

## REPORT

<b>SUBJECT:</b>	<b>2025/26 Capital Strategy and 2025/26 Treasury Management Strategy</b>
<b>DIRECTORATE:</b>	<b>Resources</b>
<b>MEETING:</b>	<b>Council</b>
<b>DATE:</b>	<b>6<sup>th</sup> March 2025</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>Countywide</b>

### 1. PURPOSE

- 1.1. To approve the Council's 2025/26 Capital and Treasury Management Strategies, including the Minimum Revenue Provision (MRP) policy.

### 2. RECOMMENDATIONS

- 2.1. That Council approves the Capital strategy for 2025/26 as found at **Appendix 1**.
- 2.2. That Council approves the Treasury management strategy for 2025/26 as found at **Appendix 2**, including the:
  - 2025/26 Minimum Revenue Provision Policy Statement
  - 2025/26 Investment & Borrowing Strategies
- 2.3. That Council agrees that Governance & Audit Committee should continue to review the Council's treasury activities for 2025/26 on behalf of the Council by receiving and considering quarterly treasury update reports and a year-end report.

### 3. KEY ISSUES:

*The CIPFA prudential code requires Local Authorities to produce an annual capital strategy and treasury management strategy prior to the commencement of a financial year*

*The existing strategies in place for 2024/25 are suitably robust and have provided the framework for both capital investment and treasury investment and borrowing decisions to follow*

*The 2025/26 strategies therefore follow a similar format with no substantive changes to the proposed strategic frameworks*

*In respect of the treasury management strategy a specific investment category has been added to allow for investment in Covered or Supranational bonds. The limit on investment with any one counterparty is £5m, with a total sector limit of £10m*

*The Minimum revenue provision policy has been updated to clarify the treatment of leases and PFI schemes, and for loans classified as capital expenditure*

*Governance & Audit committee considered and endorsed the strategies at its meeting on the 20<sup>th</sup> February.*

#### **4. 2025/26 Capital Strategy**

##### **Overview**

- 4.1. The Capital Strategy sets out the longer-term context in which capital investment decisions are made and demonstrates that the Authority takes capital investment decisions that are in line with its Corporate priorities, and gives consideration to both risk, reward and impact. It also demonstrates that these decisions are taken whilst having proper regard to the stewardship of public funds, value for money, prudence, sustainability and affordability.
- 4.2. The main considerations arising from the Capital strategy shown in **Appendix 1** are summarised in this report below.
- 4.3. The Capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 4.4. The Cabinet's Community and Corporate Plan establishes a clear purpose to become a zero-carbon county, supporting wellbeing, health and dignity for everyone at every stage of life and sets the goals for Monmouthshire to be a:
  - A Fair place to live where the effects of inequality and poverty have been reduced;
  - A Green place to live and work, with reduced carbon emissions, and making a positive contribution to addressing the climate and nature emergency;
  - A Thriving and ambitious place, where there are vibrant town centres, where businesses can grow and develop;
  - A Safe place to live where people have a home and community where they feel secure;
  - A Connected place where people feel part of a community and are valued;
  - A Learning place where everybody has the opportunity to reach their potential.
- 4.5. Achievement of these objectives will be pursued via actions driven by an array of enabling plans and individual service plans. In some instances, these actions will involve a requirement for capital investment.

- 4.6. A large degree of capital investment is funded from grants, or internal resources such as capital receipts and specific reserves, which do not impact on borrowing levels, but where borrowing is required, it is important that the approved limits are not exceeded.
- 4.7. This is an important area of overall financial management governance in that debt funded capital expenditure, and the external borrowing that results, locks in the Council into revenue financing costs sometimes for as long as 50 years. These costs are comprised of the external loan interest costs and the provision for financing the debt funded capital expenditure, known as Minimum Revenue Provision (MRP).
- 4.8. In the current financial climate and taking into account a continued Medium Term Financial Projection (MTFP) revenue budget gap, capital investment needs to remain within affordable limits. Demand for capital resources remains high and therefore inevitably, prioritisation of projects, leveraging in other sources of funding and working with partners remain key to meeting this demand.
- 4.9. Within the context of significant demands for capital resources and limited availability, there is the need to develop and link our use of the various strategic plans across the organisation which drive the need for capital investment and develop alternative strategies to meet demand so the Councils own capital programme is prioritised within an affordable framework.
- 4.10. **Setting Capital Budgets**

***Final 2025/26 Capital Medium Term Financial Plan***

<b>Scheme Type</b>	<b>Indicative Budget 2025/26</b>	<b>Indicative Budget 2026/27</b>	<b>Indicative Budget 2027/28</b>	<b>Indicative Budget 2028/29</b>
Asset Management Schemes	2,449,049	2,230,049	2,230,049	2,230,049
School Development Schemes	12,232,076	0	0	0
Infrastructure & Transport Schemes	6,075,740	4,204,740	4,204,740	4,204,740
Regeneration Schemes	1,017,724	730,200	730,200	730,200
Inclusion Schemes	1,200,000	1,200,000	1,200,000	1,200,000
ICT Schemes	462,500	413,000	413,000	413,000
Vehicles Leasing	1,500,000	1,500,000	1,500,000	1,500,000
Capitalisation Directive	3,707,500	2,357,500	1,357,500	0
Other Schemes	550,000	1,110,000	1,110,000	1,110,000
<b>Total Expenditure</b>	<b>29,194,590</b>	<b>13,745,490</b>	<b>12,745,490</b>	<b>11,387,990</b>

- 4.11. The capital MTFP and capital strategy seek to work towards a financially sustainable core capital programme, whilst balancing the need to deliver capital investment plans in line with policy commitment and need.
- 4.12. The current capital MTFP does not cover all the capital budget pressures that have been identified. This shows that there is more demand for capital spending than the Council considers it can reasonably afford. This means that capital schemes will have to be ranked or the capital available has to be divided more widely than is ideal.

- 4.13. All stakeholders must understand that paying for capital spending by borrowing only pushes the cost to revenue budgets over future years, but at the same time if capital maintenance works are put off then the total lifetime costs of keeping an asset are likely to go up. This effect is often hidden in medium term financial planning as asset lives are much longer than four years.
- 4.14. The capital programme includes yearly investment for property maintenance, highways maintenance, relevant specific capital grants and the future schools programme. This will help to deal with the most urgent backlog issues, focussing on worst condition first and related risk. However, estate rationalisation programs, closure/disposal of assets, asset transfers and other capital projects to refurbish or replace operational properties will also be used to reduce the backlog funding needed. This will not solve the specific total backlog but is a way of targeting the main issues in a reasonable way.
- 4.15. **Capital Financing**
- 4.16. All capital expenditure incurred has to be physically financed. Once the finite available sources of internal financing (capital receipts, reserves/revenue) and external grant financing are extinguished the Authorities only recourse is to debt (borrowing).

#### ***Medium term capital financing***

<b>Financing source</b>	<b>Final Budget 2025/26</b>	<b>Indicative Budget 2026/27</b>	<b>Indicative Budget 2027/28</b>	<b>Indicative Budget 2028/29</b>
Debt	22,000,566	8,188,990	8,188,990	8,188,990
External sources	3,333,524	3,046,000	3,046,000	3,046,000
Capital Receipts	3,757,500	2,407,500	1,407,500	50,000
Reserves	103,000	103,000	103,000	103,000
<b>Total Funding</b>	<b>29,194,590</b>	<b>13,745,490</b>	<b>12,745,490</b>	<b>11,387,990</b>

- 4.17. Approval of capital expenditure funded through borrowing locks the Council into committing revenue funding over a very long period (as long as 50 years). Minimum Revenue Provision (MRP) is required to be funded from revenue budgets to cover expected borrowing repayments and the level of MRP is increasing over the medium-term so the Authority needs to ensure its capital plans remain affordable and sustainable.

#### ***Proportion of financing costs to net revenue stream***

<b>Proportion of financing Costs to net revenue stream</b>	<b>2024/25 Estimate £m's</b>	<b>2025/26 Estimate £m's</b>	<b>2026/27 Estimate £m's</b>	<b>2027/28 Estimate £m's</b>	<b>2028/29 Estimate £m's</b>
Net Interest payable	6.6	6.8	7.3	7.4	7.4
MRP	6.4	6.1	6.7	6.7	6.9
<b>Total Financing costs</b>	<b>13.0</b>	<b>12.9</b>	<b>14.0</b>	<b>14.1</b>	<b>14.3</b>
Net Revenue Stream	199.3	215.8	227.1	238.6	250.4
<b>Proportion of net revenue stream %</b>	<b>6.52%</b>	<b>5.98%</b>	<b>6.16%</b>	<b>5.91%</b>	<b>5.71%</b>

- 4.18. The table above compares financing costs to the net revenue stream i.e. the amount of income from Council Tax, business rates and general government grants. The overall proportion of financing costs remains fairly stable over the MTFP window which is reflective of the total revenue stream increasing in line with expected inflationary impacts whilst the financing costs increase moderately in line further capital investment made, most notably the completion of the new Abergavenny 3-19 school.
- 4.19. Total financing costs remain sustainable within the context of the Authorities overall revenue budget in so much that they are fully provided for within the medium term financial plan.

### **Ongoing Capital Programme Development**

- 4.20. In light of continuing funding constraints, it is important that the Council understands the key risks and future aspirations for capital investment. These are captured through various plans and strategies across the Council. There will be a range of priorities originating from these plans which will look to deliver on aspirational long term objectives such as the decarbonisation agenda and affordable housing.
- 4.21. Alongside this, it is important to consider the requirement to maintain the Councils current asset base. As noted previously, this is something that has been severely impacted by constrained funding levels in previous years and has resulted in a maintenance backlog developing, which gives rise to the potential for major asset failures to occur where issues have developed over time. Although the risks associated are captured through ongoing condition surveys and monitoring, it is inevitable that as time progresses that more significant sums of investment will be required to maintain or substantially refurbish ageing assets.
- 4.22. There will inevitably be other priorities to be considered for inclusion within the capital programme over the medium to longer term, with the next phase of WG's Sustainable Communities for Learning Programme and further regeneration schemes that will require substantial match funding commitments. The consideration to support such priorities will need to be carefully balanced against other competing demands.

### **4.23. Capital Receipts**

- 4.24. In circumstances where property is deemed surplus to requirements and can be sold, the Disposal Strategy within the Asset management strategy (AMS) provides the process by which this happens and considerations for doing so. To enable a consistent approach to the disposal of surplus land and property, the Disposal policy clarifies the circumstances within which the council will achieve its requirements for best consideration, whilst supporting the Council's objectives as per the Community & Corporate Plan and AMS.

### ***Forecast Capital receipts***

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance as at 1st April	9,984	5,052	3,332	1,116	635
Less: capital receipts used for financing	(1,381)	(640)	(460)	(460)	(460)

Less: capital receipts used to support capitalisation directive	(3,744)	(3,358)	(2,358)	(324)	0
Capital receipts for Redundancies	0	0	0	0	0
Capital receipts Received	91	0	0	0	0
Capital receipts Forecast	103	2,278	603	303	0
<b>Forecast Balance as at 31st March</b>	<b>5,052</b>	<b>3,332</b>	<b>1,116</b>	<b>635</b>	<b>175</b>

- 4.25. The value of Capital receipts forecast after 2025/26 drops off quite considerably which is reflective of the replacement local development plan (RDLP) not proceeding as quickly as envisaged in the original delivery agreement. This will have an impact on the balance of receipts available to fund future capital investment demands in the near term.
- 4.26. Traditionally receipts have been earmarked to finance the Authorities future schools investment. Whilst the Council has further future schools aspirations, in recent years it was not proposed to advocate a similar approach to members in respect of tranche B. Schools based assets commonly have a useful life of 50 years+, and as such traditional long term loan funding can be sourced at competitive rates with limited annual revenue volatility. The Council derives greater revenue benefit by using capital receipts in affording replacement of short life assets, given the avoidance of proportionately more significant minimum revenue provision.

## 5. 2025/26 Treasury Management Strategy

### Overview

- 5.1. The treasury management strategy sets out the Council's longer term borrowing requirement and plans, which is driven mainly by the capital programme requirements and the resulting impact on the revenue budget.
- 5.2. It includes how it will manage and invest its surplus cash which also have various targets/limits set as part of prudential indicators, treasury management indicators and also includes additional guidance of the Welsh Government Investment Guidance and the Minimum Revenue Provision Policy.
- 5.3. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the TM Code) which outlines that capital expenditure plans should be:

**Affordable:** It is important that the Council's capital investment remains within sustainable limits. The Code requires Councils to consider the resources currently available to them and those estimated to be available in the future, together with the totality of the capital plans and income and expenditure forecasts. As well as capital expenditure plans, Councils should consider the cost of past borrowing, ongoing and future maintenance requirements, planned asset disposals and the MRP policy, which all impact upon affordability.

**Prudent:** All external borrowing and other long-term liabilities are within prudent levels. The full Council set an authorised limit and operational boundary for external debt, these need to be consistent with the Council's plans for affordable capital expenditure and financing, and with its treasury management policy statement and practices.

**Sustainable:** taking into account the arrangements for repayment of debt (including through MRP) and consideration of risk and the potential impact on the Council’s overall financial sustainability in the medium to longer term.

- 5.4. The Governance & Audit Committee in its role as the Council’s delegated body to review and scrutinise the authority's financial affairs must receive as a minimum a quarterly treasury update report including an annual report after its close on treasury management activities during the year.
- 5.5. Overall responsibility for treasury management remains with the full Council. In effect, that body delegates the execution and administration of treasury management decisions to the Section 151 officer or deputy who will act in accordance with the Treasury management strategy, treasury management practices and CIPFA’s Standard of Professional Practice on treasury management.
- 5.6. The detailed Treasury strategy for 2025/26 is included at **Appendix 2**. Key points of interest are summarised below.

**Annual Minimum Revenue Provision (MRP) Policy Statement**

- 5.7. The annual Minimum Revenue Provision is the mechanism used for spreading the capital expenditure financed by borrowing over the years to which benefit is provided. Regulations state that the authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent. In addition, there is the requirement for an Annual Minimum Revenue Provision Policy Statement to be drafted and submitted to full Council. This is shown in section 8 of the strategy. The policy also makes consideration of the Welsh Government MRP guidance.

Type of Expenditure	Option Applied	MRP Calculation
Supported Borrowing funded Expenditure	Option 3	Calculated on an annuity basis over the expected useful life of an asset, whereby the MRP element increases over time to reflect a consistent charge over life of the assets taking into account the real value of money
Unsupported Borrowing funded Expenditure	Option 3	Calculated on an annuity basis over the expected useful life of an asset, whereby the MRP element increases over time to reflect a consistent charge over life of the assets taking into account the real value of money
Leases and PFI	Option 5	MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the

		value of the right-of-use asset recognised on transition rather than the liability.
Loans classed as capital expenditure	Option 6	As prescribed

### **Borrowing Strategy**

- 5.8. Given the constraints on public expenditure over recent years and in particular to local government funding, the Council’s borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
- 5.9. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years.
- 5.10. The Council has previously raised the majority of its long-term borrowing from the PWLB and expects to continue to do so during 2025/26. PWLB loans are no longer available to local Councils planning to buy investment assets primarily for yield and the Council intends to avoid this activity in order to retain its access to PWLB loans.
- 5.11. Short term borrowing has traditionally been sourced from the inter-Local authority market and this is expected to continue as it provides a low administration cost option for borrowing at competitive rates of interest.

### **Investment Strategy**

- 5.12. Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income
- 5.13. The Authority continues to hold a minimum of £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive) and therefore consideration will continue to be given to investing balances with a more medium to long term outlook, albeit within the confines and framework of the internal borrowing approach outlined above.
- 5.14. The existing portfolio of strategic pooled funds currently provides a degree of risk diversification into different sectors, however the Council will closely monitor the returns on these investments in light of a heightened interest rate environment.



- 5.15. The approved counterparty list and limits are shown in the Treasury strategy. The investment limits proposed complement the Authorities objective of striking an appropriate balance between risk and return, whilst minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 5.16. It is important to note that the counterparty rating limits and investment maturities act as limits and not targets and are further informed by market information alongside bespoke periodic advice from our treasury advisers as to sustainability and financial robustness of specific counterparties.

### **Environmental, social and governance (ESG) policy**

- 5.17. Environmental social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.
- 5.18. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.
- 5.19. An updated list of signatories to the three charters is provided by the Authority's treasury advisors each quarter and will continue to be monitored. Any counterparties not signed up to all three charters will be removed from the Authorities investment portfolio.
- 5.20. The Council will continue through 2025/26 to engage with its advisors Arlingclose to evaluate its existing investments and assess whether a more proactive ESG policy can be applied. Governance and Audit Committee will be kept informed of progress through the regular reporting of treasury performance into committee.

### **6. CONSULTEES:**

Deputy Chief Executive

Cabinet Member for Resources

Arlingclose – Treasury Management Advisors to Monmouthshire CC

Governance & Audit Committee

### **7. APPENDICIES:**

**Appendix 1** – 2025/26 Capital strategy

**Appendix 2** - 2025/26 Treasury Management Strategy including the Minimum Revenue Provision policy statement and Investment & Borrowing Strategies

### **8. AUTHORS:**

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