ISLE OF ANGLESEY COUNTY COUNCIL

REPORT TO:	**THE EXECUTIVE**
DATE:	**1 MARCH 2021**
SUBJECT:	**CAPITAL STRATEGY AND CAPITAL PROGRAMME 2021/22 to 2023/24**
PORTFOLIO HOLDER(S):	**COUNCILLOR ROBIN WYN WILLIAMS**
HEAD OF SERVICE:	**MARC JONES – DIRECTOR OF FUNCTION (RESOURCES) / SECTION 151 OFFICER**
REPORT AUTHOR: TEL: E-MAIL:	**MARC JONES / CLAIRE KLIMASZEWSKI** **2601 / 2133** **rmjfi@ynysmon.gov.uk/ clkfi@ynysmon.gov.uk**
LOCAL MEMBERS:	**n/a**

A - Recommendation/s and reason/s

The revised CIPFA Prudential Code, September 2017, introduced the requirement that all authorities must produce a capital strategy. This must set out the long-term context in which capital expenditure and investment decisions are made. This requirement is aimed at ensuring that authorities take capital and investment decisions in line with service objectives and properly take into account stewardship, value for money, prudence, sustainability and affordability.

Recommendations

The Executive is requested to :-

- Endorse and recommend that full Council approve the Capital Strategy for 2021/22 – 2023/24 as detailed in Appendices 1 and 2 below.

B - What other options did you consider and why did you reject them and/or opt for this option?

N/A

C - Why is this decision for the Executive?

Responsibility for determining the Council's budget strategy remains with the Executive.

CH - Is this decision consistent with policy approved by the full Council?

Yes

D - Is this decision within the budget approved by the Council?

N/A

	DD - Who did you consult?	**What did they say?**
1	**Chief Executive / Strategic Leadership Team (SLT)** (mandatory)	The SLT have considered the overall capital strategy as part of the process to agree the capital budget for 2021/22
2	**Finance / Section 151** (mandatory)	N/A – this is the Section 151 Officer's report
3	**Legal / Monitoring Officer** (mandatory)	The Monitoring Officer is a member of the SLT and any comments made would have been considered as part of the overall comments made by the SLT
4	**Human Resources (HR)**	Not Applicable
5	**Property**	The assessment of future repair and maintenance prepared by the property team have been taken into consideration in drawing up the capital strategy

6	**Information Communication Technology (ICT)**	The assessment of future IT investment prepared by the Head of IT has been taken into consideration in drawing up the capital strategy
7	**Scrutiny**	The capital programme for 2021/22 was considered by the Finance Scrutiny Panel at its meeting on 12 February 2021 and by the Corporate Scrutiny Committee on 16 February 2021
8	**Local Members**	Not Applicable
9	**Any external bodies / other/s**	The capital programme for 2021/22 was consulted on as part of the overall budget consultation process
E -	**Risks and any mitigation (if relevant)**	
1	**How does this decision impact on our long term needs as an Island**	The capital strategy targets expenditure at the key priorities of the Council (see Appendix 1, Section 1.2. below). This ensures that the Council's assets help the Council deliver services which meet the Council's priorities, including the long-term needs of Anglesey. Capital projects will meet planning requirements to ensure that buildings and structures are sympathetic to Anglesey's built and natural environment. The capital budget ensures funding to maintain the Council's assets and forms part of the strategy to meet the objectives set out in the Council's corporate plan.
2	**Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority. If so, how:-**	Continued maintenance of the Council's assets will prevent higher costs in the future.
3	**Have we been working collaboratively with other organisations to come to this decision, if so, please advise whom:**	Capital projects in respect of 21st Century Schools and the HRA are aligned to priorities set out by the Welsh Government.
4	**Have Anglesey citizens played a part in drafting this way forward? Please explain how:-**	The Council's stakeholders, including Anglesey Citizens, are asked for their views on the capital programme each year as part of the annual budget consultation. Significant consultation is also sought for significant schemes such as the 21st Century Schools programme.
5	**Outline what impact does this decision have on the Equalities agenda and the Welsh language**	The capital strategy and capital projects directly help increase equality through works which improve accessibility for individuals with disabilities. Every year, the Council provides funding for adaptations for individuals to remain in their home. There is capital funding each year for improving accessibility in schools.
6	**Outcome Agreements**	
7	**Other**	
F -	**Appendices:**	
	Appendix 1 – Capital Strategy 2021/22 to 2023/24 Appendix 2 – Summary of Draft Proposed Capital Programme 2021/22	
FF -	**Background papers (please contact the author of the Report for any further information):**	
	Treasury Management Strategy Statement 2021/22, Executive, 1 March 2021 Medium Term Financial Plan 2021/22 to 2023/24, the Executive, 28 September 2020 Draft Capital Programme 2021/22 Report, the Executive, 18 January 2021 Capital Programme 2021/22 Report, the Executive, 1 March 2021 Revenue Budget 2021/22, the Executive, 1 March 2021	

APPENDIX 1

CYNGOR SIR YNYS MÔN
ISLE OF ANGLESEY COUNTY COUNCIL

Capital Strategy 2021/22 to 2023/24

Isle of Anglesey County Council
Capital Strategy 2021/22 to 2023/24

1. Introduction

1.1 Part 1, Section 3 of the Local Government Finance Act 2003 requires that the Authority shall determine and keep under review how much it can afford to borrow. The Act is supported by the Prudential Framework for local authority capital investment and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Code). The CIPFA Prudential Code was revised in 2017/18. The revised Code introduced a new requirement that all authorities produce a capital strategy, which sets out the long-term context in which capital expenditure and investment decisions are made. Authorities are required to give due consideration to both risks and reward and the impact on the achievement of priority outcomes. CIPFA also revised the Code of Practice on Treasury Management at the same time. This Capital Strategy 2021/22 meets the requirements of the CIPFA Prudential Code 2017, aligns with the Council's Treasury Management Strategy Statement 2021/22 and has regard to the CIPFA Treasury Management Code 2017.

1.2 The purpose of this strategy is to set out the objectives, principles and governance framework to ensure that the Authority takes capital expenditure and investment decisions in line with service objectives. The Isle of Anglesey County Council Plan 2017/22 outlines the key priorities and objectives of the Council for the period to 31 March 2022. A fundamental principle of the Strategy is to focus capital expenditure on projects which help the Council meet the following key objectives of the Council Plan or help the Council fulfil its statutory responsibilities:-

Objective 1: Ensure that the people of Anglesey can thrive and realise their long-term potential.
Objective 2: Support vulnerable adults and families to keep them safe, healthy and as independent as possible.
Objective 3: Work in partnership with our communities to ensure that they can cope effectively with change and developments whilst protecting our natural environment.

1.3 This strategy also identifies the potential future capital expenditure, assesses the impact on the capital financing element of the revenue account and determines the funding available to finance new capital schemes for the period 2021/22 to 2023/24. It also establishes long-term principles to support capital planning well into the future. The governance of this strategy follows the same process as the Revenue and Budget Setting Processes and will be presented to the Executive, which will make recommendations to full Council for approval.

2. Objectives and Principles of the Capital Strategy

2.1 The Capital Strategy has a number of key objectives to ensure that capital expenditure is targeted towards meeting the Council's key priorities, whilst also taking into account stewardship, value for money, prudence, sustainability and affordability.

2.1.1 The Council Plan 2017/22 sets out the key priorities and objectives of the Council to 31 March 2022 and resources should be focussed on the achievement of these objectives. This capital strategy will help ensure that the capital programme will focus capital expenditure on projects which contribute most to the key objectives of the Council's Plan 2017/22.

2.1.2 Each year, capital funding will be allocated to ensure an investment in existing assets to protect them into the future.

2.1.3 The Council will maximise external capital funding wherever possible and affordable.

2.1.4 Capital funding will also be prioritised on assets required to help the Council deliver its statutory responsibilities.

2.1.5 The Council remains committed to the 21st Century Schools Programme and will continue to fully utilise 21st Century Schools external funding.

2.2 The following principles will help support the achievement of the above key objectives:-

2.2.1 That the 21st Century Schools programme is considered separately from the remainder of the general Council capital programme. The 21st Century Schools programme is a long-term significant commitment to building and/or refurbishing schools so that Anglesey's schools are fit to last and meet the requirements of the 21st Century. The 21st Century programme helps the school modernisation agenda and supports the Council's key objective to ensure that the people of Anglesey can thrive and realise their long-term potential. This principle also meets the Wellbeing of Future Generations Act 2015 to ensure educational settings are suitable in the long-term. An element of the expenditure on the 21st Century Schools programme will be funded from the capital receipts from the sale of schools vacated, with the remaining balance being funded from unsupported borrowing. This will ensure that the capital general grant and supported borrowing are available to fund investment in existing and new assets needed to achieve the objectives of the Council Plan 2017/22 and ensure that the Council's existing assets are maintained.

2.2.2 That a sum is allocated in the capital programme each year to fund the major improvement to, or the replacement of, existing I.T. equipment, vehicles and Council buildings.

2.2.3 That a sum is allocated in the capital programme to meet the Council's statutory requirement to offer disabled facilities grants. This helps deliver statutory responsibilities and supports the key objective of the Council to support vulnerable adults and families to keep them safe, healthy and as independent as possible.

2.2.4 That a level of road improvement works is funded from the capital programme each year. The sum allocated will be dependent on the funding required to achieve any minimum contract value guarantees, the level of funding available and an assessment of the state of repair of the Authority's roads. Improvements to the roads will help the Council ensure the highway network is sustainable in the longer-term. It also underpins all of the Council key priorities due to the rural nature of Anglesey and the importance of the highway network to many aspects of the Council's work.

2.2.5 Projects that require a level of match funding to enable grant funding to be drawn down, will be assessed on a case-by-case basis by the Section 151 Officer, with a recommendation being made to the Executive. The decision whether to commit funding will be dependent on the project, how it fits into the Council's corporate priorities, any ongoing revenue implications and the ratio of Council funding to grant funding.

2.2.6 Projects to be funded from unsupported borrowing, with the exception of 21st Century Schools projects, will only be undertaken if the reduction in revenue costs or increased income generated is sufficient to meet the additional capital financing costs incurred. Any assets funded by unsupported borrowing should be fundamental to the achievement of the Council's key priorities.

3. How the Strategy fits with other documents

3.1 The Council Plan 2017/22

The Council Plan is the prime document which outlines what the Council aims to achieve during the period 2017/22. The priorities of the Council Plan are summarised above in 1.2. A key objective of this Capital Strategy is to ensure that the capital funding available to the Council is spent on projects that assist the Council to deliver its priorities, including maintaining, replacing or / and upgrading existing assets. There are several other key strategic documents which align with the Council Plan. These guide how the Authority works on specific aspects affecting the Council.

3.2 The Treasury Management Strategy Statement (TMSS)

This Capital Strategy and the TMSS are very closely linked and both are revised annually. The Capital Strategy will define how the Council spends its capital funding and the TMSS sets out how this will be funded and its impact on the overall financial standing of the Council. Borrowing is a key part of the funding strategy. The details of how the borrowing is undertaken and controlled is also set out in the TMSS.

3.3 The Medium Term Financial Plan

3.3.1 The Medium Term Financial Plan (MTFP) is the fundamental part of financial planning which estimates the Council's revenue requirements over the next three years and how this will be balanced to the funding available. Capital expenditure will impact on the revenue budget through the Minimum Revenue Provision and the interest payable on borrowing. The Capital Strategy helps to inform the Medium Term Financial Plan.

3.3.2 Regular budget monitoring and review of the MTFP helps to monitor the impact of financial performance and issues on the delivery of the Council Plan. Linked to the financial monitoring is also the monitoring of performance and corporate and service risks, some of which are identified as financial risks. The Council's Performance Management Framework and Risk Management Strategy govern how performance and risk is managed.

3.3.3 The diagram below summarises the interconnection between these strategies and how ultimately they are guided by the Council Plan.

The Council Plan 2017/22

The key strategies and plans below are important and inter-related to help identify an affordable level of revenue and capital resources needed to deliver the key priorities of the Council Plan 2017/22. These also provide a framework for robust financial management of Council resources.

The Medium Term Financial Plan (MTFP)

This is revised regularly to help set out the likely resource requirement for the next three years and how the Council plans to balance the resource requirement. This includes the impact of revenue and capital issues on the Council Fund.

Capital Strategy

The Capital Strategy sets out the key priorities on how capital expenditure should be spent to help deliver the Council Plan 2017/22. It acknowledges that capital expenditure leads to revenue capital financing costs which must be kept affordable. The Capital Strategy impacts on and is impacted by, the MTFP, the TMSS, the Annual Revenue Budget and the Annual Capital Programme.

Treasury Managment Strategy (TMS)

This sets out the Annual Investment Strategy, Minimum Revenue Provisions Policy and Treasury Management Policy Statement for the year. These provide the framework and controls needed to ensure that there is enough cash to pay suppliers for revenue and capital costs, that surplus cash is invested safely and is accessible and that borrowing to fund capital expenditure does not go beyond an affordable level.

The Annual Revenue Budget is supported by the MTFP, Capital Strategy and TMS - Each year, the revenue capital financing costs are reviewed and revised as part of revenue budget - setting. Revenue contributions are sometimes used to fund capital costs.

The annual Capital Programme - The level of capital expenditure and borrowing impacts on the revenue budget due to capital financing costs and any ongoing revenue costs such as maintenance.

4. Corporate Strategy and Capital Programme Process

4.1 Developing the Capital Strategy

The Capital Strategy is revised each year taking into account the most recent Council Plan, the Medium Term Financial Plan and the budgetary pressures expected and the Treasury Management Plan. It also considers the prior year's capital programme and the level of reserves and the revenue budget. The capital strategy then outlines the key objectives and principles which then helps to develop the annual Capital Programme each year. Capital expenditure is expenditure to acquire or create new assets or to refurbish existing assets where the life of the asset is greater than one financial year. The assets can be tangible (buildings, vehicles and infrastructure) or intangible (software licences). Non-current assets which are £10k or more will be considered as capital expenditure. £10k is the Council's recommended de minimis level to qualify as part of the capital programme. Non-current assets less than £10k will be charged to revenue in most cases. The Council reserves the right to waive the de minimis if appropriate.

4.2 Developing the Annual Capital Programme

4.2.1 Bidding Process and Scoring

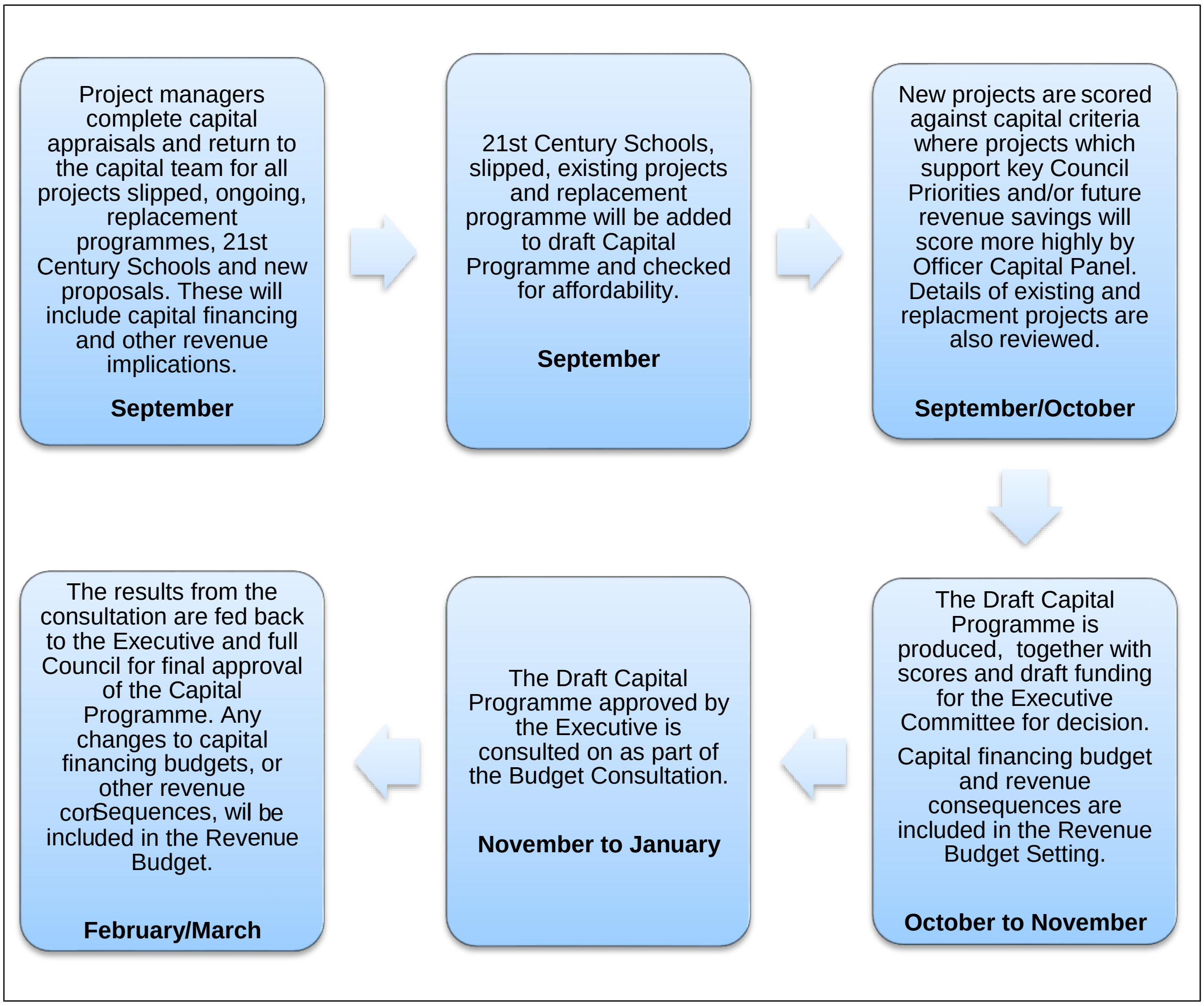
In determining which projects are included in the Capital Programme, bids must not only be affordable but also help deliver the key priorities of the Council Plan and meet the objectives and principles of the Capital Strategy. Each year, Services are asked to submit new capital appraisals/bids and update information for ongoing projects. The appraisals should demonstrate how each project meet the criteria (set out below) and all ongoing revenue implications from the project will be included e.g. maintenance costs. The scoring of new capital appraisals/bids helps to introduce a degree of objectivity and ensure the projects are relevant to the key objectives of the Council Plan and this Strategy. The most important criterion is how closely a project will contribute to the delivery of the Council Plan, hence the greater weighting given to this criterion. Initial scoring is undertaken by the Accountancy Service. The scores are then considered and ratified by the Executive, as part of the drafting of the annual capital programme.

Criteria	**Score**
How closely the project will contribute to the priorities of in the Corporate Plan	20
The project attracts significant external funding	10
The project will lead to revenue savings	10
The project will help mitigate Corporate Risk	10
Total highest score	**50**

The strategy also allocates funding to the maintenance and upgrade of existing assets. Asset Managers determine their funding need and this is balanced against the funding available in order to allocate funding to each main assets group (buildings, vehicles, IT, roads).

4.2.2 Timetable

The Capital Strategy approval process follows the timetable for revenue budget-setting and the development of the Capital Programme. The timetable for the development of the Capital Programme is summarised below:-



4.2.3 Authorisation

Responsibility for ratifying the Capital Programme each year rests with the full Council based on the recommendation made by the Executive. In exceptional cases, new capital projects arising during the year will be considered by Members as part of the quarterly reports to the Executive. In-year projects are likely to be approved if the projects are significantly funded from external grants or contributions, or in response to an emergency e.g. landslide, or if an approved project in the programme is cancelled and there is funding available. A capital appraisal is required for in-year projects and projects will need to help the Authority achieve its key objectives.

5. Current Financial Context

5.1 Revenue Constraints

5.1.1 The initial Medium Term Financial Plan (MTFP) for 2021/22 to 2023/24 was presented to the Executive in September 2020. This acknowledged the difficulty in financial planning beyond one year due to the lack of three year budget forecasts from Central and Welsh Governments. Brexit alone caused significant uncertainty for the economy, and still does. The Coronavirus Pandemic, however, puts the impact of Brexit in the shade with an extremely fragile economy after nearly a year of Covid-19 restrictions. Public sector borrowing for 2020/21 is at its highest in one year since WWII. National debt is an estimated £2.13 trillion, 99.4% of gross domestic product (GDP). The Bank of England's action to reduce the base interest rate to 0.1% in response to the economic impact of Covid-19 restrictions has led to pitiful returns on treasury management investments. Conversely, this has resulted in reduced interest payable costs on new borrowing for capital expenditure. Despite this significant funding to prop up the economy, investment in PPE and vaccinations, there are significant job losses and business closures. The financial pressures the Government and Welsh Government are facing could jeopardise the amount of Council funding provided by Welsh Government in the medium and long-term. It is, therefore, important to set a capital strategy which minimises it impact on the revenue budget.

5.1.2 The revised MTFP for 2021/22 to 2023/24, reported to the Executive in January 2021, highlights a better than expected provisional settlement for 2021/22, particularly in light of the significant cost of the Pandemic on Welsh Government. After nearly a decade of significant funding cuts to 2019/20, Welsh Government's provisional settlement for 2021/22 is an increase of 3.41% (3.84% Welsh average), this is similar to 2020/21's final settlement. Yet again, this is welcomed after years of significant cuts.

5.1.3 Welsh Government's provisional settlement also includes details of the capital funding provided to the Council for 2021/22. The Council will provisionally receive a general capital grant of £2.163m and £2.158m in supported borrowing which, together, amount to £4.321m. In order to keep capital financing costs affordable for the revenue budget, particularly with the uncertainty about future revenue funding levels, it is a key principle of this strategy that capital programmes should not exceed this available funding from Welsh Government, with the exception of unsupported borrowing for the Council's element of funding the 21st Century Programme. It is predicted that Welsh Government will keep this level of funding the same, or less, in the future. Increasing the life of the Council's aging assets, and keeping up-to-date with technological upgrades will have the first call against this funding. This will, therefore, mean that there will not be significant funding for new projects. Under this strategy, new projects, should only be considered when there is significant grant funding to undertake a specific project or could be funded from unsupported borrowing if the project meets the requirement of the Prudential code in terms of being able to fund the capital financing costs from additional income or expenditure savings/cost avoidance. Council reserves could be used to fund capital projects, but using reserves is not sustainable and should only be considered when the general reserve is above its recommended minimum level. Use of surplus reserves to fund match-funding for grant funded projects can be considered.

5.1.4 As stated previously, funding the capital programme will have a significant impact on the revenue budget, and the Capital Strategy takes into account affordability, as it is drawn up, and the Treasury Management Strategy Statement ensures that the Council minimises borrowing costs through the best use of the Council's own cash balances to fund capital expenditure.

5.2 Funding the Modernisation of Schools

5.2.1 The Council is currently part way through an ambitious programme to modernise schools through the 21st Century Schools programme, with Band A coming to an end in 2022 and Band B running until 2026. The programme, if it achieves all its planned objectives, will take over 10 years to complete at a significant potential total capital cost.

5.2.2 There are four phases to the programme, identified as Band A, B, C and D. Two schools have been completed, Ysgol Cybi and Ysgol Rhyd y Llan, with a third school, Ysgol Santes Dwynwen, now completed and operational. Refurbishments are also complete at Ysgol Parc y Bont and Brynsiencyn. The final projects from Band A are expected to start in 2021, depending on the outcome from robust consultation and development works.

5.2.3 The Council is also starting consultations and scoping options for Band B of the 21st Century Schools Programme. Some work might start in 2020/21, however, it is estimated that major works may start in 2021/22. The total estimated cost of Band B is currently £36m.

5.2.4 Band A of the 21st Century Schools programme is funded by 50% additional funding from the Welsh Government and 50% via unsupported borrowing. The Welsh Government 50% funding is partly grant funding (67% of the 50%) and partly supported borrowing (33% of the 50%). The Welsh Government has announced that the intervention rate for Band B has increased to 65%, but how this is allocated between grant and supported borrowing is not known at this stage. It is, therefore, assumed that 50% of Welsh Government funding will be provided as a grant and 50% by supported borrowing.

5.2.5 The Welsh Government has also introduced a mutual investment model for Band B (MIM), where the capital cost of the project is funded by the private sector and the Council then pays a rental fee to the investor for a prescribed period (expected to be 25 years). Welsh Government make a contribution to the rental fee each year (expected to be at least 70%).

5.2.6 The Council's Strategic Outline Programme for Band B was submitted to Welsh Government in July (approved by the Executive 17 July 2017). Table 1 shows the estimated expenditure and funding for 2021/22.

Table 1
Estimated Funding for 2021/22 for Band A and Proposed Band B Projects

Band	Region	Unsupported Borrowing (net of capital receipt) £'m	Supported Borrowing £'m	WG Grant £'m	Total £'m
	TOTAL BAND A	**0**	**2.5**	**2.5**	**5.0**
	TOTAL BAND B	**0.5**	**0.4**	**0.7**	**1.6**

5.2.7 It is assumed that all of the unsupported and supported borrowing would be undertaken through new PWLB loans over a length of time which matches the expected life of the asset (50 years).

5.2.8 Additional supported or unsupported borrowing will increase the Council's CFR which, in turn, will increase the annual MRP charge to the revenue account and will result in additional annual interest payments.

5.2.9 The additional unsupported borrowing for Band B (based on a 50 year repayment period and annual interest at 3.2%) would result in additional capital financing charges to the revenue budget of £0.658m per annum (£0.405m interest payable and £0.253m MRP) once the Programme is completed in full. In practice, these costs would be phased in as each project commences and once the loans are taken out to carry out the work. MRP would be charged once the schools become operational.

5.2.10 It should be noted that the delivery of the Band B projects will eliminate the need to undertake backlog maintenance work at the various schools. Further additional capital and revenue costs would be incurred as Band C and Band D are delivered. Any commitment towards these phases of the programme would need to be realistic and affordable.

6. Funding

6.1 **Funding Sources –** the Capital Programme is funded from the following sources:-

- **General Capital Grant** – This is a sum of money which is provided by the Welsh Government as part of the annual settlement. The Council is free to use the capital grant on any capital project it wishes. This must be spent by 31 March of the financial year it relates to.
- **Supported Borrowing** – The Council will borrow from the Public Works Loans Board (PWLB) to fund the expenditure. The revenue costs arising from the borrowing (Interest Costs and Minimum Revenue Provision) are funded by the Welsh Government through the annual revenue settlement, hence the term "Supported Borrowing".
- **Unsupported Borrowing –** Again, the Council borrows the funding from the PWLB or elsewhere but is required to finance the revenue costs from its own resources. Projects funded by means of unsupported borrowing tend to be projects which deliver revenue savings and it is these savings that are used to meet the additional revenue costs arising from the borrowing.
- **Specific Capital Grants –** The Council will be awarded capital grants which partly or fully fund the cost of a project. Capital grants usually come with restrictions surrounding the expenditure which can be funded and by when the expenditure must be incurred.
- **Revenue Contribution** – Services can make a contribution from their revenue budgets to fund projects. These contributions tend to be as a match funding to a project which is mainly funded from a specific capital grant.
- **Capital Receipts** – The funds generated from the sale of assets can be used to contribute to the funding of the capital programme. These are usually generated from the sale of surplus assets (normally land or buildings).
- **Reserves –** Funding held in reserve, e.g. unapplied capital receipts, can be used to support the capital programme.

6.2 As explained in the paragraph above, the capital programme is funded from various sources which impact on the Council's financial position in different ways:-

6.2.1 Funding that is received in the form of grants (general or specific) does not have any impact on the long-term financial position of the Council as any grant received is used to fund the capital expenditure. There may be timing differences which can lead to grants being unapplied and carried from one year to the next via the Council's balance sheet.

6.2.2 Capital receipts result in surplus assets being converted into cash which, in turn, results in the creation of a new asset. Again, this type of funding has little long term impact on the Council's financial position but there will come a point where all surplus assets have been disposed of and the level of funding available through capital receipts will fall.

The Housing Revenue Account uses the surplus on the HRA account (excess of rental income over expenditure) to fund capital expenditure. This is reflected in the HRA business plan and does not impact on the Council Fund.

6.2.3 The use of revenue funding will reduce the value of funds held in reserves or the sum transferred to the general Council balances at the year end, i.e. it converts surplus cash into a new asset.

6.2.4 Both supported and unsupported borrowing impacts on the Council's Capital Financing Requirement (CFR) which, in turn, has implications on the Revenue budget in the form of increased Minimum Revenue Provision (MRP) and annual interest payments.

6.2.5 Although the Housing Revenue Account operates separately from the Council Fund, the Council does not borrow separately for Council Fund and HRA expenditure, all borrowing is combined and the costs apportioned to the two funds based on the level of expenditure funded from borrowing for the two funds. The apportionment method is kept under review to ensure that it remains the most equitable method.

6.3 Funding Constraints over the next Three Years

6.3.1 The uncertain financial context the Council continues to operate within is discussed in section 5, and highlights that there are limitations on the Council's funding of capital expenditure. One of the main priorities for the Council is to reduce revenue expenditure in order to deliver a balanced budget, whilst minimising the reduction in service budgets. It is reasonable for the Council to minimise the increase required to the capital financing budget. It will be necessary to provide additional capital funding but this should be maintained at a level that is funded through the settlement (general capital grant and supported borrowing) so that the increase in the capital financing costs is funded through capital receipts and any specific grants that are available.

6.3.2 Unsupported borrowing (outside the 21st Century Schools programme) should only be considered where the relevant service budget can be reduced by a sum greater than the MRP and interest costs.

6.3.3 It has been Welsh Government's policy over a number of years to maintain the level of general capital grant and supported borrowing on or about the level in previous years, with additional capital funding being directed to schools, road improvements etc. However, the general grant funding was increased for 2019/20 and 2020/21.

6.3.4 The Council, as a landlord of housing stock, will also receive a major repair allowance following the submission and approval of the 30 year business plan for the Housing Revenue Account. Capital expenditure on the HRA is supplemented with the use of the HRA reserve and by the borrowing powers which the HRA can utilise.

6.3.5 Specific grants which have been approved, likely to be approved or that result from successful bids, will also be available to fund capital schemes. In some cases, it may be necessary for the Council to contribute a sum of its own capital funding as match funding to enable the grant funding to be drawn down. The grants and contributions which have been currently identified as sources of funding for 2021/22 amount to £8m, including the general capital grant. The Council has received substantial funding in previous years from the EU. This source of funding will not be available from 2021/22 and onwards, but the Council will seek to identify alternative sources of grant funding where possible.

6.3.6 As stated previously, any unsupported borrowing must generate additional income / revenue expenditure savings to fund the additional capital financing costs (MRP and interest charges) which will be charged to the revenue account. Any proposed schemes funded by unsupported borrowing will be assessed on a scheme-by-scheme basis.

6.3.7 In addition to the sources of funding noted above, the Council holds a capital funding reserve, which includes revenue contributions which have not yet been applied. The current balance stands at £0.800m. It is expected that the majority of this will be used towards funding the 2020/21 programme.

6.3.8 Unallocated capital receipts are held in a reserve. The balance of the reserve at 31 March 2020 was £1.3m. These receipts will be used as a funding source for the 2020/21 programme, or will help fund slipped expenditure in 2021/22 and beyond as needed.

6.3.9 In summary, the funding for new capital projects in 2021/22 should be limited to the level of general capital grant (£2.163m), supported borrowing (£2.158m) and any unallocated capital receipts generated in the year. This would give a total budget available in the region of £4.3m, excluding grants, 21st Century Schools funding and HRA funding. This principle will be applied into the medium-term and longer-term to ensure the capital programme is affordable, particularly in the context of continual funding cuts.

6.4 Estimated Funding Profile 2021/22 to 2023/24

6.4.1 The external Welsh Government funding (excluding 21st Century Schools) for the period 2021/22 to 2023/24 is shown in Table 2 below. It should be noted that the Council will also receive a number of minor capital grants.

Table 2
Estimated Welsh Government Capital Funding 2021/22– 2023/24

	2021/22 £'m	**2022/23 £'m**	**2023/24 £'m**
General Capital Grant	2.163	1.818	1.818
Supported Borrowing	2.158	2.158	2.158
Major Repairs Allowance	2.660	2.660	2.660
Total Welsh Government Capital Funding	**6.981**	**6.636**	**6.636**

6.4.2 There is little scope to fund new projects in 2021/22 through the funding that is received as part of the Welsh Government's financial settlement. Welsh Government's increase in the Capital General Grant for 2018/19 to 2021/22 helped the Council fund additional priority capital projects. It is predicted that the general grant will revert back to previous levels from 2022/23. Unsupported borrowing is possible but, unless the projects generate revenue savings, then the additional MRP charge and interest costs will increase the revenue budget which must be funded by increased Council Tax or by making revenue savings elsewhere. Therefore, the Council can ensure the capital financing costs are affordable and sustainable by limiting capital expenditure funded by unsupported borrowing to the 21st Century Schools Programme and capital projects which lead to revenue savings higher than the MRP and interest payable charges incurred from the capital funding. The Draft Capital Programme Report 2021/22, summarised below, proposes an affordable programme with limited use of unsupported borrowing.

7. The Draft Capital Programme 2021/22

7.1 The draft capital programme for 2021/22 will be presented alongside this capital strategy to the Executive on 1 March 2021 and full Council on 9 March 2021. The table below summarises the proposed capital programme, including funding sources. Additional detail is provided in Appendix 2.

Summary Draft Capital Programme 2021/22

	Ref	£'000
2020/21 Schemes Brought Forward	Para 3.1	4,000
Refurbishment / Replacement of Assets	Para 3.1	4,137
New One Off Capital Projects (Priority Projects)	Para 3.3	780
New One Off Capital Projects (Subject to Funding being Available)	Para 3.3	325
21st Century Schools	See report 18/01/21	6,600
Housing Revenue Account	“	20,313
Total Recommended Capital Programme 2021/22		**36,155**
Funded By:		
General Capital Grant		2,163
Supported Borrowing General		2,158
General Balances		596
General Balances (if sufficient funding available)		325
21st Century Schools Supported Borrowing		2,897
21st Century Schools Unsupported Borrowing		498
HRA Reserve & In Year Surplus		15,639
HRA Unsupported Borrowing		2,000
External Grants		5,909
2020/21 Schemes Brought Forward (External Grants)		3,970
2021/22 Total Capital Funding		**36,155**

7.2 Longer-term Capital Expenditure Plans

7.2.1 The below draft capital programme provides a forecast which is in line with the Medium Term Financial Plan and the Council Plan 2017/22 and Treasury Management Strategy Statement. This capital strategy also communicates the long-term intentions with regard to the 21st Century Schools Programme which is comprehensively outlined above and is expected to continue beyond 2023/24. As each scheme in Band B is developed, the financial impact is assessed but it is accepted that some projects will need to go ahead to meet the Council's overall priorities and that the additional revenue costs will need to be funded from revenue savings or increases in Council Tax. If, as the Council progresses through Band B of the 21st Century Schools Programme, it finds that there are affordability issues, then the projects included in Band B will be reviewed. The Welsh Government also plans a phase C and D of the programme, however, these could only be undertaken if affordable.

7.2.2 All of the principles included in section 2 should also be used as a basis for longer-term capital spend unless the new Council Plan 2023/28 differs significantly. Any non-schools projects, such as the refurbishment of existing assets, should be funded by grant or supported borrowing into the future, if those funding streams continue to be available into the long-term.

7.3 Non-Treasury Management Investment Strategy

7.3.1 The Treasury Management Investment Strategy is included in the TMSS discussed below. In addition, the Council holds a number of non-treasury management investments. These are the investment properties from which the Council earns rental income. These help provide a long-term revenue stream for the Council. The investment property portfolio held approximately 70 properties at 31 March 2020, which were valued at £6.2m. These include retail properties, office units and commercial units. In 2019/20, £349k of rental income was collected from investment properties. Costs of £140k were spent on maintenance etc., which resulted in a net operational income of £209k from rental income. In terms of future plans for the investment properties, the buildings will continue to be maintained to legal standards. In addition, a new industrial unit complex was recently constructed and is operational in Llangefni. The Council is also working in partnership with Welsh Government on the construction of Industrial Units at Penrhos, Holyhead. These are likely to become operational in 2021/22.

7.3.2 Local Authorities have the power to purchase or develop properties as investments in order to improve the economic activity within the Council area or as a means of generating additional income for the Council. At present, the Council has no plans to use these powers more widely than on the plans detailed above, but the use of these powers remains an option and the Strategy allows the Council to incur expenditure on investment properties in order to meet key Council objectives or to take advantage of any significant external funding which may become available.

8. Borrowing and Treasury Management

8.1 The Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs) provide the framework to ensure there is sufficient cash to pay suppliers, ensure that any surplus cash is invested safely and that borrowing to fund the capital programme 2021/22 is affordable. The TMSS will be presented to the full Council on 9 March 2021.

8.2 Appendix 11 of the TMSS 2020/21 provides the prudential and treasury indicators for the periods 2019/20 to 2023/24, which help determine whether borrowing plans are affordable.

8.3 A measure of affordability is the ratio of financing costs to net revenue streams. The estimated ratio of financing costs to net revenue streams are as follows:-

2019/20 (Actual)	6.62%
2021/22(Projected)	6.18%
2022/23 (Projected)	5.51%
2023/24 (Projected)	6.04%

Based on the above, the proposed capital programme remains affordable in terms of the revenue implications.

In 2018/19, the Council revised its Minimum Revenue Provision policy and was able to back-date the changes. The revision of the policy was designed to ensure a prudent provision is charged to the revenue account each year. However, a consequence of this change was that it identified an over-provision in previous years and this over provision can be used in future years to ensure that the annual financing costs remain affordable. The Section 151 Officer will take this into account when determining the annual MRP charge.

8.4 The Treasury Management Strategy aims to utilise the Council's internal cash balances, wherever possible, in place of external borrowing. In determining the level of internal borrowing, sufficient cash balances must be maintained to meet the daily cash needs of the Council i.e. paying staff, suppliers etc.

9. Potential Risks arising from the Capital Strategy

9.1 It is likely that substantial annual savings will be required over the next three years which puts the Council at risk, and this includes the capital programme. If the savings target is difficult to achieve, which is probable as most budgets are cut to the core, this might lead to a review of the capital programme to ensure that capital financing costs affecting revenue are reduced.

9.2 The Council's Capital Strategy is based on an assumed level of funding from Welsh Government and via external grants. Given the continued uncertainty over budgets and the loss of substantial grant funding currently received from the European Union, there is a risk that this assumed level of grant funding may not be received as set out in the strategy. Any changes to funding will require a reassessment of the capital strategy and annual capital programme.

9.3 The Council used internal borrowing for a number of years to fund capital expenditure. This has had a significant impact on cash balances. The Council externalised £15m of borrowing in March 2019 at very low rates with the PWLB. Increasing these costs further in the present financial climate may impact on affordability and the Council's capacity to fund new capital projects through additional external borrowing.

9.4 The strategy acknowledges the importance of maintaining existing Council assets. There is a risk that the replacement programme is not sufficient and that the standard of the assets falls to such a point that a greater level of investment is required in order to maintain services. This additional investment may not be affordable or it will require other new projects to be removed from the programme.

9.5 The 21st Century Schools Programme is such an aspirational and substantial programme there is a risk that the Council will not be able to afford Bands C and D. Band B of the programme will need to be kept under constant review in order to ensure that costs are kept within the budgets set in the business cases.

9.6 External borrowing results in a significant interest cost each year. The majority of the Council's loans are fixed and are not affected by any interest rate rises. However, any sharp rise in interest rates may impact on the affordability of future projects which are funded from borrowing. Steps are outlined in the Treasury Management Strategy which mitigate this risk to some extent.

10. Knowledge and Skills

10.1 The Resources accounting team has four qualified accountants, including the Director of Function (Resources) / Section 151 Officer, who look after the capital programme and treasury management function. There is also a qualified accounting technician who has substantial experience in capital and treasury management. The team attend CIPFA courses on capital and treasury management and have a sound knowledge of this specialised accounting area. There is also a team of professionals within services such as architects, project managers, engineers, which support the Council with delivering the Capital Programme. The Council also commissions specialist advice from Link Asset Services. This service is currently being retendered in line with procurement rules. The decision-makers of the Council receive regular reports on capital and treasury management and Members are offered treasury management training. The governance arrangements are outlined in the Constitution and the Treasury Management Strategy Statement.

Appendix 2
Proposed Capital Programme 2021/22

		FUNDED BY						
SCHEME	BUDGET 2021/22 £'000	External Grants £'000	General Capital Grant £'000	Supported Borrowing £'000	Unsupported Borrowing £'000	HRA Reserve £'000	General Reserves £'000	General Reserves (if sufficient funding) £'000
2020/21 Committed schemes b/f								
Gateway Units (ERDF)	**2,032**	2,032						
Tourism Gateway	**1,290**	1,290						
Holyhead Landscape Partnership	**210**	210						
Holyhead Regeneration (THI Phase II)	**438**	438						
IT Assets Schools	**30**	30						
TOTAL 2020/21 Committed schemes b/f	**4,000**	**4,000**	**-**	**-**	**-**	**-**	**-**	**-**
Refurbishment / Replacement of Assets								
Disabled Facilities Grants	**500**		500					
Disabled Access in Education Buildings	**300**			300				
Refurbishment of Schools	**1,000**			1,000				
Refurbishment of Non School Buildings	**600**			600				
Highways	**1,250**		1,250					
Vehicles	**195**		195					
I.T Assets	**292**		218	74				
TOTAL Refurbishment / Replacement of Assets	**4,137**	**-**	**2,163**	**1,974**	**-**	**-**	**-**	**-**

SCHEME	BUDGET 2021/22 £'000	FUNDED BY External Grants £'000	General Capital Grant £'000	Supported Borrowing £'000	Unsupported Borrowing £'000	HRA Reserve £'000	General Reserves £'000	General Reserves (if sufficient funding) £'000
New One Off Capital Projects (Priority)								
Flood Relief Schemes	**180**			89			91	
Econ Dev - Match Funding pot	**95**			95				
Chromebooks for schools	**305**						305	
Resurfacing play areas (large area)	**200**						200	
TOTAL New One Off Capital Projects (Priority)	**780**	**-**	**-**	**184**	**-**	**-**	**596**	**-**
New One Off Capital Projects (Subject to funding)								
Traeth Coch Flood Scheme	**225**							225
Resurfacing play areas (small area)	**100**							100
TOTAL New One Off Capital Projects (Subject to funding)	**325**	**-**	**-**	**-**	**-**	**-**	**-**	**325**
21st Century Schools								
Band A	**5,077**	2,539		2,538				
Band B	**1,523**	666		359	498			
TOTAL 21st Century Schools	**6,600**	**3,205**	**-**	**2,897**	**498**	**-**	**-**	**-**
TOTAL GENERAL FUND	**15,842**	**7,205**	**2,163**	**5,055**	**498**	**-**	**596**	**325**

SCHEME	BUDGET 2021/22 £'000	FUNDED BY External Grants £'000	General Capital Grant £'000	Supported Borrowing £'000	Unsupported Borrowing £'000	HRA Reserve £'000	General Reserves £'000	General Reserves (if sufficient funding) £'000
Housing Revenue Account								
WHQS Traditional Planned Maintenance Programme	**9,555**	2,674				6,881		
New Developments and re-purchase of RTB properties	**10,758**				2,000	8,758		
TOTAL - Housing Revenue Account	**20,313**	**2,674**	**-**	**-**	**2,000**	**15,639**	**-**	**-**
TOTAL CAPITAL PROGRAMME 2021/22	**36,155**	**9,879**	**2,163**	**5,055**	**2,498**	**15,639**	**596**	**325**