

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	COUNTY COUNCIL
Date:	9 MARCH 2023
Subject:	CAPITAL STRATEGY
Portfolio Holder(s):	COUNCILLOR R WILLIAMS – PORTFOLIO HOLDER – FINANCE, CORPORATE BUSINESS & CUSTOMER EXPERIENCE
Head of Service / Director:	MARC JONES – DIRECTOR OF FUNCTION (RESOURCES) / SECTION 151 OFFICER
Report Author: Tel: E-mail:	MARC JONES 01248 752601 rmjfi@ynysmon.gov.wales
Local Members:	n/a
A –Recommendation/s and reason/s	
<p>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. The requirement is aimed at ensuring that authorities take capital and investment decisions in line with the service objectives and properly take into account stewardship, value for money, prudence, sustainability and affordability.</p> <p>The capital strategy is linked to a number of other plans and strategies. They include:-</p> <ul style="list-style-type: none"> • The Council Plan; • The Property Asset Management Strategy; • The IT Strategy, including the School’s Digitalisation Strategy; • The Net Zero Carbon Reduction Strategy; • The Leisure Improvement Strategy; • The Education Modernisation Strategy; • The Treasury Management Strategy. <p>A number of these strategies, including the Council Plan, have yet to be approved and, as a result, this capital strategy is an interim strategy. Further work will be undertaken during 2023/24 to complete and approve the documents and then to assess their impact on the capital strategy in the longer term, with a revised and updated capital strategy being presented to the Executive for approval prior to the commencement of the 2024/25 financial year.</p> <p>RECOMMENDATION:</p> <p>The Executive is recommending to accept the Capital Strategy to the full Council</p>	
B – What other options did you consider and why did you reject them and/or opt for this option?	
No other options considered as this is a requirement of the CIPFA Prudential Code.	
C – Why is this a decision for the Executive?	
In accordance with the requirements of the Code and the Council’s Constitution, the Executive is requested to consider the strategy and recommend its approval to the full Council.	

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

Approval to the strategy will be given by the full Council

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

The capital strategy then drives the annual capital budget which will be approved by the full Council on 9 March 2023.

Dd – Assessing the potential impact (if relevant):

1	How does this decision impact on our long term needs as an Island?	The Capital Strategy includes long-term strategy in relation to the Sustainable Communities for Learning for long-term improvements to schools, long-term investment in HRA Council Dwellings and long-term support for the Council's existing assets / replacement IT equipment.
2	Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority? If so, how?	No
3	Have we been working collaboratively with other organisations to come to this decision? If so, please advise whom	The Capital Strategy acknowledges the important role of partnership working, particularly in relation to the North Wales Growth bid.
4	Have Anglesey citizens played a part in drafting this way forward, including those directly affected by the decision? Please explain how.	As part of the consultation process on the Council's Corporate Plan for 2022 – 2027, citizens were asked a number of questions relating to capital expenditure and their priorities
5	Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.	The Capital Strategy helps to ensure that buildings are accessible to enable equal access, and the strategy earmarks funding for Disabled Facilities Grants for individuals with disabilities.
6	If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.	The Capital Strategy will directly support social-economic disadvantage through improvements to school facilities, increased and refurbished Council housing, among other projects.
7	Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.	The capital projects benefit Welsh, English and individuals who speak other languages. More directly, new schools and refurbished schools will benefit Welsh speakers, as most Anglesey schools teach through the medium of Welsh and teach English language and literature. The requirements to support Smallholdings helps preserve the agricultural culture of Anglesey, including the Welsh language, which is spoken by many tenants.

E - Who did you consult?		What did they say?
1	Chief Executive / Leadership Team (LT) (mandatory)	Comments from the LT have been incorporated into the report.
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 LT and any comments made have been taken into account in discussions on this report in the LT.
4	Human Resources (HR)	Any proposals which impact on staff will have been identified and discussed with the HR Team
5	Property	Any proposal which impacts on the Council's property and related budgets will have been discussed with the Property Team.
6	Information Communication Technology (ICT)	Any proposal which impacts on the Council's information technology systems and related budgets will have been discussed with the ICT Team.
7	Scrutiny	TBC
8	Local Members	Proposals are applicable to all Members.
9	Any external bodies / other/s	N/A
F - Appendices:		
Appendix 1 – Capital Strategy 2023/24 Appendix 2 – Summary of Draft Proposed Capital Programme 2023/24		
FF - Background papers (please contact the author of the Report for any further information):		
Treasury Management Strategy Statement 2023/24, the Executive, 2 March 2023; Medium Term Financial Plan 2023/24 to 2024/25, the Executive, 27 September 2022; Capital Budget 2023/24, Final Proposals, the Executive, 2 March 2023; Revenue Budget 2023/24, the Executive, 2 March 2023; Council Plan 2023 to 2028.		



Isle of Anglesey Capital Strategy

2023/24



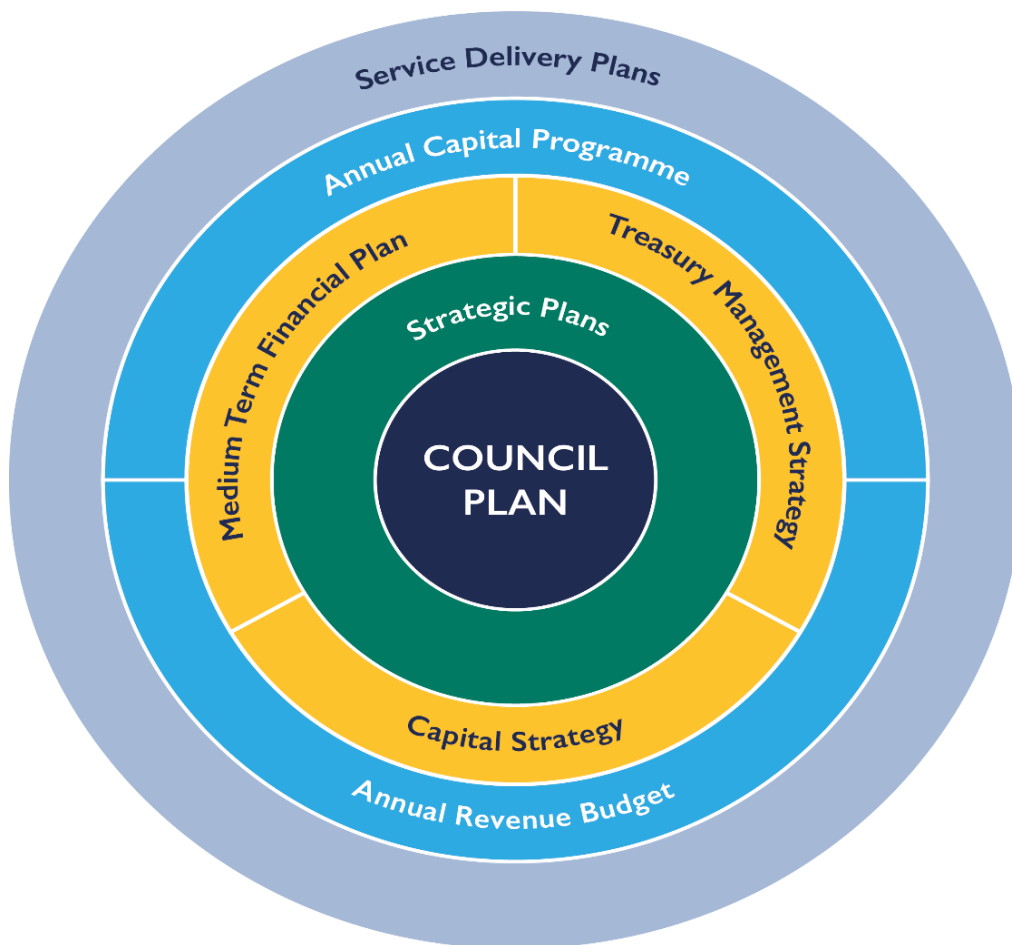
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ISLE OF ANGLESEY
COUNTY COUNCIL

Isle of Anglesey County Council

Capital Strategy 2023/24

1. Introduction

- 1.1. The Capital Strategy is a key part of the Council's strategic planning for the short, medium and long term. Strategic planning is the process the Council uses to help identify what its key priorities and objectives should be for the next year and into the future. This involves significant work and consultation as the Council needs to set its priorities and target its funding on the right services to meet the needs of the citizens of Anglesey, and the Island itself as a place of special significance. The key objectives of the Council are outlined in the Council Plan. This capital strategy looks at what new assets, or improvements to assets such as council buildings, schools, houses, regeneration projects, social care facilities, leisure facilities, are needed to help the Council deliver its key objectives, along with its many statutory obligations.
- 1.2. The strategic planning diagram below shows that the starting point of reference, and at the core of the work of the Council, is the Council Plan. This is supplemented by the Council's key strategic plans, some of which are discussed below. The next layer is the Capital Strategy, Treasury Management Strategy and the Medium Term Financial Plan, which are very closely linked and all interconnect. The Capital Strategy builds in key information and requirements from all of these plans. The circle also shows two outer layers, these must align with all of the strategic documents before them.



- 1.3. The Council Plan for 2017 to 2022 came to an end in March 2022 and was replaced with a Transitional Plan for 2022/23, pending the adoption of the new Council Plan for the period until the next Council election in May 2027.
- 1.4. This Capital Strategy is, therefore, shorter in nature and reflects the capital funding requirements to implement the remainder of the Transitional Plan. This document will be replaced in 2024/25 by a more comprehensive long term capital strategy linked to other strategies and plans which are currently being developed by the Council, which include an Asset Management Strategy, an Education Strategy etc.
- 1.5. The Council's aspiration for the Capital Strategy for Anglesey is that it will not only plan for the short and medium term, but intends to plan for the long term of 20 years. Council assets can cost significant sums of money which, in return for the investment, tend to last many years. A long term focus is important, not only due to the longevity of the Council's assets, but long term plans can aim for a more transformational change and to ensure that sustainability is a key consideration. There are some objectives that are of such importance and require significant changes, such as Low Carbon targets culminating in the public sector net Zero Carbon target by 2030, to limit climate change. This change will start now with capital projects integrating Low Carbon alternatives and with specific assets, such as electric vehicles, but also requires sustained, long term transformational change. This Capital Strategy, 2023/24, is limited on its long term objectives while the Council re-orientates itself on its journey out of the Pandemic. The Capital Strategy 2024/2025 will provide a more substantial long term view aided by the new Council Plan 2022/27 and as Anglesey's new normal takes shape.
- 1.6. The governance of this strategy follows the same process as the Revenue and Capital Budget Setting Processes and will be presented to the Executive, which will make recommendations to full Council for approval.

2. How the Strategy fits with other documents

2.1. The Council Plan

The Council Plan is the prime document which outlines what the Council aims to achieve during the medium term, usually a period of five years. All other strategies and plans must be aligned to the Council Plan, as shown in the strategic circle in 1.2. Section 1 above highlights that the most recent five year plan expired in March 2022, and a Transitional Plan for 2023/24 has been published as the Council starts to move forward as the Covid-19 becomes a more endemic disease. The three key strategic objectives in the Transitional Plan for 2023/24 are:-

- A. Re-energising the local economy and embedding positive economic change.
- B. Enabling the visitor and hospitality sector to capitalise on the Island's increased popularity, whilst protecting our assets and communities.
- C. Maintaining and modernising critical community services, such as Care and Education across the Island.

<https://www.anglesey.gov.uk/documents/Docs-en/Council/Democracy/Measuring-our-performance/Transitional-Plan/Anglesey-Transitional-Plan.pdf>

A key objective of the 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.

The Transitional Plan 2022/23 highlights the important role of the Capital Strategy and capital projects in achieving the Council's three strategic objectives. In total, there are twenty four tasks listed across the three objectives. Half of these are capital projects, with most helping to deliver objectives A and C. The table below shows the capital projects mentioned explicitly in the Transitional Plan across the three objectives and identifies the progress made to date and the work required to complete each task.

Transitional Plan Objective	Task	Progress To Date
Re-energising the local economy and embedding positive economic change	Constructing 6 new business units on Bryn Cefni Business Park, Llangefni and prepare 6 plots for sale.	On target to complete works by end of financial year 2023/24.
	Constructing 7 new business units at Penrhos, Holyhead in partnership with Welsh Government	On target to complete works by end of financial year 2023/24.
	Strengthening the role of Holyhead and the Port as a key international "Gateway" by working with partners to: substantially repair the Breakwater; development of the Port, including land reclamation; Holyhead Hydrogen Hub; Station improvements.	Works ongoing and projects still being developed.
	Delivering projects with any capital elements identified in the North Anglesey Economic Regeneration Action Plan, for example, potential new business units.	
	Implementing capital projects which would support the delivery of the North Wales Growth Deal (Covid Recovery prospectus) to support the priority areas to help our economy to recover in the short term.	Work commenced to deliver projects but this is a long term project
	Targeting capital funding to address empty and problematic buildings and deliver any capital green projects to continue to deliver as green, sustainable recovery and to enhance the vitality and viability of Town Centres.	
	Implementing capital projects which help progress the Energy Island Programme, such as those which align with Central and Welsh Government's climate and energy change commitments.	
Enabling the visitor and hospitality sector to capitalise on the Island's increased popularity whilst protecting our assets	Investing to improve the quality and enjoyment in the Breakwater Country Park, Dingle and maritime infrastructure for the benefit of local residents and visitors.	On target to complete works at Breakwater Park and Dingle by the end of the financial year 2023/24. Works commenced on Maritime Infrastructure.
Maintaining and modernising critical community services, such as Care and Education across the Island	Sourcing permanent homes for individuals residing in temporary accommodation.	The numbers of people residing in temporary accommodation has risen significantly in 2021 – 2023 which has prevented the full implementation
	Building 83 new energy efficient homes with A energy performance, in line with the Council's Low Carbon Strategy, and to increase Council dwellings and affordable homes to meet individuals' housing needs.	The Council currently has ongoing projects to build 110 new properties across the Island.
	Further developing Cartrefi Clyd on Anglesey in Rhosybol, Holyhead and Llangristiolus, to offer respite and day services for children with disabilities.	Properties purchased and in the process of being upgraded.

These are the projects directly named in the Transitional Plan, however, there are capital projects included in the Draft Capital Programme for 2023/243 which are not named in the Transitional Plan but which are important and contribute to these objectives, such as flood alleviation works which will help achieve objective B to help support the Island's increased popularity. There are also capital projects included in the Draft Capital Programme which help to achieve the Capital Strategy objectives, including those highlighted in other strategic plans, such as the requirement to invest in the Council's assets each year.

2.2. 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.

2.3. The Medium Term Financial Plan

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 MTFP.

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.

2.4. Operational, service specific statutory plans and service plans

While the Council Plan is the key strategic document, this is supported by several key more detailed operational plans, many of which highlight that capital expenditure is key to achieving the respective plan's objectives. Each of these plans are based on research, identifying the current position, analysis to identify needs and plans of how the service aims to meet the needs and consultation with stakeholders.

Towards Net Zero Plan 2022/25

The Towards Net Zero Plan is one of the Council's main strategic plans. Its purpose is to drive forwards the Council's work in reaching its net zero carbon target by 2030. The target was set by the Council when it declared a climate emergency in 2020. The Welsh Government has set a target for Wales as a whole, is for net zero by 2050, and public sector organisations by 2030.

The plan has three scopes, the first two are easier as they relate to cleaner choices over Council controlled facilities, such as offices, schools, vehicles etc. A big barrier to these two scopes will be finding adequate funding to achieve the target. Scope 3 is more challenging as it relates to choices others make, such as employees as they conduct Council business and whether tenants of Council dwellings or investment properties follow clean living guidance.

This capital strategy, therefore, has a key objective that all capital projects must consider how they contribute (positively or negatively) towards the Council's net zero target. Many of the changes needed to achieve the net zero targets will involve capital expenditure, and those projects are likely to be part of the future capital programmes. The Capital Strategy plays an important part of this critical agenda.

Corporate Asset Management Plan

The Executive Summary of the draft Corporate Asset Management plan for Land and Buildings 2021 to 2026 example states “the maintenance of buildings requires substantial capital and revenue budgets to keep them safe and in optimal condition... the estimated capital maintenance requirement is in the region of £27m, based on condition surveys completed in 2019/20...The Council’s assets play a vital role in the effective delivery of the Council’s priorities and services...The drive to become a net zero Council ..in line with Government’s expectations, means we must invest to improve our existing assets and construct new carbon neutral buildings...”. While this strategic plan is draft, it highlights the condition of the Council’s assets following surveys in 2019/20. Therefore, a key objective of the Capital strategy is that each year capital funding is provided for improvements to the Council’s buildings.

Draft Council Smallholdings Estate Asset Management Policy 2021/30

The Council’s smallholdings comprise of approximate 5,800 acres, ranging from 2 acres to 170 acres parcelled into 92 tenancies. The policy is being consulted on with stakeholders, including tenants. “The main aim for the policy is to maintain and create short and long term economic, social, cultural and environmental benefits to contribute towards safeguarding the well-being and sustainability of Anglesey’s rural communities”. The smallholdings help towards meeting the Council’s Destination Management Plan and the Welsh Government’s Strategy for Tourism. Agriculture is ingrained in the history and culture of Anglesey, as is the Welsh Language which is spoken by many tenants of the Estate. There is a commercial objective to ensure that the estate continues to provide a sustainable financial return. However, due to its wider objectives, the smallholdings are not classed as investment properties, which relates to properties which are held only for collecting income and increasing the value of the properties. In order to support the Smallholdings’ objectives and their contribution to the Council Plan, the Capital Strategy acknowledges that the smallholdings require capital investment on refurbishment works. The above strategy estimates that £2.9m of capital funding is needed over the period 2021-30. £1.9m of this is for low carbon renewable heating systems and energy efficiency by increasing insulation in properties. It is recommended that any capital receipts generated from sale of any Smallholding Estate should be ring-fenced for reinvestment into the Estate. The smallholding team are encouraged to apply for external funding, particularly from Welsh Government, in relation to low carbon renewable heating systems and energy efficiency projects.

Digital Schools Strategy 2022-2024

The Authority’s first Digital Strategy for Schools was presented to the Executive and approved on 13 December 2021. This is key to supporting the educational priorities of the Council and to meet the new Curriculum for Wales. The strategy highlights the Council’s overall aim to create an Anglesey that is healthy and prosperous, where families can thrive, which includes ensuring the people of Anglesey achieve their long term potential. Digital competence is key to this and is included as a mandatory cross-curricular skill. Working in partnership with Welsh Government, whose multi-million pound programme has funded most of the infrastructure and Chromebooks for pupils, and the Hwb digital platform for teaching and learning in Wales, has been key and provides a robust basis for the Digital Schools Strategy.

The key priorities of the strategy are: the Council will fully migrate to and make use of HWB, sufficient network infrastructure will be provided for all schools and the Council will provide schools and classrooms with the hardware needed to enable access to innovative technologies that will support learners. £0.343m of grant was provided by Welsh Government and hardware, which cost £1.536m, was funded by Welsh Government, between the period 2019/20 to 2021/22. Without this funding and the HWB infrastructure, software and equipment, the schools would not have been able to deliver home-learning when the schools were closed to most pupils due to Covid-19.

The Digital Schools Strategy has revenue consequences to support schools but also future capital requirements. In return for the significant funding from Welsh Government for the first 3 years of the project, this was conditional on the Council funding replacement hardware at the end of the current Chromebooks, hardware and ICT infrastructure usable lives. This is staggered depending on the useful lives of the hardware, for example, the network for the schools cost £890k in 2019, and this will need replacing in 10 years, so a bid for funding before 2029 should be expected. There is likely to be an even longer term impact as the Chromebooks or equivalent technology will need replacing every 6 years.

Council Housing (Housing Revenue Account) Asset Management Strategy 2018-2023 and HRA Business Plan 2022 to 2052

Council Houses are managed by the Housing Revenue Account (HRA), which is a substantial part of the Housing service. The HRA operates as a self-funding entity, but is a crucial part of the Council which helps the Council deliver several Council Plan objectives in relation to housing. All aspects of finance are reported separately to the rest of the Council's finances (Council Fund) to ensure that the HRA (HRA Fund) funds its expenditure and that surplus income is reinvested into the housing stock. The vision of this strategy is to provide "Quality Homes: sustainable communities".

All six priorities of the current 30 year plan will contribute to the Council's key objectives. The priorities which relate to the Capital Strategy, and will be delivered as part of the capital programme and result in a long-term programme of the below works, are:-

- To increase the provision of affordable housing across Anglesey – the HRA continues to increase its housing stock through targets each year to build new houses and buy-back former Council Houses. The Council no longer sells Council Housing since the abolition of the Right-to-Buy scheme.
- Between 2015/16 and 2021/22, the Council's housing stock has increased by 188 (82 re-purchase of former Council properties and 106 new properties built). In 2023/24, work is progressing to complete a further 125 units (15 re-purchases and 110 new build properties)
- To promote estate regeneration, increasing tenant participation and community safety – in addition to increasing the number of Council Houses, the HRA implements refurbishment works each year, such as provision of new kitchens, roofing and necessary improvement works to increase the life of the housing. This leads to regeneration of the Council estates. The HRA works with tenants to ensure that tenants participate to influence the work on the estate.
- The HRA also aims to provide accommodation for individuals with specific needs, such as people with mental health issues, moving people on from emergency accommodation to social housing and older people, such as the Llawr Y Dref accommodation. The HRA also plans to develop an extra-care housing facility in the South of the Island, with work progressing to build 55 units.
- The HRA's aim to address efficiency, tackle climate change and fuel poverty can be progressed through its new builds and refurbishments.

North Wales Economic Ambition Board (NWEAB) – North Wales Growth Deal Business Plan 2020/23

Working in partnership is important to the Council. Working together on common goals can bring synergy where more can be achieved together and results in efficiencies, as duplication of effort can be reduced. The North Wales Economic Ambition Board is a partnership between the six North Wales local authorities, Bangor University, Glyndŵr University, Grŵp Llandrillo Menai, Coleg Cambria and other commercial partners and will help the Council achieve its key objectives such as that the people of Anglesey and North Wales can thrive and realise their long term potential.

The three key principles of the Growth Deal are for:-

- A smart North Wales – with a focus on innovation and high value economic sectors to advance economic performance;
- A resilient North Wales – with a focus on retaining young people, increasing employment levels and skills to achieve industrial growth;
- A connected North Wales – with a focus on improving transport and digital infrastructure to enhance strategic connectivity to and within the region.

The partnership has secured £240m to fund the Growth Deal from the Welsh and UK Governments and will be received over a 15 year period. The Growth Deal aims to try to reduce the persistent productivity gap between North Wales and the UK, to build a vibrant, sustainable and inclusive economy for North Wales.

There will be a medium term funding gap (negative cash flow) which will be managed by the lead authority, but with corresponding annual partner contributions. Anglesey's borrowing towards the funding gap is estimated to be between £0.700m to £1.00m. This would result in an annual MRP charge of between £0.047m and £0.067m each year for the 15 years. In addition, Anglesey will be required to make a revenue contribution towards the core and supplementary budget of the Board each year.

The total capital funding profile per programme is:-

Table 1 : North Wales Growth Deal Financial Summary				
Programme Area	Government Contribution (£m)	Public Contribution (£m)	Private Contribution (£m)	Total Programme Costs (£m)
Innovation in High Value Manufacturing	13.0	26.5	0.0	39.5
Digital Connectivity	37.0	3.1	1.6	41.7
Agrifood & Tourism	24.5	12.4	4.4	41.3
Land and Property	79.1	1.9	274.4	355.4
Low Carbon Energy	86.4	140.4	441.7	668.5
Total	240.0	184.3	722.1	1,146.4

There are 14 transformational capital projects, all of which benefit the whole of North Wales.

The projects more directly linked to Anglesey are:-

- Sites and Premises – the Growth Deal programme will address the shortages of sites and premises in North Wales and investment to enable the growth of Holyhead Port;
- the Holyhead Gateway scheme is a series of targeted investments to address life expired assets essential to the operation of the port and to increase capacity for both vehicle and ship movements for both passenger and freight traffic;
- the digital connectivity project will increase high-speed broadband and mobile connectivity across North Wales. This will benefit the whole region and, as the four North-West counties of North Wales rank in the bottom 25% of UK areas for superfast broadband coverage, this will feel a more significant improvement to Anglesey, Gwynedd, Conwy and Denbighshire;
- the Morlais project – constructing the infrastructure that connects the Morlais zone with the electricity grid system and readying the site for private sector developments investing to lease parts of the zone for deploying tidal technologies.

More information is available on the Board's website <https://ambitionnorth.wales/>

2.5. Statutory Requirements

The Council, along with all other public bodies, is required to comply with the Well-being of Future Generations (Wales) 2015 Act. This legislates for the well-being of current and future generations for people and our planet. This is to ensure that future generations have at least the same quality of life as the current generations. The Act encourages collaborative working to achieve the goals of the Act. The Council's Transitional Plan highlights that the plan's three objectives intertwine with the Council's and National Wellbeing Goals, with the Council's mission statement for wellbeing being "working towards an Anglesey that is healthy and prosperous where families can thrive".

This Capital Strategy will help the Council achieve this important goal through directing funding to schemes which both comply with the Council Plan as well as contributing directly to the wellbeing of both current and future generations. Investment in buildings, school improvements, the purchase of electric vehicles, investing in low carbon alternatives such as heat pump generators, building new Council Houses with low carbon heating etc. all contributes to well-being now and well into the future.

Equality and Diversity legislation and guidance also cuts across all services and work of the Council. The Capital Strategy enables increased accessibility through specific adaptations work in schools, other Council buildings and provision of Disabled Facilities Grants (DFGs) and refurbishments and new buildings will need to be Equality Act compliant.

In addition, the Capital Strategy acknowledges that capital investment is required to help the Council run statutory services to ensure that the assets used to run statutory services such as Social Care, Schools, Housing, etc., are safe and comply with required standards.

The below diagram summarises how the Capital Strategy is connected to key strategies and the annual revenue and capital budget setting:-

The Council Plan and key Operational Plans

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 and key operational plans. 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 Transitional Plan 2022/23 and the Council Plan 2023/27. 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 Management 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.

3. Objectives of the Capital Strategy

The Council Transitional Plan 2022/23, the key operational / statutory plans mentioned above and statutory requirements provide clear direction on what the priorities of the Capital Strategy should be to help the Council achieve its priorities. The Objectives of the Capital Strategy are, therefore:-

Capital projects must relate to assets which help the Council achieve its key objectives outlined in the Council Plan and key operational strategies.

Each year, when reviewing this strategy and developing the annual Capital Programme, the Council must take into account stewardship, value for money, prudence, sustainability and affordability.

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

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

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

The Council remains committed to the Sustainable Communities for Learning Programme and will continue to fully utilise Sustainable Communities for Learning external funding. This is a substantial programme which will result in Sustainable Communities for Learning capital school improvements or new builds into the longterm.

Capital projects must have regard to the net zero carbon targets and must use clean alternatives where, traditionally, carbon generating equipment/facilities / assets have been used.

Each year, capital receipts received from the sale of Council Smallholdings will be ring-fenced for refurbishments of smallholdings the Council retains. This will help ensure the properties are fit for the longterm.

The Council will continue to work with its strategic partners and is committed to working as part of the North Wales Economic Ambition Board to deliver capital projects across North Wales.

Annual consultation is required with stakeholders and citizens of Anglesey for their opinions on any proposed new capital projects.

3. Principles which help support the achievement of the above key objectives:-

- 3.1** That the Sustainable Communities for Learning programme is considered separately from the remainder of the general Council capital programme. The Sustainable Communities for Learning programme is a longterm, significant commitment to building and / or refurbishing schools so that Anglesey's schools are fit to last and meet the longer term requirements. The Sustainable Communities for Learning 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 Sustainable Communities for Learning 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 and ensure that the Council's existing assets are maintained.
- 3.2** That a sum is allocated in the capital programme each year to fund the major improvement to, or the replacement of, existing IT equipment, vehicles and Council buildings.
- 3.3** 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.
- 3.4** 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.
- 3.5** 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 and the Leadership Team, 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.
- 3.6** To reduce the revenue impact of the capital programme i.e. capital financing costs from interest payable and the Minimum Revenue Provision (MRP) which creates funding to help repay loans, unsupported borrowing will only be used to fund projects if:-
 - the project is an approved Sustainable Communities for Learning project;
 - the project is an invest-to-save project, which will cover the capital financing costs i.e. interest payable and Minimum Revenue Provision (MRP);
 - the project attracts substantial external funding of at least 75% and will help deliver at least one of the Council's key priorities.
- 3.7** Where cash balances allow, actual borrowing will be delayed and cash balances will be used to delay and save interest payable and MRP charges to revenue. This is known as internal borrowing. When cash balances need to be replenished, the borrowing will be taken out and the internal borrowing will be externalised. Where interest rates are likely to rise significantly, internal borrowing should be externalised to reduce risk, but not in advance of need.

- 3.8** Capital funding, with the exception of grants awarded for specific projects, will ultimately be allocated to minimise capital financing costs and to ensure the capital programme has the flexibility to maximise funding. This is common practice in local authorities. The actual funding allocated at the end of each financial year might be different to that reported as part of the capital budget. General grant will be allocated first to ensure that this is spent in full at year-end, unless Welsh Government has approved carry-forward of the grant. Flexibility in funding is fundamental to ensure the Council maximises funding opportunities, such as managing specific grants awarded in the last quarter of the year, which allows use of the specific grant on other locally determined capital expenditure in year if it cannot be spent on the specific grant conditions by year end. This on the basis that the Council allocates funding from the next year's programme to fund the specific projects for which the original funding was awarded.

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, the budgetary pressures expected, the Treasury Management Plan and the Operational Plans discussed above. 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

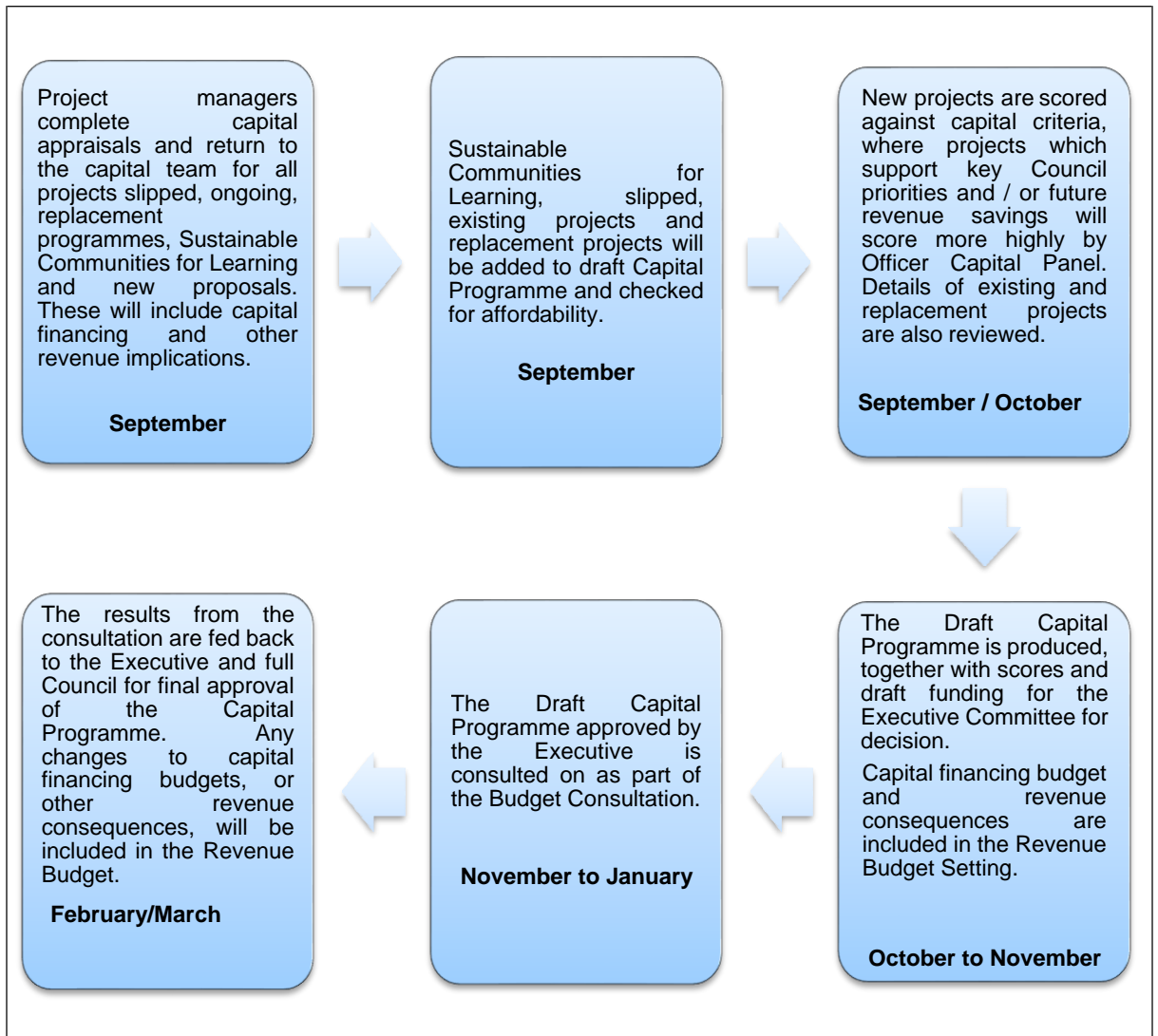
In determining which projects are included in the Capital Programme, new bids must not only be affordable, but also help deliver the key priorities of the Council Plan and meet the objectives and principles of the Capital Strategy. Each year, Services are asked to submit new capital appraisals / bids 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 in the Council Plan and key operational plans	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.

4.2.4. Monitoring the Capital Strategy and Capital Programme

Each quarter, a Capital Monitoring report is produced and presented to the Leadership Team and the Executive. This considers spend to date, forecast spend to year-end and narrative to explain the progress or lack of progress of schemes.

5. Looking Back – Achievements of the Capital Strategy and Programmes 2017/18 to 2021/22

The Council has spent nearly £160m on capital projects over the above 5 year period. £79m was funded from capital grants, which is 49.36% of the total capital expenditure. This shows the value of including significant grant funding as one of the objectives of the Capital Strategy. The services with the highest spend evidence that capital projects were aligned to the Council Plan 2017/2022. Housing, including housing of vulnerable people, Lifelong Learning to provide assets to help provide services to help individuals achieve their potential, and the legal requirement to refurbish highways and the priority to improve the Island. This is shown in the table below:-

Service	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Housing GF	1,224	1,108	1,252	1,212	1,019	5,815
Housing HRA	9,291	9,028	11,812	12,622	9,723	52,476
Lifelong Learning	6,318	7,233	2,982	3,878	8,833	29,244
Economic & Regeneration	788	4,017	2,993	2,714	2,081	12,593
Highways	6,004	6,055	7,176	5,382	5,290	29,907
Waste Management	66	84	180	3,213	2,270	5,813
Property	786	697	990	2,405	2,140	7,018
Transformation	587	448	1,297	771	794	3,897
Equal Pay - Capitalisation Directive	2,566	-	-	-	-	2,566
Planning	1,031	1,839	755	52	384	4,061
Adult Services	694	168	577	880	923	3,242
Total Expenditure	29,355	30,677	30,014	33,129	33,457	156,632
Capital Grants	11,801	16,629	18,156	18,948	22,486	88,020
Percentage of capital costs funded by Grants	40.20%	54.21%	60.49%	57.19%	67.21%	56.20%

6. Current Financial Context and Funding

6.1 Revenue Constraints

- 6.1.1.** The initial Medium Term Financial Plan (MTFP) for 2023/24 to 2024/25 was presented to the Executive on 27 September 2022. This acknowledged the difficulty in financial planning beyond one year due to the lack of three year budget forecasts from Central and Welsh Governments. The UK's weakening economy, with no growth, the potential for a recession and significantly higher levels of public debt has restricted the funding available for public services, which will result in the use of reserves and balances as short term revenue funding and the need to make revenue savings in the longer term.
- 6.1.2.** In order to try and control inflation, the Bank of England has gradually increased the bank base rate from 0.25% at the beginning of 2022, to its current level of 4.0% (February 2023). It is anticipated that the rate will continue to rise during the early part of 2023) and will peak at 4.5% before it gradually begins to fall during the latter part of 2023 and early 2024. The majority of the Council's current borrowing are fixed rate loans and, as a result, rising interest rates does not impact on the revenue budget, but any new borrowing is at a higher interest rate. The positive impact on the revenue budget of rising interest rates is an increased return on the Council's investments. This has allowed the Council to increase its estimated interest received from £50k in 2023/24 to £1m in 2023/24.
- 6.1.3.** The Welsh Government revenue settlement for 2023/24 increased the funding for Anglesey by 7.9%, which was better than anticipated, but insufficient to all the inflationary pressure and rising demand for services the Council will face in 2023/24. The budget requires the use of £1.8m of general balances to balance the revenue budget.
- 6.1.4.** The revised MTFP does not suggest that the revenue budget position will improve in 2024/25, and a further funding gap of £3m will need to be addressed along with the £1.8m funded by reserves in 2023/24. The continued revenue budget pressure limits the Council's ability to fund additional capital expenditure from reserves or additional borrowing, because reserves will diminish as the revenue budget is supported and additional borrowing will increase interest payments and the level of minimum revenue provision required.

6.2 Capital Funding Constraints

- 6.2.1.** Welsh Government's provisional settlement also includes details of the capital funding provided to the Council for 2023/24. The Council will provisionally receive a general capital grant of £2.217m and £2.159m in supported borrowing which, together, amount to £4.376m. 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 Sustainable Communities for Learning Programme.
- 6.2.2.** 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.

- 6.2.3. 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.

6.3 Funding the Modernisation of Schools

- 6.3.1. The Council is currently progressing through an ambitious programme to modernise schools through the Sustainable Communities for Learning (formerly known as the 21st Century Schools) programme, with the former Band A projects coming to an end in April 2023 and Band B running until 2027.
- 6.3.2. There were previously four phases to the programme, identified as Band A, B, C and CH. However, Bands C and Band CH have been abolished in name. The revised Sustainable Communities for Learning programme will continue to provide funding for school improvements into the long term, with the Council required to submit a 9 year plan. Welsh Government have indicated that Councils will move across to the 9 year plan once 60% of their approved Band B programme has reached the contractual agreement stage (although there may be exceptions to this plan in the case of individual authorities).
- 6.3.3. The Welsh Government has also introduced a mutual investment model (MIM) for projects with a capital value in excess of £15m. 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 (81%). The MIM project would not form part of the Council's capital programme as it only becomes a cost to the Council when the rental payments begin.
- 6.3.4. Currently the Council only has 1 projects that has been approved and commenced under Band B which is Ysgol y Graig Extension. It is planned to be completed by September 2024.
- 6.3.5. 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).
- 6.3.6. 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.
- 6.3.7. It should be noted that the delivery of new schools will eliminate the need to undertake backlog maintenance work at the various schools which are replaced or closed as a result of the capital investment. These changes would be reflected in the Asset Management Plan.

6.4 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.

6.5 Impact of Differing Sources of Capital

- 6.5.1. 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.
- 6.5.2. 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.
- 6.5.3. 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.
- 6.5.4. 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.
- 6.5.5. 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.
- 6.5.6. 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.

6.6 Funding Principles

- 6.6.1. The uncertain financial context the Council continues to operate within is discussed above, 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.

- 6.6.2.** Unsupported borrowing (outside the Sustainable Communities for Learning programme) should only be considered where the relevant service budget can be reduced by a sum greater than the MRP and interest costs or to fund the Council's share of a scheme which is funded predominately from external grant.
- 6.6.3.** 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.
- 6.6.4.** 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.
- 6.6.5.** 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.
- 6.6.6.** In addition to the sources of funding noted above, the Council holds a capital funding reserve, and this includes revenue contributions for specific projects which have not yet been applied. This funding will be utilised as and when required to allow priority projects to move forward or to fund the specific projects when those projects move forward. The funding can also be used as a source of match funding, if an opportunity arises to receive additional grant funding, which may be lost without the match funding.
- 6.6.7.** Unallocated capital receipts are held in a reserve. The balance of this reserve has diminished over time as the number of surplus assets falls. However, it is still a valuable source of funding and is utilised as and when required to fund priority projects. It should be noted that the capital receipts generated from the sale of surplus schools will be allocated as funding for new schools if this has been noted in the business case, otherwise the capital receipt will be treated as general capital receipts and allocated to projects accordingly.
- 6.6.8.** In summary, the funding for new capital projects relating to the general fund should be limited to the level of general capital grant, supported borrowing and any unallocated capital receipts or capital reserves required to fund the approved capital programme in any year, along with any specific grants received. Projects relating to the Sustainable Communities for Learning Programme and the Housing Revenue Account will be added to the capital programme as required.
- 6.6.9.** 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.

6.7 Estimated Funding Profile 2023/24 to 2025/26

- 6.7.1.** The external Welsh Government funding (excluding Sustainable Communities for Learning) for the period 2023/24 to 2025/26 is shown in the table below. It should be noted that the Council will also receive a number of minor capital grants.

Estimated Welsh Government Capital Funding 2023/24 – 2025/26

	2023/24 £'m	2024/25 £'m	2025/26 £'m
General Capital Grant	2,217	2,217	2,217
Supported Borrowing	2,159	2,159	2,159
Major Repairs Allowance	2,660	2,660	2,660
Decarbonisation grant	450	450	450
Total Welsh Government Capital Funding	7,486	7,486	7,486

7. The Draft Capital Programme 2023/24

- 7.1 The draft capital programme for 2023/24 will be presented alongside this capital strategy to the Executive on 2 March 2023 and the full Council on 9 March 2023. The table below summarises the proposed capital programme, including funding sources. Additional detail is provided in Appendix 2.

Summary Draft Capital Programme 2023/24

	£'000
2023/24 Schemes Brought Forward	12,373
Refurbishment / Replacement of Assets	5,682
New One Off Capital Projects	386
21 st Century Schools	5,964
Housing Revenue Account	13,557
Total Recommended Capital Programme 2023/24	37,962
Funded By:	
General Capital Grant	3,410
Supported Borrowing General	2,158
21 st Century Schools Supported Borrowing	919
21 st Century Schools Unsupported Borrowing	2,797
HRA Reserve & In Year Surplus	9,221
HRA Unsupported Borrowing	0
Capital Receipts	500
External Grants	6,584
2023/24 Funding Brought Forward	12,373
2023/24 Total Capital Funding	37,962

7.2 Longer term Capital Expenditure Plans

- 7.2.1. This capital strategy is seen as an interim document but work will commence, once the Council's corporate plan has been completed and approved, to prepare or update the strategies that will deliver the objectives of the Council Plan. These various strategies will then influence the longer term capital strategy of the Council and this will be reflected in the 2024/25 Capital Strategy.

8. Non-Treasury Management Investment Strategy

- 8.1 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 2022, which were valued at £6.2m. These include retail properties, office units and commercial units. In 2023/24, £344k of rental income was collected from investment properties. Costs of £185k were spent on maintenance etc., which resulted in a net operational income of £164k from rental income and other 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. This project has been extended to build additional units at Holyhead and the new scheme for additional units in Llangefni, as stated in the Transitional Plan.
- 8.2 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.

9. Borrowing and Treasury Management

- 9.1 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 2023/24 is affordable. The TMSS will be presented to the full Council on 9 March 2023.
- 9.2 Appendix 11 of the TMSS 2024/25 provides the prudential and treasury indicators for the periods 2021/22 to 2025/26, which help determine whether borrowing plans are affordable.
- 9.3 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:-

	Council Fund	HRA	Total
2021/22 (Actual)	4.50%	9.12%	5.04%
2023/24 (Projected)	2.81%	18.41%	4.56%
2023/24 (Projected)	2.23%	21.14%	4.25%
2024/25 (Projected)	2.95%	26.12%	5.46%
2025/26 (Projected)	3.10%	29.36%	6.06%

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

- 9.4 In 2018/19, the Council revised its Minimum Revenue Provision (MRP) 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. A further amendment to the MRP Policy has been proposed which moves to an annuity method for calculating the annual MRP charge.

9.5 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.

9.6 Treasury Management Investments, 3 February 2023

Bank	Amount Invested	Interest Rate
Santander	£7,500,000	3.24%
Nationwide	£7,500,000	3.03%
NatWest	£21,634,826	0.80% - 2.70%
Goldman Sachs	£7,500,000	3.83%
Local Authorities	£10,000,000	3.06% - 3.80%
Total	£54,134,826	

The investments are reviewed as they reach maturity and a decision taken by the Treasury Management Team as to whether to roll over the investment with the same institution for a further specified period, to invest with a different institution identified in the TMSS or to return the cash back into the Council's general bank account. The decision is dependant on a number of factors, including the forecasted interest rates and the Council's cash needs, which are significantly influenced by the level and timing of capital expenditure. This confirms the link between the capital strategy, the annual capital programme, the Treasury Management Strategy and individual investment decisions.

10. Potential Risks arising from the Capital Strategy

10.1 The biggest challenge and risk is the uncertainty about future funding for revenue and capital. The Council has underspent considerably in 2021/22, and is likely to underspend in 2023/24, which helps provide a safety net which is shown by the healthy investments in banks shown above. However, the increased costs in the construction industry over the past 12 months has made planned projects less affordable and puts additional strain on the limited funding.

10.2 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. Although it should be noted that the Council has been successful in bids from the Shared Prosperity Fund and the Levelling Up Fund, both of which replace European funding. Any changes to funding will require a reassessment of the capital strategy and annual capital programme.

10.3 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.

10.4 The Sustainable Communities for Learning Programme is such an aspirational and substantial programme there is a risk that the Council will not be able to afford the programmes post Band B, though the increased usable cash backed reserves will help with investment in schools.

10.5 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. The current small stepped increases in the Base Rate will increase PWLB borrowing rates, though currently these are all well below many of the fixed rates on current loans.

11. Knowledge and Skills

11.1 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.

Proposed Capital Programme 2023/24

Scheme	Budget £'000	External Grants £'000	General Capital Grant £'000	Supported Borrowing £'000	Unsupported Borrowing £'000	HRA Reserve £'000	Capital Receipts Reserve £'000
2023/24 Committed schemes b/f							
Holyhead Landscape Partnership	50	50	0	0	0	0	0
Holyhead Regeneration (THI Phase II)	687	687	0	0	0	0	0
Penrhos Phase III	2,400	2,400	0	0	0	0	0
Levelling Up Funding (various projects)	9,236	9,236	0	0	0	0	0
Total 2023/24 Committed Schemes	12,373	12,373	0	0	0	0	0
Refurbishment / Replacement of Assets							
Disabled Facilities Grant	750	0	750	0	0	0	0
Refurbishment of Schools	1,000	0	0	1,000	0	0	0
Refurbishment of Non School Buildings	600	0	0	600	0	0	0
Highways Resurfacing	2,500	0	1,942	558	0	0	0
Vehicles	540	0	332	0	0	0	208
IT Assets	292	0	0	0	0	0	292
Total Refurbishment / Replacement of Assets	5,682	0	3,024	2,158	0	0	500
New One Off Capital Projects							
Flood Relief Schemes	286	0	286	0	0	0	0
Economic Dev – Match Funding	100	0	100	0	0	0	0
Total New One Off Capital Projects	386	0	386	0	0	0	0
21st Century Schools							
Ysgol y Graig	5,964	2,248	0	919	2,797	0	0
Total 21st Century Schools	5,964	2,248	0	919	2,797	0	0
TOTAL GENERAL FUND	24,405	14,621	3,410	3,077	2,797	0	500
Housing Revenue Account							

Scheme	Budget £'000	External Grants £'000	General Capital Grant £'000	Supported Borrowing £'000	Unsupported Borrowing £'000	HRA Reserve £'000	Capital Receipts Reserve £'000
WHQS Planned Maintenance Programme	5,350	3,586	0	0	0	1,764	0
New Developments & Re-Purchase of Right to Buy Properties	8,207	750	0	0	0	7,457	0
TOTAL HOUSING REVENUE ACCOUNT	16,399	4,336	0	0	0	9,221	0
TOTAL CAPITAL PROGRAMME 2023/24	37,962	18,957	3,410	3,077	2,797	9,221	500