Total £m</b>
General Fund	30.5	8.1	5.9	44.4
HRA	14.9	19.5	12.9	47.4
Capitalisation Direction	0.0	0.0	29.7	29.7
<b>Total</b>	<b>45.4</b>	<b>27.6</b>	<b>48.5</b>	<b>121.5</b>

*Overall Borrowing Projection 2024/25 to 2026/27*

	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>
Short-term borrowing	138.0	138.0	138.0
Long-term borrowing	694.6	722.1	770.7
PFI liability	34.5	32.9	31.0
<b>Total borrowing at 31 March</b>	<b>867.1</b>	<b>893.0</b>	<b>939.7</b>

## **Revenue Implications of Capital Investment**

51. As well as overall changes to borrowing levels, the Council must also take into consideration the ongoing revenue implications of capital investment plans in terms of:

- anticipated savings
- income generation potential
- future utility charges and repair and maintenance costs
- future debt costs.

52. Debt costs comprise two major elements:

- interest charges and debt management costs associated with external borrowing, and

- Minimum Revenue Provision (MRP) set aside, which is applied by law to some aspects of General Fund capital expenditure. The Council's amended MRP policy is shown in appendix E.

53. Both are fully incorporated into the revenue budget setting process to ensure prudence and affordability. They are also reflected in prudential indicators calculated and reported as part of the Council's approved Treasury Management Strategy and in-year Treasury Management reports.
54. As part of its budget setting processes each year, the Council is required to produce and publish its current policy on calculating MRP. Appendix E sets out the Council's amended Policy for 2023/24, which it intends to apply again in 2024/25. The Section 151 Officer is satisfied that this represents a prudent approach in line with current guidance but acknowledges that further work is needed to update and improve the quality of asset records inherited from the previous authorities.
55. DLUHC is currently consulting on proposed changes to the MRP mechanism and the underlying requirements for the calculation each year. The Council's current Policy does not anticipate these changes but officers intend to review and update the Policy set out in Appendix E as soon as new guidance has been finalised and published.
56. The £11.6m revenue impact over the MTFP period of the forecast new borrowing requirement of £121.5m is shown in Table 7 below. Taking a prudent approach, these estimates assume that any new prudential borrowing would be external.

*Table 7 – Revenue Impact of new Prudential Borrowing*

	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>	<b>Total Estimate £m</b>
<b>Capital programme</b>				
Prudential borrowing required	45.4	27.6	18.8	91.8
MRP	0.0	1.5	2.0	3.6
Interest	1.0	2.7	3.7	7.4
<b>Total annual revenue impact</b>	<b>1.0</b>	<b>4.2</b>	<b>5.7</b>	<b>11.0</b>
<b>Capitalisation Direction</b>				
Prudential borrowing required	0.0	0.0	29.7	29.7
MRP	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.7	0.7

<b>Total annual revenue impact</b>	<b>0.0</b>	<b>0.0</b>	<b>0.7</b>	<b>0.7</b>
Total prudential borrowing required	45.4	27.6	48.5	121.5
<b>Total annual revenue impact</b>	<b>1.0</b>	<b>4.2</b>	<b>6.4</b>	<b>11.6</b>

57. This additional revenue budget required has been incorporated into the Medium-Term Financial Strategy and 2024/25 Revenue Budgets.

### **PFI and Leasing**

58. The former County Council made limited use of Private Finance Initiative schemes (PFI) and leasing arrangements as a means of funding capital investment, primarily through the Building Schools for the Future (BSF) initiative which commenced in 2011/12. The Council will continue to consider similar funding opportunities as and when they arise but is not actively pursuing this option for any new projects at the current time.

### **Commercial Activity**

59. The Council currently holds a portfolio of commercial properties, together with some equity-based investments in limited companies. Work done during the current financial year and already reported to members has identified that these investment holdings no longer meet financial, strategic or operational objectives for the new Council. Plans to dispose of these assets either have been, or are being, put in place.

60. No new plans to invest in non-Treasury investments are being brought forward as the Council considers that its current priority should be to focus capital investment on the provision of services for local people. Moreover, borrowing to invest purely for commercial income gain is now strongly discouraged by Treasury, to the point the PWLB is explicit in not being used for this sole purpose. Amendments to the Prudential Code in 2021, also tightened regulatory controls on this type of activity.

61. On this basis a strategy for the acquisition and management of non-Treasury investments is not considered necessary and has not been presented to members as part of the 2024/25 Budget framework. Arrangements for the orderly disposal of existing non-Treasury investments will be subject to member approval on an individual basis as and when developments occur.

### **Asset Management**

62. Capital budgets have been put in place to maintain those assets which support delivery of Council services, as shown by Table 8 below:

Table 8 – Asset Management budgets 2024/25 to 2026/27

Key risk area	2024/25 to 2026/27 £m
<b>Council property (non-schools)</b>	
This budget has been established to ensure buildings are safe and functional and remain operational, focusing on urgent and essential works. Condition surveys have been undertaken to inform the proposed programme of works.	14
<b>Fleet Management</b>	
The Council has a fleet of over 750 vehicles. Projects are under way to review and rationalize fleet operations including procurement and management, decarbonization and vehicle utilization. This budget is for a new Fleet Management System with improved telematics and vehicle tracking, to improve security and promote driver safety and fuel efficiency by providing better access to usage data	1
<b>Corporate ICT</b>	
Budget established to: <ul style="list-style-type: none"> <li>• Maintain and replace ICT components as necessary to maintain current service levels and to avoid any risks or failures that could compromise business continuity and data security.</li> <li>• Support the Council’s hybrid work style.</li> <li>• Consolidate ICT systems inherited from the five previous organizations into a more cohesive, cost effective and resilient infrastructure.</li> </ul>	3
<b>Total</b>	<b>18</b>

63. Somerset Council is committed to proactive asset management and is developing strategies to dispose of individual assets and sub-portfolios on an ongoing basis. These strategies will be presented to elected members for approval in line with the council's Scheme of Delegation and Asset Disposal Policy, and will be underpinned by work that is already ongoing to review and rationalize asset use, and to maximise income from capital receipts following the disposal of surplus assets.

### **Delivering this Strategy**

64. The Capital Programme is revised annually as part of the budget setting process. Any significant variations to the Capital Programme require member approval which is usually sought via in-year budget reports. Delivery of the Capital Programme is part of

the monthly financial monitoring process and involves close liaison between the corporate finance team and Project Officers (POs) in relevant spending departments.

### **Review and Governance**

65. The Capital Strategy will be reviewed annually and updated to align with the Council’s Medium Term Financial Strategy, annual revenue and capital budgets, and any changes to the Council Plan. This should enable the Council to make investment decisions which are affordable, offer good value for money, and support its strategic aims.
66. The Key Prudential Indicators identified as being most relevant to the development and management of the Council’s Capital Programme are set out in Table 9 as follows:

*Table 9 – Key Prudential Indicators – Council objectives 2024/25*

<b>Key Prudential Indicator</b>	<b>Council objective</b>
Capital Financing Requirement (CFR)	Year-on-year increases to the CFR should be minimized
External Debt vs the CFR	External debt should always remain below CFR
Financing costs as a % of net revenue income - GF	% calculated should remain below 10%
Financing costs as % of net revenue income - HRA	% calculated should remain below 50%

67. These indicators are set out in detail in Appendix F and will be monitored throughout the financial year. At this stage it is anticipated that all of the above objectives will be met in 2024/25. Any significant variations will be reported to members.

### **Knowledge and Skills**

68. The Council employs professionally qualified and experienced staff in all positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Section 151 Officer will always be a qualified accountant with substantial local government experience and the Markets in Financial Instruments (MIFID II) regulations “opting up” process has demonstrated that there is an appropriate range of skills and expertise within the corporate Treasury Team to undertake investments if required.
69. All Finance staff are encouraged to study for relevant professional qualifications and, once qualified, to keep their professional knowledge up to date. The Council has its own in-house legal services team, and in-house valuation specialists who are Royal Institution of Chartered Surveyors (RICS) qualified. It also employs officers with



specialist skills and experience in relation to procurement, risk management and Health and Safety.

70. Where the Council needs additional resources, for example to validate work done by officers or to provide specialist expertise in areas where Council staff do not have the knowledge and skills required, use is made of external advisers. For example, the Council currently employs Arlingclose Limited as treasury management advisers, and Jones Lang LaSalle are advising on asset disposals. This approach is more cost effective than employing additional resources directly and all consultant and advisor contracts are subject to rigorous tender evaluation.

## **Background Papers**

2023/24 Budget, Medium-Term Financial Plan and Council Tax Setting report to Council 22 February 2023.

Medium Term Financial Strategy (MTFS) 2024/25 to 2026/27 report to Corporate and Resources Scrutiny and Executive July 2023.

Financial Strategy Update report to 09 November 2023 Corporate and Resources Scrutiny and 08 November 2023 Executive.

2024/25 General Fund Revenue and Capital Programme update to 05 December 2023, Corporate and Resources Scrutiny Committee, 06 December 2023 Executive and 20 December 2023 full Council.

Monthly Budget Monitoring reports to Executive and Corporate and Resources Scrutiny Committee

## **Appendices**

Appendix A – Proposed General Fund Capital Programme 2024/25 to 2026/27

Appendix B – Proposed HRA Capital Programme 2024/25 to 2026/27

Appendix C – Details of Major Capital Projects

Appendix D – Sources of Capital Funding

Appendix E – Minimum Revenue Provision (MRP) Policy Statement 2023/24 and 2024/25

Appendix F – Key Prudential Indicators 2024/25

Appendix G – Flexible Use of Capital Receipts Policy

## Appendix A – Proposed GF Capital Programme 2024/25 to 2026/27

Adults and Health Services					Funded by		
	2024/25	2025/26	2026/27 >	Total	Borrowing	Grants/ Contributions	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Adults Residential Programme	1,366	275		1,641	1,641		1,641
Disabled Facilities Grant	1,093	1,093		2,186		2,186	2,186
Learning Disabilities	53			53	10	43	53
<b>Total</b>	<b>2,512</b>	<b>1,368</b>		<b>3,880</b>	<b>1,651</b>	<b>2,229</b>	<b>3,880</b>

Children's Services					Funded by		
	2024/25	2025/26	2026/27 >	Total	Borrowing	Grants/ Contributions	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Children's Residential Homes 1-6	326	71	71	468	268	200	468
Children Residential Homes 7 and 8	950			950	950		950
Homes for Children with Disabilities Phase 2	1,500			1,500	1,500		1,500
Children Looked After	130	130		260		260	260
Special Education Needs and Disabilities	3,789	1,567		5,356		5,356	5,356
Early Years	212			212	212		212
Schools - DFCG & Energy Efficiency	750			750		750	750
Schools - Basic Need	975	150		1,125	1,125		1,125
Pyrland School - Dining Facilities Expansion	900			900		900	900
Heathfield School - Dining Facilities Expansion	1,000			1,000		1,000	1,000
St Pauls School Expansion	400			400	400		400
Orchard Grove New Primary School	3,500	200		3,700	3,700		3,700
Courtfields School - Dining Facilities Expansion	700			700	700		700
Dulverton Primary School (Single Site)	100			100	100		100
Schools Condition General	5,714	5,714	5,714	17,142	10,442	6,700	17,142
Stawley Modular Replacement	475	400	25	900	900		900
Albert Street Modular Replacement	291	9		300	300		300
<b>Total</b>	<b>21,712</b>	<b>8,241</b>	<b>5,810</b>	<b>35,763</b>	<b>20,597</b>	<b>15,166</b>	<b>35,763</b>

Climate & Place - Other Services					Funded by		
	2024/25	2025/26	2026/27 >	Total	Borrowing	Grants/ Contributions	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Flood Alleviation Projects (Somerset West & Taunton area)	4,035	1,000		5,035	106	4,929	5,035
Somerset Waste Partnership - Bin Stock	1,020	70		1,090	1,090		1,090
Chard Reservoir Dam Works	3	18		21	21		21
<b>Total</b>	<b>5,058</b>	<b>1,088</b>		<b>6,146</b>	<b>1,217</b>	<b>4,929</b>	<b>6,146</b>

Climate & Place - Economy and Regeneration					Funded by		
	2024/25	2025/26	2026/27 >	Total	Borrowing	Grants/ Contributions	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Business Growth Fund & Other Projects	434			434	434		434
Bridgwater Town Deal	8,985	7,249		16,234		16,234	16,234
Bridgwater Levelling Up Fund	7,211	6,144		13,355		13,355	13,355
Glastonbury Town Deal	10,050	6,000		16,050		16,050	16,050
Taunton Town Centre Regeneration	897			897		897	897
Firepool Development, Taunton	4,000			4,000		4,000	4,000
Chard Regeneration	500			500		500	500
Frome Enterprise Centre Building Improvements	806	19		825	825		825
<b>Total</b>	<b>32,883</b>	<b>19,412</b>		<b>52,295</b>	<b>1,259</b>	<b>51,036</b>	<b>52,295</b>

Climate & Place - Infrastructure and Transport					Funded by		
	2024/25	2025/26	2026/27 >	Total	Borrowing	Grants/ Contributions	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Bridge Structures	7,448	4,000	12,000	23,448		23,448	23,448
Road Structures	29,500	31,625		61,125		61,125	61,125
Traffic Control	2,800	2,800	5,100	10,700		10,700	10,700
Active Travel Projects	1,666			1,666		1,666	1,666
Small Improvement - Safety Schemes	500	500	1,500	2,500		2,500	2,500
Highway Lighting	1,000	1,000	3,000	5,000		5,000	5,000
Rights of Way	1,121	1,237	3,711	6,069		6,069	6,069
Car Parks & Parking Services	248	248		496	496		496
Major Road Network	200	100		300	200	100	300
A38 Chelston Link	4,610			4,610		4,610	4,610
Fleet Management - Vehicles	500	500		1,000	1,000		1,000
Silk Mills Park & Ride Security Measures	125			125	125		125
Bus Service Improvement Programme	3,743			3,743		3,743	3,743
<b>Total</b>	<b>53,461</b>	<b>42,010</b>	<b>25,311</b>	<b>120,782</b>	<b>1,821</b>	<b>118,961</b>	<b>120,782</b>

## Appendix A (continued) - Proposed GF Capital Programme 2024/25 to 2026/27

Community Services					Funded by		
	2024/25	2025/26	2026/27 >	Total	Borrowing	Grants/ Contributions	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Library Services	326			326	254	72	326
Grants to Registered Social Landlords (RSLs)	790			790		790	790
IAC Staffing and Support	102	102		204		204	204
Energy Efficiency Grants	62	62		124		124	124
Home Maintenance	57	57		114		114	114
Prevention Grants	71			71		71	71
Ports and Harbours Safety Improvements	70			70	70		70
Bridgwater Port and River Brue Dredging	30			30	30		30
Bridgwater Port Navigation Aids and Beacons	30			30	30		30
<b>Total</b>	<b>1,538</b>	<b>221</b>		<b>1,759</b>	<b>384</b>	<b>1,375</b>	<b>1,759</b>

Resources and Corporate Services					Funded by		
	2024/25	2025/26	2026/27 >	Total	Borrowing	Grants/ Contributions	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Corporate ICT Investment	2,098	780		2,878	2,776	102	2,878
Property Services General	798			798	798		798
Wellington Library Improvements	1,158	34		1,192	1,192		1,192
Building Compliance Health & Safety	190			190	190		190
Property Rationalisation	700			700	700		700
Building Condition Programme (Non Schools)	2,466	236		2,702	2,702		2,702
Wincanton Sports Centre - New Roof and Colley Lane, Bridgwater - New Bay Roof (24/25/Corp Contingency)		825	19	844	844		844
Bridgwater Library - Condition, Roof (22/23)	444	11		455	455		455
Taunton Library - New Boiler (22/23)	224	5		229	229		229
Orchard Multi-Storey - Structural and waterproofing repairs. (23/24)	330	8		338	338		338
Outdoor Education Centres Improvements	525	375	21	921	921		921
Outdoor Education Centres Building Condition	625	550	25	1,200	1,200		1,200
South West Heritage Trust Building Condition	325	75		400	400		400
Wellington Sports Centre Decarbonisation	2,383			2,383	2,341	42	2,383
Dulverton Weir Essential Works	30			30	30		30
Closed Churchyards	150			150	150		150
Capital Works for Investment Properties	2,213			2,213	2,213		2,213
<b>Total</b>	<b>14,659</b>	<b>2,899</b>	<b>65</b>	<b>17,623</b>	<b>17,479</b>	<b>144</b>	<b>17,623</b>

Strategy, Workforce, and Localities					Funded by		
	2024/25	2025/26	2026/27 >	Total	Borrowing	Grants/ Contributions	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Various Other Schemes	135	136		271		271	271
<b>Total</b>	<b>135</b>	<b>136</b>		<b>271</b>		<b>271</b>	<b>271</b>

Directorate Area					Funded by		
	2024/25	2025/26	2026/27 >	Total	Borrowing	Grants/ Contributions	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Adults and Health	2,512	1,368		3,880	1,651	2,229	3,880
Children's Services	21,712	8,241	5,810	35,763	20,597	15,166	35,763
Climate & Place - Other Services	5,058	1,088		6,146	1,217	4,929	6,146
Climate & Place - Economy and Regeneration	32,883	19,412		52,295	1,259	51,036	52,295
Climate & Place - Infrastructure	53,461	42,010	25,311	120,782	1,821	118,961	120,782
Community Services	1,538	221		1,759	384	1,375	1,759
Resources & Corporate Services	14,659	2,899	65	17,623	17,479	144	17,623
Strategy and Workforce	135	136		271		271	271
<b>Total</b>	<b>131,958</b>	<b>75,375</b>	<b>31,186</b>	<b>238,519</b>	<b>44,408</b>	<b>194,111</b>	<b>238,519</b>

## Appendix B – Proposed HRA Capital Programme 2024/25 to 2033/34

HRA Capital Programme	Total Planned Capex Budget	Planned Capex 2023/24	Planned Capex 2024/25	Planned Capex 2025/26	Planned Capex 2026/27	Planned Capex 2027/28	Planned Capex 2028/29	Planned Capex 2029/30	Planned Capex 2030/31	Planned Capex 2031/32	Planned Capex 2032/33	Planned Capex 2033/34
Major Works	117,009,014	14,067,336	14,511,360	12,977,772	11,852,373	11,968,974	11,951,475	8,809,086	8,641,586	8,813,286	6,709,983	6,705,783
Fire Safety	7,757,500	3,837,500	2,323,000	1,257,500	257,500	41,000	41,000	-	-	-	-	-
Related Assets	5,068,000	50,000	400,000	400,000	580,000	580,000	580,000	558,000	480,000	480,000	480,000	480,000
Exceptional & Extensive	6,315,365	700,933	1,305,000	1,342,914	942,914	842,914	1,180,890	-	-	-	-	-
Vehicles	3,064,006	-	279,825	285,422	291,130	296,953	302,892	308,949	315,128	321,431	327,860	334,417
ICT & Transformation	95,138	95,138	-	-	-	-	-	-	-	-	-	-
Aids & Adaptations & DFGs	4,070,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000
<b>Sub-Total Majors &amp; Improvements</b>	<b>143,379,023</b>	<b>19,120,907</b>	<b>19,189,185</b>	<b>16,633,607</b>	<b>14,293,917</b>	<b>14,099,840</b>	<b>14,426,057</b>	<b>10,046,035</b>	<b>9,806,714</b>	<b>9,984,717</b>	<b>7,887,843</b>	<b>7,890,200</b>
Social Housing Development	66,314,044	12,617,424	17,194,487	17,023,560	12,441,965	3,385,062	1,851,546	1,800,000	-	-	-	-
<b>Total In-House HRA</b>	<b>209,693,067</b>	<b>31,738,331</b>	<b>36,383,672</b>	<b>33,657,168</b>	<b>26,735,882</b>	<b>17,484,902</b>	<b>16,277,603</b>	<b>11,846,035</b>	<b>9,806,714</b>	<b>9,984,717</b>	<b>7,887,843</b>	<b>7,890,200</b>
Major Works	79,585,212	11,976,519	8,334,700	7,315,119	7,293,519	7,293,519	7,293,519	7,077,519	5,790,699	5,736,699	5,736,699	5,736,699
Fire Safety	2,642,100	129,600	262,500	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Related Assets	-	-	-	-	-	-	-	-	-	-	-	-
Exceptional & Extensive	2,271,210	-	237,300	225,990	225,990	225,990	225,990	225,990	225,990	225,990	225,990	225,990
Vehicles	-	-	-	-	-	-	-	-	-	-	-	-
ICT & Transformation	-	-	-	-	-	-	-	-	-	-	-	-
Aids & Adaptations & DFGs	-	-	-	-	-	-	-	-	-	-	-	-
<b>Sub-Total Majors &amp; Improvements</b>	<b>84,498,522</b>	<b>12,106,119</b>	<b>8,834,500</b>	<b>7,791,109</b>	<b>7,769,509</b>	<b>7,769,509</b>	<b>7,769,509</b>	<b>7,553,509</b>	<b>6,266,689</b>	<b>6,212,689</b>	<b>6,212,689</b>	<b>6,212,689</b>
Social Housing Development	16,529,354	8,199,918	4,832,864	2,431,573	1,065,000	-	-	-	-	-	-	-
<b>Total ALMO HRA</b>	<b>101,027,876</b>	<b>20,306,037</b>	<b>13,667,364</b>	<b>10,222,682</b>	<b>8,834,509</b>	<b>7,769,509</b>	<b>7,769,509</b>	<b>7,553,509</b>	<b>6,266,689</b>	<b>6,212,689</b>	<b>6,212,689</b>	<b>6,212,689</b>
Major Works	196,594,226	26,043,855	22,846,060	20,292,891	19,145,892	19,262,493	19,244,994	15,886,605	14,432,285	14,549,985	12,446,682	12,442,482
Fire Safety	10,399,600	3,967,100	2,585,500	1,507,500	507,500	291,000	291,000	250,000	250,000	250,000	250,000	250,000
Related Assets	5,068,000	50,000	400,000	400,000	580,000	580,000	580,000	558,000	480,000	480,000	480,000	480,000
Exceptional & Extensive	8,586,575	700,933	1,542,300	1,568,904	1,168,904	1,068,904	1,406,880	225,990	225,990	225,990	225,990	225,990
Vehicles	3,064,006	-	279,825	285,422	291,130	296,953	302,892	308,949	315,128	321,431	327,860	334,417
ICT & Transformation	95,138	95,138	-	-	-	-	-	-	-	-	-	-
Aids & Adaptations & DFGs	4,070,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000
<b>Sub-Total Majors &amp; Improvements</b>	<b>227,877,544</b>	<b>31,227,026</b>	<b>28,023,685</b>	<b>24,424,717</b>	<b>22,063,426</b>	<b>21,869,350</b>	<b>22,195,566</b>	<b>17,599,545</b>	<b>16,073,404</b>	<b>16,197,406</b>	<b>14,100,532</b>	<b>14,102,889</b>
Social Housing Development	82,843,398	20,817,342	22,027,350	19,455,133	13,506,965	3,385,062	1,851,546	1,800,000	-	-	-	-
<b>Total Combined HRA</b>	<b>310,720,943</b>	<b>52,044,368</b>	<b>50,051,035</b>	<b>43,879,849</b>	<b>35,570,391</b>	<b>25,254,412</b>	<b>24,047,112</b>	<b>19,399,545</b>	<b>16,073,404</b>	<b>16,197,406</b>	<b>14,100,532</b>	<b>14,102,889</b>

## **Appendix C – Details of major capital projects**

### **A Fairer, Ambitious Somerset**

#### **Children with Special Education Needs and Disabilities**

High Needs Provision Capital Allocations (HNPCA) grant will be used to fund projects that:

- enable and/or increase access to mainstream placements for children and young people who might otherwise require more specialist provision.
- increase the local availability of High Needs places, and
- adapt, re-model or improve existing High Needs places to make them suitable for a wider range of needs.

This involves a combination of expanding, repurposing and reconfiguring provision so that they better meet the needs of children and young people with complex needs, for example by improving:

- physical access to school buildings (e.g. ramps, handrails, and automated doors).
- access to the curriculum (e.g., specialist furniture and IT equipment).
- facilities within school buildings (e.g., medical rooms and acoustic improvements).
- access to specialist provision.

#### **Schools - Energy Efficiency**

This annual budget relates to a government funded grant allocated for individual schools for small capital projects and energy efficiency schemes. The grant is passported by Somerset Council onto Local Authority maintained schools for us in accordance with the conditions of the scheme.

#### **Schools - Basic Need**

The purpose of this investment is to meet the Council's statutory duty to deliver sufficient fit for purpose school places for all children in Somerset. The Council is facing increasing demand for school places, both mainstream and specialist provision, as the school age population in the county continues to rise. A number of projects to provide additional school places across the county will need to be undertaken over the coming years with funding being received from a number of sources including: Department for education (Dfe), Section106, Community Infrastructure Levy (CIL) and Housing Infrastructure Fund (HIF)

#### **Schools condition programme**

As well as ensuring a sufficient provision of new places, schools must be maintained in an appropriate condition. This funding is to ensure school buildings are safe and functional and that their condition does not detract from teaching and learning or lead to unplanned school closures. The Department for Education (DfE) provides an annual capital grant to support this activity. However, there is a major and growing shortfall in funding between the level of need and the grant funding available, with a significant maintenance backlog currently identified. Grant funding will therefore be allocated to areas of highest need identified in the most recent condition surveys ie essential funding to replace critical building components

### **Appendix C (continued) – Details of major capital projects**

(boilers/heating/roofs/windows etc) and major works which Schools would in most cases be unable to afford through their devolved funds.

### **A flourishing and resilient Somerset**

#### **Bridgwater Town Deal**

Bridgwater is one of the Government's 101 Towns Fund Towns. In 2021-2022, the local authority secured £23.2m of investment to deliver eleven different projects within the town, ranging from travel to cultural improvements and diversifying what the town centre has to offer. The largest single project, which commenced in February 2023, will improve large parts of Bridgwater's public realm alongside better accessibility within the town centre.

Plans are also in place to regenerate the former Bridgwater Hospital, a significant Grade 2 building which has become dilapidated over recent years. Converting the building into a Training Academy for Health and Social Care will not only bring back into use a significant town centre site but also deliver wider benefits such as increasing town centre footfall, and training thousands of individuals to work across the health and care sectors.

#### **Glastonbury Town Deal**

Glastonbury is also one of the Government's 101 Town Deal towns and will benefit from £23.6m investment between 2021 and 2026. Some key projects have already been delivered, for example the Robert Richards Initiative has created a popular multi-user path at Tor Leisure and a learning and skills website in partnership with the Open University. Other initiatives include:

- local hubs for Sport and Leisure, Enterprise and Innovation
- clean energy initiatives
- improvements to Glastonbury Abbey, and
- a new Community Health and Wellbeing Centre.

### **A greener, more sustainable Somerset**

## **Bridges, Road structures and Traffic Control**

Highways Agency funding will be used to maintain the highways network and the various bridges and structures which Somerset Council is responsible for. This includes the core annual maintenance cycle relating to carriageways, footways and cycleways, drainage, street lighting, and traffic control. Grant funding has also been made available to complete the A38 Chelston Link to junction 26 of the M5 motorway.

There are currently 299 Traffic signal sites across Somerset. Approximately 137 of these sites have been identified as being in a critical condition with urgent works required, and 220 will be affected by national plans to connect all traffic signals to a digital network by the end of 2025.

## **Appendix C (continued) – Details of major capital projects**

### **Lighting**

The Council currently maintain circa 50,495 street lights, 1704 illuminated bollards, 4,839 illuminated signs and 401 Belisha Beacons/Beacon post lights. 64% of these have been replaced with LEDs, with the remainder due to be replaced over the next three years.

### **Bus Service Improvement Programme**

Three separate infrastructure projects will be carried out as part of the BSIP programme:

- BSIP ‘Greenwaves’: A series of bus priority measures in Taunton along key routes into the town, including new bus lanes and upgrades to signals and traffic lights,
- Taunton Mobility Hub: These works will return the old bus station site to its original use as a bus interchange together with cycle parking, cycle hire, e-bike charging, community and commercial space and an indoor waiting area.
- Somerton Rural Mobility Hub: A smaller, rural mobility hub which will act as an interchange for existing bus services and DDRT service trial.

## **A Healthy and Caring Somerset**

### **New Social Housing**

New housing developments are planned at:

- The “Woolaway Project”, in North Taunton, which will provide a net increase of 69 new homes over the next 10 years.
- 40 new homes in Bridgewater, Sydenham, North Petherton and Nether Stowey.

### **Maintaining and improving HRA housing stock**

Major items of capital expenditure will relate to:

- kitchens and bathrooms (£31m),
- windows and roofing (£21m)
- heating and insulation (£14m).

Further information about the Council's financial plans for social housing can be found at [Housing Revenue Account \(HRA\) updated 30 year Business Plan and Rent Set 202324.pdf \(somerset.gov.uk\)](#)



## **Appendix D – Sources of Capital Funding**

### Capital Receipts

Capital Receipts come from the sale of Council's assets. If the disposal relates to HRA land or property, then a percentage of the sales receipt must be paid over to the Government. In most cases capital receipts can be made available to support the capital programme as a corporate resource, irrespective of which service area the asset previously belonged to. The main exception to this is any Right to Buy (RTB) receipts held under Section 11(6) agreements, which must be used for the specific purpose providing replacement affordable housing.

### Government Grants

Capital grants from the Government can be split into two categories:

- *Non-ring fenced* - grant that can be utilised on any project, albeit for a specific purpose. This is now the vast majority of Government funding.
- *Ring-fenced* - resources which are ring fenced to particular projects and therefore have restricted uses, specified by the funder. Any grant receipt not used for the specified purposes must be returned.

### Non-Government Contributions

Where there is a requirement to make an application to an external agency to receive external funding, and to commit Council resources as matched funding to any bid which is successful, a business case should first of all be presented to demonstrate how the project aligns to Council's priorities and how matched funding and any revenue consequences of the project can be managed within the context of the capital and revenue budget overall.

### Revenue Contributions

Subject to affordability, an element of the revenue budget can be set aside to fund the Capital Programme (Direct Revenue Financing). This practice mainly relates to capital expenditure within the HRA which is funded from rental income via the Major Repairs Reserve.

### Prudential Borrowing

The term Prudential Borrowing does not automatically lead to external borrowing as the Council may be able to use cash it holds in reserves and short-term investments. The Council will resource capital projects using prudential borrowing only where plans put forward are sustainable, affordable, and prudent. Full appraisal will take place to ensure that, wherever possible, sufficient revenue income or cost savings returns are generated to cover the cost of borrowing. Where it is considered that prudential borrowing is the most appropriate method of funding, but it requires additional revenue financing, those additional costs must be built into the revenue budget planning process before the project can be approved.

## **Appendix E – Minimum Revenue Provision (MRP) Policy Statement 2023/24 and 2024/25**

### **Introduction**

1. Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') requires local authorities to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. The minimum revenue provision is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves or capital receipts.
2. MRP is sometimes referred to as the mechanism for setting aside monies to repay external borrowing. In fact, the requirement for MRP set aside applies even if the capital expenditure is being financed from the Council's own cash resources and no new external borrowing or other credit arrangement has been entered into.
3. Regulation 28 of the 2003 Regulations requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. This statement is designed to meet that requirement.
4. In setting a prudent level of MRP local authorities must "have regard" to guidance issued from time to time by the Secretary of State for Housing, Communities and Local Government. The latest version of this guidance (version four) was issued by Ministry of Housing, Communities and Local Government (MHCLG) in February 2018.
5. The Department for Levelling Up, Housing and Communities (DLUHC) published a consultation on changes to the Capital Finance Regulations and the Statutory MRP Guidance in December 2023. A summary of the proposed changes is set out at paragraph 11 below. The changes being consulted upon will take effect from 1 April 2024. Consequently the MRP Policy Statement for 2024/25 must have regard to the proposed changes as well as the extant legislation and MRP Guidance.
6. In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.
7. The Guidance sets out four "possible" options for calculating MRP, as set out below,

<b>Option</b>	<b>Calculation method</b>	<b>Applies to</b>
1: Regulatory method	Formulae set out in 2003 Regulations (later revoked)	Expenditure incurred before 1 April 2008
2: CFR method	4% of Capital Financing Requirement	Expenditure incurred before 1 April 2008
3: Asset life method	Amortises MRP over the expected life of the asset	Expenditure incurred after 1 April 2008
4: Depreciation method	Charge MRP on the same basis as depreciation	Expenditure incurred after 1 April 2008

8. Two main variants of Option 3 are set out in the Guidance (i) the equal instalment method and (ii) the annuity method. The annuity method weights the MRP charge towards the later part of the asset's expected useful life and is increasingly becoming the most common MRP option for local authorities.
9. The Guidance also includes specific recommendations for setting MRP in respect of finance lease, investment properties and revenue expenditure which is statutorily defined as capital expenditure under the 2003 Regulations (also referred to as revenue expenditure funded from capital under statute or REFCUS). Examples of REFCUS include capitalised redundancy costs, loans or grants to third parties for capital purposes, and the purchase of shares in limited companies.
10. Other approaches are not ruled out however they must meet the statutory duty to make prudent MRP provision each financial year.

### **DLUHC consultation**

11. DLUHC published a consultation on changes to the Capital Finance Regulations and Statutory Guidance in respect of MRP in December 2023. This follows two earlier consultations in November 2021 and February 2022. The aim of the changes proposed is to strengthen the requirement for local authorities to make a prudent MRP provision, in response to two issues which have led to underpayment of MRP at a number of authorities including Woking:
  - (a) excluding a proportion of debt from the MRP determination in two areas:
    - (i) firstly, debt associated with investment properties or investments defined as capital expenditure, on the basis that such assets retain their capital value and that the asset can be sold at any time in the future to repay the associated debt. The Government have stated that this is not prudent. The proposals will amend the 2003 Capital Finance Regulations to make clear that MRP is required on such expenditure;

- (ii) secondly, debt associated with making loan advances to third parties for a capital purpose. The argument put forward by authorities exempting such debt from MRP calculations is that the repayments of principal would be used to repay debt. The proposed changes will require local authorities to continue to set aside MRP on “commercial loans” (defined as a loan undertaken for profit), but allows local authorities an exemption from charging MRP for non-commercial loans, but will require local authorities to set aside as MRP an amount for any expected credit loss calculated under IFRS9. In other words for non-commercial loans as soon as there is evidence that the debtor might be unable to repay all or some of the loan, the authority would be required to set aside the full amount of the estimated loss.
  - (b) using capital receipts in place of charging MRP to revenue. Authorities following this approach would use capital receipts to pay for the amount of MRP due for the individual financial year. This practice effectively treated capital receipts as a revenue source, which is not permissible under Regulation 23 of the Capital Finance Regulations. The proposed changes to the Capital Finance Regulations make clear that capital receipts can only be used to reduce the overall level of the CFR, which in turn forms the basis for calculating the MRP charge, based on the residual CFR after the application of capital receipts.
- 12. In addition, paragraph 46 of the draft MRP Guidance states that for local authorities where the Government has made arrangements to intervene and has, or is in the process of, put in place financial support arrangement for the authority, that it may be appropriate to reflect the nature of any such financial support when determining a prudent level of MRP for the forthcoming financial year. The draft Guidance goes onto state that the authority must seek agreement from the Government on how any such assumptions with respect to support are reflected in the determination of MRP. The draft Guidance goes onto explain that paragraph 46 is not a new policy but clarifies an issue that previous editions of the Guidance was silent on. As such, the Government expects this to apply to prior periods (or MRP from prior periods).

### **Local Government Reorganisation**

- 13. Prior to vesting day for the new Somerset Council, all five abolished authorities had different MRP policies and practices. When the MRP policy was set for the new Council as part of the budget setting process for 2023/24, the MRP Policy Statement set out that past charges would not be re-visited but that a consistent approach would be developed for the new Council.
- 14. The quality of the records available to date inherited have not been sufficient to enable this as explained below:

- Only one authority appeared to have any MRP stream in respect of pre 2007/08 and supported capital expenditure incurred 2008-2011. This seems unlikely given that the amortisation period would have been a minimum of 25 years from 1 April 2008 when the current system of MRP came into force;
- For unsupported capital expenditure incurred since 1 April 2008, only two authorities appeared to have capital finance records which showed expenditure on an asset by asset basis necessary to support the asset life method which all five authorities reported they were following;
- Asset lives used for the MRP calculations at three authorities appeared to default to 50 years. The asset life method is required to charge MRP over a period commensurate with the period over which their capital expenditure provides benefits. Therefore it is extremely unlikely that the asset lives would all be 50 years. Potentially this means that the authorities would be setting MRP for a period longer than that which provided benefits, which would be imprudent.
- There were no detailed asset life records for the former county council and it has been necessary to apportion the county's CFR pro rata to the net book value of the assets held by the county, in order to estimate a split of the CFR by asset type and then apply asset lives more appropriate to the relevant asset class.

15. In view of this the MRP Policy Statement for 2023/24 is to be amended and the 2024/25 to provide a continuation of the MRP policies for the legacy expenditure from the abolished authorities and a standard policy for unfinanced capital expenditure incurred by the new Council since 1 April 2023.

16. This approach is recommended subject to work being undertaken to establish more accurate records from the abolished authorities over the next 12 months and revisit the MRP policy during 2024/25 where necessary in order to move to a consistent MRP policy across the whole Council and one which fully complies with the Statutory MRP Guidance – both the current 2018 edition and the 2024 edition currently out to consultation.

### **Minimum Revenue Provision (MRP) policy statement**

17. Having regard to current Guidance on MRP issued by MHCLG and the “options” outlined in that Guidance, the Council is recommended to approve the following MRP Statement to take effect from 1 April 2024, on the basis that this represents “a prudent provision” in line with Regulation 28.

<b>MRP stream</b>	<b>Policy</b>	<b>Explanation</b>
<b>Legacy MRP</b>		
<b>Mendip DC:</b>		

<p>1. Operational expenditure</p> <p>2. Investment property</p>	<p>MRP will be calculated on a straight-line basis over the expected asset lives established by the former authority.</p> <p>MRP will be calculated on an annuity basis over the expected asset lives established by the former authority of 20 years</p>	<p>This complies with Option 3(i) of the MRP Guidance.</p> <p>This complies with Option 3(i) of the MRP Guidance.</p>
<p><b>Sedgemoor DC:</b></p> <p>1. Pre-2008 capital expenditure and supported capital expenditure</p> <p>2. Unsupported capital expenditure incurred since 1 April 2008</p> <p>3. Commercial investment</p> <p>4. Loans to third parties</p>	<p>MRP will be charged on a 4% reducing balance in respect of the previous year's CFR</p> <p>MRP will be charged on annuity basis over the expected asset lives established by the former authority</p> <p>MRP will be charged on a straight-line basis over the remaining 47 year asset lives established by the former authority.</p> <p>MRP will be charged on a straight-line over the remaining period of the loans</p>	<p>This complies with Option 2</p> <p>This complies with Option 3(ii), but will need detailed asset records to be established to confirm use of the method.</p> <p>This complies with Option 3(i) but will need detailed asset records to be established to confirm use of the method.</p> <p>This complies with Option 3(i) but will need detailed asset records to be established to confirm use of the method.</p>
<p><b>South Somerset DC</b></p> <p>Unsupported capital expenditure incurred since 1 April 2008</p>	<p>MRP will be charged on a straight-line basis over the remaining period of the standard 50 year asset lives</p>	<p>This complies with Option 3(i) but will need detailed asset records to be established to confirm use of the method and to reflect the actual asset lives of the assets financed.</p>

MRP stream	Policy	Explanation
<p><b>South West and Taunton DC</b></p> <p>Unsupported capital expenditure incurred since 1 April 2008</p> <p>Unsupported capital expenditure on investment property</p>	<p>MRP will be charged on a straight-line basis over the remaining 10 year asset life</p> <p>MRP will be charged on an annuity basis over the residual asset life of the asset(s) acquired</p>	<p>This complies with Option 3(i) but will need detailed asset records to be established to confirm use of the method and to reflect the actual asset lives of the assets financed.</p> <p>This complies with Option 3(ii) but will need detailed records to be established to confirm use of the method and to reflect the actual assets financed.</p>
<p><b>Somerset CC</b></p> <p>Unsupported capital expenditure incurred since 1 April 2008</p>	<p>MRP will be charged on a straight-line over the standard asset lives of the CFR at 31/3/2023 apportioned to heritage, infrastructure, intangible and plant and equipment assets.</p> <p>MRP on land and buildings will be charged on an annuity basis over a standard asset life of the CFR at 31/3/2023 apportioned to this asset category</p>	<p>This complies with Option 3(i) but will need detailed records to be established to confirm use of the method and to reflect the actual assets financed.</p> <p>This complies with Option 3(ii) but will need detailed records to be established to confirm use of the method and to reflect the actual assets financed</p>
<p>All pre-2007/08 capital expenditure</p>	<p>MRP will be calculated on the reducing balance method set out in Option 1</p>	<p>This complies with Option 1 but will need the records checking for each abolished authority to establish whether such expenditure was outstanding at 31/3/2023.</p>
<p><b>Ongoing MRP since 1 April 2023</b></p>		
<p>All operational capital expenditure incurred since 2007/08</p>	<p>MRP will be calculated on a straight-line using the expected useful asset lives of the assets (Option 3 – asset</p>	<p>This complies with the Option 3(ii) of the MRP Guidance and the requirement for a maximum asset life of 50 years.</p>



	life), subject to a maximum useful asset life of 50 years.	
All capital expenditure on commercial assets incurred since 2007/08	MRP will be calculated on an annuity basis using the expected useful asset lives of the assets (Option 3 - asset life), subject to a maximum useful asset life of 20 years and discounted using the PWLB new loan annuity rate applicable on 1 April in the year when MRP commences.	The use of the annuity method complies with Option 3(ii) of the MRP Guidance.

MRP stream	Policy	Explanation
Expenditure capitalised by virtue of a capitalisation direction under section 16(2)(b) of the Local Government Act 2003	MRP on any expenditure capitalised by way of a Direction will be charged over 20 years using the asset-life method using an annuity approach.	<p>The 20 year life is the period specified in para 47 of the MRP Guidance.</p> <p>The use of the annuity method complies with Option 3(ii) of the MRP Guidance.</p>
Loans to third parties	MRP will be charged on a straight-line basis over the expected useful life for which the loan is to be used, subject to a maximum useful asset life of 50 years	The straight-line approach complies with Option 3(i) of the MRP Guidance and the useful life is that set out in para 47 of the MRP Guidance.
Expenditure on the acquisition of share capital	MRP will be charged on a straight-line over 20 years	The straight-line approach complies with Option 3 of the MRP Guidance and the 20 year life is that set out in para 47 of the MRP Guidance.
MRP for service concession contracts	The amount of the MRP charge will be equal to the amount by which the balance sheet liability is written by the unitary charge (i.e. the principal element of the unitary charge)	This complies with para 43 of the MRP Guidance
Asset lives	<p>Asset lives used for MRP calculations will be determined by the Council's RICS-registered valuers, and will be consistent with the depreciation policies set out in the Council's annual Statement of Accounts, and will be kept under regular review.</p> <p>If no life can reasonably be attributed to an asset, such as</p>	This complies with para 42 of the MRP Guidance.

	freehold land, the estimated useful life will be taken to be a maximum of 50 years	
Discount rate for use when applying the annuity method for calculating MRP under Option 3	MRP will be discounted using the PWLB new loan annuity rate applicable on 30 September in the year before MRP commences	The MRP Guidance does not suggest what discount rate(s) to use. By specifying the PWLB new loan annuity rate at 30 September in the year before MRP aligns the discount rate to the middle of the year in which the expenditure is incurred and provides a clearly evidenced trail to the discount rate to be used and reflects the type of borrowing undertaken by the Council.

<b>MRP stream</b>	<b>Policy</b>	<b>Explanation</b>
MRP commencement	MRP should normally begin in the financial year following the one in which the expenditure was incurred. However, in accordance with the statutory Guidance, commencement of MRP may be deferred until the financial year following the one in which the asset becomes operational	This approach complies with para 41 of the MRP Guidance
Use of capital receipts to reduce indebtedness	Capital receipts may be applied to reduce the CFR. This means that subsequent year's MRP charges will reduce by the amount of receipts applied. The MRP reduction will be on a straight line basis over 20 years, [unless the capital receipt relates to identifiable MRP charges, in which case the section 151 officer may determine the annual MRP reduction consistent with those MRP charges.]	This approach complies with para 68 of the draft MRP Guidance

18. On the basis of the above MRP Policy, the MRP for the forthcoming financial year (2024/25) would be £27.5m (equivalent to 2.5% of the closing CFR at 31 March 2024) comprising:

<b>MRP element</b>	<b>£m</b>
Legacy MRP	24.0
PFI	1.3
Unsupported capital expenditure for 2023/24	2.2
<b>TOTAL MRP</b>	<b>27.5</b>

19. In amending the MRP Policy for 2023/24 to the above and setting the 2024/25 MRP policy based on the MRP Policy above, this will comply with the Council's duty to set a prudent level of MRP. This MRP Policy is recommended on the basis that work will be

done within the next 12 months to improve the quality of records from the abolished authorities to properly support the use of the asset-life approach underpinning the legacy MRP to:

- ensure improved compliance with the MRP Guidance; and
- transition the new Council to a consistent MRP Policy for all unfinanced capital expenditure.

20. The MRP Policy will be kept under review and updated if necessary in the light of the changes to the Capital Finance Regulations and Statutory MRP Guidance currently being consulted upon by DLUHC.

## Appendix F – Key Prudential Indicators 2024/25

### Capital Financing Requirement (CFR)

The CFR essentially measures the Council's underlying borrowing need. Any capital expenditure which is being financed from prudential borrowing will increase the CFR, whereas the annual MRP charge reduces it. The size of the CFR is a major driver of the amount required to be charged to council tax as MRP.

The Council's CFR is expected to increase by only £37.6m between 1 April 2024 and 31 March 2027, from £1,079.3m to £1,116.9. This reflects the combination of:

- reductions to planned capital expenditure,
- MRP payments
- less reliance on borrowing to support the capital programme, and
- the assumption that the Capitalisation Direction of £289.0m will be mostly funded from capital receipts.

	<b>2023/24 Forecast £m</b>	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>
<b>CFR at 31 March</b>				
General Fund	895.2	899.5	879.2	855.8
HRA	184.0	198.9	218.5	231.4
Capitalisation Direction	0.0	0.0	0.0	29.7
<b>Total CFR</b>	<b>1,079.3</b>	<b>1,098.4</b>	<b>1,097.7</b>	<b>1,116.9</b>
<b>Annual change</b>				
General Fund	(23.6)	4.2	(20.2)	(23.4)
HRA	0.0	14.9	19.5	12.9
Capitalisation Direction	0.0	0.0	0.0	29.7
<b>Total change</b>	<b>(23.6)</b>	<b>19.2</b>	<b>(0.7)</b>	<b>19.2</b>
<b>Reason for change</b>				
Net financing	0.0	45.4	27.6	18.8
Capitalisation Direction	0.0	36.9	104.1	148.0
Less repayment of debt from asset sales	0.0	(36.9)	(104.1)	(118.3)
Less MRP	(23.6)	(26.2)	(28.3)	(29.3)
<b>Net financing</b>	<b>(23.6)</b>	<b>19.2</b>	<b>(0.7)</b>	<b>19.2</b>

### External Debt vs the Capital Financing Requirement

The gross projected debt not only supports the forecast capital programme, but also the borrowing to support the capitalisation direction above the value of capital receipts. Borrowing will also increase as the level of reserves reduce to support the revenue budget.

	<b>2023/24 Forecast £m</b>	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>
Gross Projected Debt	823.2	867.1	893.0	939.7
CFR	1,079.3	1,098.4	1,097.7	1,116.9
<b>Under/(Over) Borrowing</b>	<b>256.0</b>	<b>231.3</b>	<b>204.7</b>	<b>177.2</b>

### **Affordability of capital investment plans**

The objective of the affordability indicator is to ensure that the level of investment in capital assets proposed remains within sustainable limits and, in particular, highlights the impact of capital financing costs (i.e. MRP and interest) on the Council's "bottom line". The estimates of financing costs include current commitments and the proposals in the capital strategy.

The affordability is the total of financing costs expressed as a percentage of net revenue streams ie:

- for GF budgets, the total of Council Tax, business rates and government grants, and
- for HRA budgets, annual rental income.

These ratios are shown below.

	<b>2023/24 Forecast £000s</b>	<b>2024/25 Estimate £000s</b>	<b>2025/26 Estimate £000s</b>	<b>2026/27 Estimate £000s</b>
General Fund	10.1%	10.3%	10.1%	9.1%
HRA	45.0%	45.2%	45.5%	45.5%

## **Appendix G – Flexible use of Capital Receipts Policy for 2024/25**

### 1. Introduction

- This policy outlines the criteria for the flexible use of capital receipts by Somerset Council for the financial year 2024/25.
- The policy is based on the guidelines provided by the UK government for the flexible use of capital receipts.
- The policy aims to ensure that the use of capital receipts is in line with the council's financial objectives and priorities.

### 2. Criteria for the Flexible Use of Capital Receipts

- Capital receipts can only be used for revenue expenditure if they are received within the timescales that authorities have a Flexible Receipts Strategy.
- Only receipts from Property, Plant, and Equipment (PPE) can be used where the authority ceases to have an interest in the asset.
- The authority must be able to demonstrate that ongoing savings are a result of the application of receipts.
- Discretionary redundancy payments cannot be funded from capital receipts, but statutory redundancy and pension strain payments are allowable.

### 3. Projects Which Meet the Criteria

- The costs of implementing Local Government Reorganisation Business Case approved by the Secretary of State meet the criteria.
- The projects with the Councils Transformation Programme which includes the 're-sizing' of the council, future workforce transformation, Childrens Service Transformation, Partnerships and Devolution and 'My Life, My Future'.

### 4. Conclusion

- This policy must be approved by Council and submitted to the Secretary of State.
- A revised strategy may be replaced by another during the year through the same approval process.