North Devon Council

Report Date: Monday, 3 February 2025

Topic: 10 Year Capital Strategy 2025 to 2035

Report by: Adam Tape, Head of Governance

1 Introduction

The Capital Strategy is a high level review of the corporate priorities, capital investment ambition, available resources, affordability and risk management in the context of ensuring the long term financial sustainability of this authority.

2 Recommendations

The Committee is asked to recommend to full Council that:

2.1 The Capital Strategy 2025/26 to 2034/35 be approved.

3 Reasons for Recommendations

3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146) requires the Council to have regard to the Treasury Management Code.

3.1 To meet the requirements of the Prudential Code 2021, ensuring the Committee has assurance on the long term financial standing of the Council and risks associated with the capital strategy

3.2 To ensure that future capital investments are affordable and targeted to the Council's priorities.

4 Capital Strategy

4.1 Background

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy document covers the ten year period from 2025/26 to 2034/35 and will be reviewed annually by Full Council prior to each financial year.

4.2. Corporate Priorities

The Council's vision statement:

"North Devon will be a sustainable, inclusive community; fostering prosperity and well-being for all."

Our Corporate Plan (2023-2027) sets out our medium-term ambitions covering these five main themes:

1. **Financial security**
2. **Housing**
3. **Climate & environment**
4. **Pride of place and prosperity**
5. **People matter**

For further information please see the Council's full Corporate Plan on our website.

The actions in the Corporate Plan will be delivered through the associated programmes, coordinated by the Programme Management Office (PMO). Progress against these actions will be measured through quarterly performance reports to Councillors.

4.3 Capital Governance

The Council has a well-established capital project appraisal process. All capital projects require a business case, reviewing options, risks and associated costs, whilst formally recording internal consultation, including Legal Services, Finance, HR, ICT and Procurement.

The Project Appraisal Group (PAG) then meet to score the proposed project. The scoring will assess each proposal against a series of objective criteria including:

- legal or statutory obligation and risk of death or maiming
- alignment with the corporate priorities
- maintenance of a council asset
- material improvement in the service
- number of people it would benefit
- proportion of external funding or revenue savings

The project scoring determines which projects move forward to the Senior Management Team and then on for consideration by the Strategy and Resources Committee who will then make a recommendation to Full Council to vary the capital programme accordingly.

As part of the Committee reporting process the funding or resource implications will be clearly identified. For example funding from external grants, capital receipts, S106 income, reserves or borrowing. Any additional costs arising from borrowing on approved capital projects will then be built into the budget setting process and Medium Term Financial Strategy (MTFS).

In addition to the original approval of the project, a separate approval will also be sought from the Strategy and Resources committee and then Full Council to release the capital funds three to six months before the project is due to start.

All capital spend will be undertaken in accordance with our contract procedure rules, which provides the following thresholds:

Financial value of contract **(including VAT)**	**Procurement process to follow**
Below £12,000	Quotation to be obtained in writing from a minimum of 1 supplier.
£12,000 to £119,999	Quotation to be obtained in writing from a minimum of 3 suppliers who have responded to a written specification by a defined deadline. Quotations to be formally evaluated. Electronic Procurement Portal to be used for all contracts over £10,000
£120,000 to Public Procurement Tender Threshold	Formal tenders to be obtained from suppliers who have responded to a detailed written tender specification by a defined deadline. Tenders to be formally evaluated. Electronic procurement portal to be used for all formal tendering.
Over Public Procurement Tender Threshold	Public Procurement tender processes to be used. Electronic Procurement Portal to be used for all above public procurement threshold tendering

The Council has a project management framework based on the PRINCE2 methodology and therefore incorporates industry best practice. The framework consists of four phases; pre-project feasibility, initiation planning, delivery & implementation, and closure & review.

Project management is all about successfully planning, implementing and managing change. Following the NDC framework allows the Project Manager to apply control throughout the project and manage the variables of time, cost and quality in order to deliver the expected business benefits.

The Council is committed to post project evaluation and sharing lessons learnt to improve future project management

4.4 Capital Strategy Years 2025/26 to 2028/29 (Medium Term)

This section looks to summarise and bring together the key points of the Council's approved medium term financial strategy, capital programme and the treasury position, over the medium term, in order to set the context for Members, prior to looking at the longer term capital strategy.

CAPITAL £'000	2024-25	2025-26	2026-27	2027-28	2028-29
Net Capital Financing Gap (expenditure less receipts)	6,746	7,094	375	885	575
Total Capital Financing Requirement (Borrowing need)	34,549	40,549	40,103	39,620	39,247
Long Term Liabilities (Finance leases)	5,356	5,074	5,300	5,021	5,172
External Borrowing	15,000	22,000	24,000	24,000	25,000
Total Year End Resources (Reserves & working capital)	15,408	14,688	12,150	11,650	10,650
Annual cost of Long Term Liabilities (MRP & Interest)	696	921	1,010	1,130	1,249
Annual Cost of External Borrowing (MRP & Interest)	1,054	1,632	1,810	2,025	2,052

REVENUE £'000	2024-25	2025-26	2026-27	2027-28	2028-29
Medium Term Financial Strategy Budget Gap	0	0	1,558	2,804	3,074

Revenue

The Council is required to operate a balanced revenue budget, however for 2026/27 current projections show a medium term financial strategy budget gap of £1.6m increasing to £3m by 2028/29.

The Government's Fair Funding Review has again been delayed until 2026/27 where the Government have indicated multi-year finance settlements. The financial settlement for 2025/26 year is only a one-year funding announcement which leaves local authorities with much greater uncertainty in being able to plan further ahead at this stage.

The medium term financial forecast prudently assumes the worse-case scenario of losing circa £1million of core funding/business rates growth as part of the Governments funding review for 2026/27.

Whatever the outcome of the funding review the Council will have to become more entrepreneurial in how it delivers services to generate extra income and reduce costs, in line with our refreshed commercialisation strategy. The Council will also have to review a number of options for bridging the budget gap and any such financial benefits these may produce; these would be subject to further reports being presented to Members. *Please see the Medium Term Financial Strategy for further details.*

Capital

Any capital expenditure that is not immediately paid for through a revenue or capital resource leads to a capital financing need or gap, which will increase the Council's total Capital Financing Requirement (CFR). The CFR is a measure of the Council's underlying need to borrow to finance the total historic outstanding capital programme. The estimated CFR for March 2025 is circa £34.5m which increases to its peak in March 2026 at £40.5m. This substantial borrowing need reflects the capital programme over recent years and into the medium term, including the new Leisure Centre, the purchase of Green Lanes Shopping Centre, our Material Recovery facilities at BEC and the Future High Streets Fund project. A full list of the currently approved capital projects can be found in Appendix E of the Budget Report 2025/26.

The CFR will in part be funded by external borrowing. Total external borrowing as at March 2025 is projected to be £15m (currently external borrowing of £8m), increasing by £10m over the medium term to peak at £25m in March 2029. The strategy is also prudently maintaining an under-borrowed position, meaning that as a temporary measure the Council is using its own cash supporting reserves, balances and cash-flows rather than fully funding the CFR with external borrowing. This position will need to be reviewed in line with investment returns and counterparty risks. The current projections show internal borrowing remaining £9m or above over this medium term period.

Where a capital project increases the CFR or financing gap then a minimum revenue provision (MRP) must be made to reduce the borrowing amount over the life of the asset. The MRP and the interest payable on the borrowing (annual cost of external borrowing) are charged to the revenue account each year and this will therefore impact on the Council's revenue budget and on-going medium term financial plan budget gap. The projected annual borrowing cost for 2025/26 is circa £1.6m increasing to £2m by 2028/29. These projections take into account the current increased cost to borrow due to the higher interest rates at present. *For further details on the Capital Financing Requirement and Minimum Revenue Provision please refer to the Annual Treasury Management Strategy 2024/25.*

The Council receives an annual management fee in relation to the running of the new Leisure Centre. There is also additional income from Green Lanes Shopping Centre and the potential for income generation from the Future High Street Fund redevelopments, which all help to offset an element of the above borrowing costs and have been factored into the budget and medium term financial strategy accordingly.

In October 2021, the Council entered into a vehicle leasing programme for our fleet renewals. Whilst these finance leases increase the CFR and therefore our borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these vehicles. The balance of this borrowing is shown as long term liabilities in the table above as is projected to remain circa £5m over the medium term, with a revenue cost increasing to £1.2m (MRP and interest) by March 2029.

The tables above show the Council is facing both revenue and capital resource pressures within the medium term forecast and that Members will be faced with challenging decisions to make as part of setting future budgets and delivering capital schemes which are not fully funded.

4.5 Capital Strategy Years 2029/30 to 2034/35 (long Term)

Capital Expenditure

There are certain items of capital expenditure within the long term forecast which are necessary to maintain business as normal, this includes our:

- Vehicle replacement programme: the works and recycling fleet have specific asset life cycles. The vehicle fleet are now leased and that scheme includes the borrowing element from the lease provider.
- ICT replacement: this includes replacing the VDI system. We fund £0.115m per annum from an ICT earmarked reserve
- Asset maintenance: we have refreshed our asset management plan, which included carrying out condition surveys of our land and property portfolio to help formulate this ten-year maintenance plan for our assets. Currently, the Council allocates £0.100m annually within the revenue budget for planned maintenance in addition to £0.215m annually for response maintenance on council assets.
- Engineering & structural costs: this includes repairs to quays and harbour walls as well as structural repairs to car parks

The projected costs are shown below:

CAPITAL EXPENDITURE £'000	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
Vehicle Lease Cost	342	1,276	540	695	1,586	3,270
ICT replacement	250	250	115	115	115	115
Asset maintenance	185	140	140	430	300	140
Engineering & structural	500	100	500	100	500	100

The forecast also builds in a level of disabled facilities grant for each year, but we have anticipated that this will continue to be fully funded by external grants as at present.

In addition to the business as usual costs identified above, members will need to consider any additional capital expenditure in line with the corporate priorities, for example purchasing further property to support temporary accommodation or electrification of our vehicle fleet which are not currently included in our forecasts above. For example we have one RCV (26 tonne) due to be replaced in October 2025 and the indicative cost to replace with an electric equivalent would be an additional net lease cost of £0.040m per year. We have twelve 26 tonne vehicles within the fleet.

Capital Funding and Affordability

The following table is based on the capital information identified in the previous section:

CAPITAL £'000	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
Total Capital Financing Requirement (Borrowing need)	38,292	37,744	36,720	35,665	35,702	36,831
Projected Long Term Liabilities (Finance leases)	4,597	4,892	4,453	4,106	4,592	6,748
Projected External Borrowing	25,000	25,000	24,500	24,500	23,500	23,500

CAPITAL £'000	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
Total Year End Resources (Reserves & working capital)	9,900	8,900	8,900	8,400	8,400	7,900
Annual Cost of Long Term Liabilities (MRP & Interest)	1,239	1,323	1,291	1,329	1,421	1,586
Annual Cost of External Borrowing (MRP & Interest)	2,073	2,021	1,953	1,966	1,939	1,956

REVENUE £'000	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
Medium Term Financial Strategy Budget Gap	3,629	4,161	*4,060	*4,112	*4,177	*4,359

**For this purpose it assumes no other revenue changes apart from the cost of borrowing for capital*

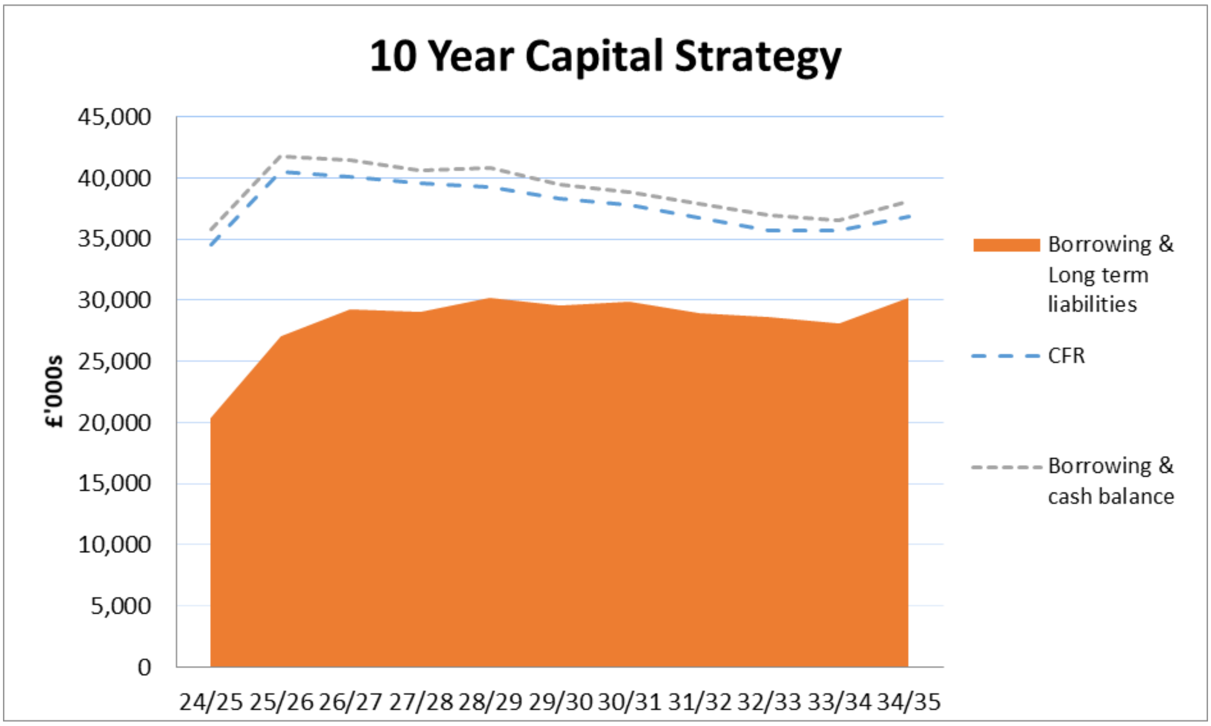
The capital table above shows that the CFR is generally on a slight downward trend from £38.2m in 2029/30 to £36.8m by 2034/35, although Members should note that this assumes only business as usual items in capital programme over the longer term period. External borrowing over the longer term remains at a high level, reducing from £25m to £23.5m over the same period, again assuming the under-borrowed position, of circa £7m, remains prudent and sustainable.

As a result of the continued high borrowing, the annual borrowing cost will keep adding pressure on the Council's revenue budget each year. The projected cost of borrowing, both external borrowing and long term liabilities, is set to remain circa £3m per annum over the 6 year forecast period.

In the revenue table above, the forecast medium term financial strategy budget gap has been extended beyond 2030/31, just to reflect the impact of borrowing costs before any other revenue changes are considered. On this basis, the revenue budget gap for the long term remains above £4m, with a further £0.198m added cost pressure to 2034/35, before members consider approving any further aspiration capital schemes.

The strategy shows that the business as normal capital schemes such as our vehicles may present affordability challenges that Members will need to take into account as further capital schemes come forward for investment.

The graph below illustrates the current ten year capital strategy:



4.6 Capital Investment Ambition

The Council has had an ambitious capital programme over the last couple financial years, with the development of a new Leisure Centre and the purchase of Green Lanes Shopping Centre and the Future High Street Project which is currently ongoing.

Whilst this ambition is likely to continue, particularly around our corporate themes such as housing and regeneration initiatives, Members do need to be aware of the medium and long term capital and revenue position, as detailed in this strategy, and the affordability of any future capital plans.

Future capital projects would have to have no **or** limited impact on the revenue budget gap. Any additional borrowing costs would have to be offset by additional income such as a management fee, rental income or additional capital receipts would need to be identified.

4.7 Non-Treasury Investments

The Council will not borrow primarily for financial return and furthermore recent changes to the PWLB lending terms mean that they will no longer lend to local authorities that have plans to buy commercial assets primarily for yield within their capital programme. Given the level the external borrowing required over the ten year period and that PWLB would currently be the best option for the Council to borrow these funds, no commercial investments will be made.

The Council will consider service investments that relate to a specific council objectives approved directly though a committee, such as schemes in relation to economic regeneration. Service investment items are covered by the capital programme and associated risk framework.

4.8 Commercialisation

The long term outlook for the Council's financial standing strongly supports the need for the Council to become more efficient and commercially minded across all areas of the organisation to generate additional income for the revenue budget.

The Commercialisation Strategy sets out the parameters and options for income generation and net revenue gains. This strategy was refreshed in November 2024.

4.9 Environmental, Social & Governance (ESG) Investments

The Council will maintain a cautious approach to ESG investments and will work with our external Treasury Advisors to help understand and evaluate the risk involved.

The Council will consider approved Counterparties that provide an ESG alternative i.e. sustainable deposits, which help to support sustainable and environmentally friendly services and products, whilst delivering Security, Liquidity and Yield requirements. This approach complies with the current Secretary of State Investment Guidance and ensures no greater risk is taken to achieve ESG/Sustainable investment objectives. Our Treasury Management Practices (TMP1) will also be regularly updated to address ESG risk management in respect of our treasury management activities.

4.10 Risk Management

The Councils Corporate Risk Register (CRR) includes 'Failure to make decisions for a robust budget and Medium Term Financial Plan' which directly relates to financial sustainability of the Council. The CRR also has a risk 'Failure to prioritise and build sufficient capacity to deliver' which is relevant when considering the ambitions of the capital programme and our ability to deliver with the current financial and staff resources available. The Corporate Risk Group (CORGI) review the CRR each quarter and provide an updated position to Governance Committee.

On a quarterly basis we also provide the financial and performance reports to Strategy and Resources Committee, Policy and Development Committee and Full Council. This is in addition to the three Treasury Management report these committee receive annually.

Risk Appetite

The Council will be risk aware and not risk adverse as we look to reduce our reliance on the Governments core funding grant, taking opportunities to increase our income whilst prudently maintaining financial security. Further details on the Council's risk appetite can be found in the Risk Management Framework.

Risks with the Capital Strategy

The risks with any long term strategy is the unknown or unexpected events which will require large scale capital investments; as we have seen in the past such as storm repairs to Ilfracombe Harbour. Whilst the treasury management strategy has sufficient headroom within its borrowing limits to deal with such situations, the impact of the borrowing cost on the revenue budget are much harder to protect against.

There could also be service or legislation changes which the Council will have to adapt to in order to maintain efficient and effective service provision.

Whilst our long term budget projections have factored inflation into the estimates, economic and trading conditions can impact on future prices.

The Budget Report 2025/26 provides further details on potential risks facing the Council.

Whilst devolution may impact on the future capital programme, having a realistic 10 year capital strategy will be important and help to inform decision making as part of the local government reorganisation process.

5 Resource Implications

5.1 As detailed in the report.

6 Equalities Assessment

6.1 There are not any equalities implications anticipated as a result of this report, as the purpose of this report is to present the Council's financial position only.

7 Environmental Assessment

7.1 There are not any environmental implications anticipated as a result of this report, as the purpose of this report is to present the Council's financial position only. Environmental, Social & Governance (ESG) Investments are covered in section 4.9

8 Corporate Priorities

8.1 The 10 year capital programme sets the financial long term context for delivering the corporate priorities and approving capital projects against those priorities.

9 Constitutional context

Part 4 Financial Procedure Rules (Article 13.8) / Article 4.4

Delegated power

10 Statement of Confidentiality

10.1 This report contains no confidential or exempt information under the provisions of Schedule 12A of 1972 Act.

11 Statement of Internal Advice

11.1 The author (below) confirms that advice has been taken from all appropriate Councillors and Officers.

Adam Tape, Head of Governance
Jon Triggs, Director of Resources and Deputy Chief Executive