Capital Strategy 2024/25 to 2033/34

(incorporating the Council's strategy on the flexible use of capital receipts)

Solihull
METROPOLITAN
BOROUGH COUNCIL

CONTENTS

1. Executive Summary

1.1 The prudential code for capital finance in local authorities sets out the requirement that authorities should have in place a capital strategy and governance procedures for the setting and revising of the strategy and prudential indicators. This will be done by the same body that approves the local authority's budget, which for Solihull will be Full Council.

1.2 The Council's Section 151 Officer will be responsible for ensuring that all matters required to be taken into account are reported to the decision making body for consideration and for establishing procedures to monitor performance.

1.3 Under the prudential code guidance, a capital strategy needs to demonstrate that Solihull takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability, and affordability.

1.4 The Council has a revised capital programme totalling £74.748 million in 2023/24 and an asset base valued at £1,285.462 million. This strategy is an overarching document which sets the policy framework for the development, management and monitoring of this investment and forms a key component of the Council's planning alongside the Medium Term Financial Strategy (MTFS), Treasury Management Strategy, Corporate Asset Strategy, Property Investment Strategy, and the Council's Flexible Use of Capital Receipts Strategy.

1.5 The Corporate Capital Strategy sits alongside the Revenue Budget Strategy and feeds into the annual revenue budget by informing on the revenue implications of capital funding decisions. The ongoing implications for the revenue budget strategy are fully considered before any capital funding decisions are confirmed.

1.6 Equally, the availability of prudential borrowing means that capital and revenue solutions to service delivery can be considered, and ranked, alongside each other as part of an integrated revenue and capital financial strategy.

1.7 The Corporate Capital Strategy further sets out the Council's approach to the allocation of its capital resources and how this links to its strategic priorities and objectives at a corporate and service level. It describes how the Council has responded to the opportunities provided by prudential borrowing and other new sources of finance and finally outlines the links to other key Council policies. Specifically, this document addresses the following points:

- How the Council's priorities and objectives inform the capital programme;
- Outlines service priorities, objectives, and major projects;
- Summarises the forecast 10 year capital programme;
- Describes the links to the corporate Asset Strategy;
- Outlines the Council's capital resource allocation methodology;
- Outlines the implications of capital investment decisions;
- Reviews the relevant capital prudential indicators and limits; and
- Sets out the links to other council strategies, plans and policies.

1.8 The Council continues to face the challenge of effectively prioritising and managing capital investment. In the short term, our ability to deliver major capital investments has been affected by the impact of inflation and supply chain issues on construction costs. In considering the capital programme the Council has reviewed existing schemes to ensure they are still relevant in meeting the Council's priorities, and if the scale and timing of schemes is still feasible within the available funding.

1.9 The Corporate Capital Strategy outlines a ten year capital programme up to 2033/34. It will be refreshed on an annual basis to ensure its continued relevance and to update it for any significant changes in legislation or council policy, in line with the MTFS.

1.10 Within the short term (up to 3 years) the focus of the capital programme is on implementation and delivery of schemes. The programme is more fluid with the addition of new schemes to meet the service priorities that arise.

2. Service Priorities and Objectives

2.1 Individual service priorities flow from the objectives contained within the Council Plan. This ensures that all parts of the organisation are focused on meeting the priorities identified by the Council in conjunction with the local community and its strategic partners.

2.2 The main service priorities, objectives, and projects, where applicable, are summarised below by cabinet portfolio.

Adult Social Care and Health

2.3 The principles set out in the Solihull Adult Social Care 5 Year Plan 2022-2027 outline the nature of the challenges we face, our vision for the future of care and support in Solihull and how we will go about making the changes and realising that vision.

2.4 The focus for the programme remains on supporting people to stay in their own homes, with equipment, adaptions and increased use of digital technology driving this change. The Housing Assistance Policy (HAP) has been developed and its aim is to support residents to improve their health and wellbeing by addressing problems with unsuitable homes that do not meet their needs. Assistance delivered through the HAP will also help us to achieve the aims and objectives of the Council as set out in several of its strategies and plans; helping to deliver actions and make improved living a reality for residents.

2.5 The Disabled Facilities Grant (DFG) is the key funding source for the above initiatives, and it falls within the framework of the Better Care Fund agreement between the Council and Health partners. This service is delivered by Solihull Community Housing on behalf of the Council.

2.6 The Public Health Directorate is leading on the development of 4 new pilot Family Hub centres across the borough which will support outcomes for children, young people, and their families. One of these has gone live with upgrades scheduled to this site and upgrades to the remaining three Hub sites to bring them in line with core operational standards are taking place to support service availability from the start of 2024/25. The offer will be delivered by existing service providers from different agencies working as a multi-disciplinary team, supported by a digital offer, and delivered through a combination of outreach working and the improved physical spaces. Improvement costs are being met from a combination of grant funding, earmarked Public Health reserves and corporate landlord contributions.

Children and Education

2.7 The Children's Services Capital Programme includes projects to address the sufficiency, suitability, and condition of the Solihull school's estate. The sufficiency strategy is evidenced in the School Organisation Plan 2020/21 and SEND School Place Commissioning Strategy January 2023. Asset management planning with individual schools continues to enable suitability issues to be identified and where possible addressed and the condition of the school estate is fundamentally improved through the planned maintenance programme and the wider school improvement programme.

2.8 The Children, Education and Skills Capital Programme is comprised of subordinate programmes essentially focused upon the:

- Schools Improvement and Expansion (mainstream)
- Schools Improvement and Expansion (special and alternative provision)
- Schools Maintenance
- Schools Managed Projects

The Schools Improvement and Expansion Programme

2.9 This incorporates the priorities highlighted within the School Organisation Plan (Places) and provision for Early Years.

2.10 Recent migration into the borough has seen a significant increase in demand for school places, particularly at KS2 and KS3 and additional accommodation at Widney Junior to support the addition of bulge classes, and alterations to existing premises at St Peters Catholic School will support with pressure around year 7, 8 and 9 places.

2.11 Further work at St Peter's Catholic School is being planned to consolidate and enhance the school accommodation which will allow flexibility in delivery of additional school places and will address suitability constraints at the school. Elsewhere in the secondary school estate, short term sufficiency requirements have been identified and design work is underway at Langley School to create additional capacity, meanwhile, at Heart of England, who are currently providing additional secondary places within their existing facilities, a scheme to alleviate associated suitability pressure is being discussed.

The School Improvement Programme (High Needs Block)

2.12 This focuses on priorities outlined in the SEND School Place Commissioning Strategy 2021-2024 and the Alternative Provision Commissioning Strategy January 2023.

2.13 Work has completed for the creation of a new alternative provision for secondary aged pupils on the former Daylesford Infant site and a new alternative provision for primary pupils on the same site is now being considered. Works have also completed at the Heights Free school and the first cohort of pupils are in occupation, likewise schemes at Forest Oak Special school (Oakwood satellite) and Triple Crown Centre are also complete.

2.14 Work is underway to review viable solutions to address the additional accommodation requirements. Specifically, design and development work is underway to deliver additional special school places both in the short and long term. Discussions with Tudor Grange MAT –to expand their SEMH provision are continuing and the future use of the vacant site at Summerfield Education Centre, Bosworth Drive, following its demolition are under review.

The Schools Maintenance Programme

2.15 This aspect of the programme continues to cover planned maintenance delivered by Property Services with the principal focus on the maintained primary sector. The programme is based upon an annual review of local stock condition surveys and addresses condition priorities across the maintained estate.

The Schools Managed Programme

2.16 Schools also implement their own schemes of work utilising Devolved Formula Capital, revenue, or reserves. Considered as a collective sum within the capital programme, these works are reviewed against the aims of their individual asset management plans and via the landlord approval process.

<u>Climate Change and Planning</u>

2.17 The most significant schemes within this portfolio relate to the delivery of energy efficiency works to homes which are funded through government grant schemes.

2.18 Climate change is an issue affecting us all. Recognising this, we're committed to adapting to its effects, reducing our emissions, and helping our population make positive changes at home and at work. The overarching MTFS provides more information on the Council's approach to achieving net zero carbon emissions by 2030. The recently formed Climate Change and Sustainability team are working to progress agendas on climate change and economic development. It is likely that over the forthcoming years there will be further capital schemes which will be identified to enable the Council to achieve this ambition.

Housing

2.19 Capital schemes relating to social housing are delivered through the Housing Revenue Account, which is administered for the Council by Solihull Community Housing. The only capital scheme within the General Fund currently being delivered within this portfolio relates to minor works carried out in private sector homes to assist vulnerable occupiers which do not meet the criteria of the Disabled Facilities Grant.

Communities and Leisure

2.20 The Council's two leisure centres play a key role in supporting residents to be physically active. The Leisure Service will maintain and make improvements to its leisure centres, in accordance with agreed plans with the operator, to ensure they remain attractive and meet the needs of service users and having regard to funding available to the Service.

2.21 The outputs from a high-level options appraisal will be used by the Council to establish a long-term strategic plan for meeting community need through sustainable provision of our leisure and active wellbeing facilities, including capital investment, co-location services and other different models. This will support Solihull to benefit from external funding through alignment with wider national agendas such as Sport England's 'Uniting the Movement' Strategy and their new Place Partnerships programme.

2.22 A new Built Sports Facility Strategy will provide a long-term strategic vision for indoor sports facilities across the Borough that positions its contribution towards wider strategic outcomes i.e. health and wellbeing of our residents. The strategy will identify demand and need, guiding investment and funding into the Borough. A final strategy will be due Winter 2024.

2.23 The Library and Information Service's mission is to provide libraries that inspire, enrich, improve quality of life for all, help individuals and communities achieve their full potential and create a sense of place. Priorities include transforming services within libraries to meet the changing needs of customers. These improvements to the service will be achieved by using partnerships and engaging with the local community. A further priority is to explore the feasibility of co-location/relocation of existing libraries when opportunities arise and the potential use of libraries to provide physical space for delivery of Family Hub and other services.

Environment and Infrastructure

2.24 The 'Vision for Transport in Solihull' is the strategy to deliver local transport objectives to the transport and road networks across Solihull borough in line with the key objectives for the West Midlands in the future as detailed in the City Region Sustainable Transport Settlement (CRSTS) which replaced the previous Local Transport Plan (LTP).

2.25 The CRSTS retains funding equivalent to average annual funding to date for the Integrated Transport Block (ITB) and Highways Maintenance funding, including the Potholes Action Fund but also incorporate additional wider investment to commence transformational change in local transport networks as part of an overall West Midlands region wide programme of projects that will be taken forward over future years with initial allocations having been made for the period up to 31st March 2027. Furthermore, there is more recently announced additional planned Government capital investment in local highway maintenance over the next 11 year period particularly for the resurfacing of carriageways, cycleways, and footways to prevent potholes and other road defects from occurring, as well as tackling other asset management priorities, such as keeping local bridges and other highway structures open and safe.

2.26 The CRSTS key objectives are considered to be relevant ‘Strategic Aims’ for transport within Solihull and are therefore the basis against which Solihull’s local transport objectives are considered, which are to:

- Support economic growth;
- Tackle climate change;
- Contribute to better safety, security and health; and
- Improve quality of life and a healthy natural environment.

2.27 The Solihull Connected transport strategy objectives are reflected in the main priorities above which also recognises supporting regional road safety programmes and delivering local improvements. The Solihull Connected Delivery Plan identifies specific transport priorities for development to an investment ready state. Key highlights of our Delivery Plan include:

- Community Liveability programme;
- Further enhancements to cycle routes;
- Public Transport Improvements; and
- Maintenance and improvement of the road network and structures infrastructure.

2.28 The Council delivers economic growth, opportunities and regeneration for Solihull, by maximising external funding available to the borough and through our local and regional partnerships.

2.29 Through the vision and investment programme of UK Central (UKC) ,which includes both the Infrastructure and the Interchange Programme, the Council is committed to creating jobs and delivering inclusive economic growth. The unique concentration of strategic economic assets in Solihull that includes Jaguar Land Rover, Birmingham Airport and the NEC offers an opportunity on a scale that is of national significance.

2.30 The UKC Programme and development plans for the borough will support investment in transport, development, clusters of emerging sectors, and the green infrastructure which will play such a vital role in the borough’s success. It shows that careful planning; detailed design and ambitious strategies will ensure an exciting and sustainable future.

Resources

2.31 The portfolio is responsible for delivering the Council's Property Investment Strategy whose primary objective is to invest in property through a balanced strategy of acquisition, retention and management in order to support the delivery of the Council's service, regeneration and economic development priorities.

2.32 Other significant capital projects within the Resources Cabinet Portfolio include the Corporate Property Management Programme for the enhancement of council properties, excluding schools and housing dwellings. This programme currently relies on funding through prudential borrowing.

2.33 The Digital Strategy continues to recognise the important role digital plays in delivering the Council's objectives; the focus for the forthcoming 12 months is on the use of data and developing a digital first customer services model, exploiting the benefits of our existing digital technology to achieve operational efficiency.

2.34 The corporate ICT programme supports the central equipment refresh programme and the ICT capital projects. Following the investment in Oracle Cloud, the ICT capital programme will shift to exploit our range of technologies and to upgrade systems in line with our refresh programme.

2.35 Bereavement Service's 30 year Business Strategy sets out how the Council will meet future demand for service provision over this period. Future projects are likely to include investment in facilities at the Woodlands Cemetery and Crematorium, and development of new burial land.

Wellbeing, Skills and Inclusion

2.36 The Employment and Skills Team currently deliver employment support from the Solihull Recruitment and Training Centre in Chelmsley Wood Town Centre. The use of the centre will be retained as part of the overall reshape of the employment and skills service following the end of European funding, and the lease, which ends in September 2024, is expected to be renewed for a further two years. New funding secured via UK Shared Prosperity Fund and Commonwealth Games Legacy Funds requires delivery of intensive employment support to residents therefore the centre continues to be an important part of the service.

Housing Revenue Account Capital Programme

2.37 The proposed council housing capital programme for 2024/25 is £30.836 million. This will continue with the approach set out in the Solihull Community Housing Asset Management Strategy. The focus of the programme remains on prioritising investment into building safety and reducing carbon emissions, in addition to continuing regular programmes of cyclical maintenance and improvements of the housing stock to ensure that they meet the decent homes standard; the following are the key investments included:

- The continued prioritisation of Health and Safety and legislative requirements; primarily on the completion of the programme to replace Spandrel Panels on the exterior of 16 of our high rise blocks, in addition to continuation of programmes of works following fire risk assessments, gas safety and electrical integrity;
- The construction of new build properties within the Kingshurst Village Centre regeneration site and the redevelopment of the former supported living site at Townshend Grove (Lakeside);
- Improving energy efficiency for tenants and contributing to lowering carbon emissions within the Borough by investing in more efficient heating systems and exploring the utilisation of new technologies;
- The Envelope programme to improve security, energy efficiency and aesthetics of low rise communal areas;
- Planned maintenance works to roofs and kitchen and bathroom replacements to maintain decent homes standards;
- Adaptations for disabled residents will continue where identified on a needs basis.

3. Summary of Current and Forecast Ten Year Capital Programme

3.1 The Council's current and proposed capital programme for the period 2023/24 to 2033/34 is summarised below. This is based on the current approved programme and a forecast for future years based on actual funding allocations where known and estimates based on current allocations where a long term allocation has not been provided by central government.

Summary of Corporate Capital Programme 2023/24 to 2033/34												
Cabinet Portfolio	**2023/24 *£m***	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 *£m***	**2030/31 £m**	**2031/32 £m**	**2032/33 £m**	**2033/34 £m**	**Total £m**
Adult Social Care and Health	*4.152*	2.787	2.485	2.485	2.485	2.485	2.485	2.485	2.485	2.485	2.485	**29.304**
Children and Education	*10.341*	10.826	9.303	2.900	8.400	7.900	5.400	2.900	2.900	2.900	2.900	**66.670**
Climate Change and Planning	*0.985*	5.000	1.000	0	0	0	0	0	0	0	0	**6.985**
Communities and Leisure	*0.055*	1.500	4.000	0	0	0	0	0	0	0	4.000	**9.555**
Environment and Infrastructure	*19.301*	24.426	50.317	21.067	16.757	16.723	16.723	16.856	6.056	5.056	5.056	**198.338**
Housing	*0.216*	0.216	0.216	0.216	0.216	0.216	0.216	0.216	0.216	0.216	0.216	**2.376**
Resources	*6.535*	6.534	6.689	23.910	23.850	7.350	7.350	2.850	2.850	2.850	2.850	**93.618**
Wellbeing, Skills and Inclusion	*0*	0	0	0	0	0	0	0	0	0	0	**0**
Total Cabinet Portfolios	***41.585***	**51.289**	**74.010**	**50.578**	**51.708**	**34.674**	**32.174**	**25.307**	**14.507**	**13.507**	**17.507**	**406.846**
Housing Revenue Account	*33.163*	30.836	13.214	14.400	18.928	20.195	21.317	22.486	23.681	24.943	26.227	**249.390**
Total Council Capital Programme	***74.748***	**82.125**	**87.224**	**64.978**	**70.636**	**54.869**	**53.491**	**47.793**	**38.188**	**38.450**	**43.734**	**656.236**

4. Asset Management

4.1 Asset management and its planning forms an integral part of the Council's business management arrangements and is crucial to the delivery of efficient and effective services.

4.2 The Council's corporate Asset Management Strategy, along with the Schools, Housing and Transportation service plans, sets out the medium to long term land, property and accommodation strategies that have been drawn up in support of the Council's existing strategic priorities and key objectives and other potential service developments.

4.3 The Council's asset management policy is articulated within the strategy and a description of the organisational arrangements for implementing and developing the policy is also included. The strategy provides detailed information about the Council's existing asset base and a range of performance measures and indicators that are intended to inform future decisions about the suitability, sufficiency, and sustainability of the Council's land and property resources.

4.4 The Council works to manage assets creatively, responsibly, efficiently and effectively towards achieving the Council's and community ambitions.

4.5 The table below provides a summary of the values of the assets owned by Solihull Council as at 31 March 2023.

Value of Fixed Assets as at 31 March 2023:	
Council Owned Assets	**£m**
Council Dwellings	499.144
Other Land & Buildings	559.298
Vehicles Plant & Equipment	16.674
Infrastructure	147.933
Community Assets	15.500
Assets Under Construction	18.609
Heritage Assets	0.950
Investment Property	15.940
Intangible Assets	11.414
Total Council Owned Assets	**1,285.462**

5. Prudential Borrowing

5.1 Capital expenditure incurred by the Council is financed by a variety of sources including, capital receipts, capital grants, external contributions from third parties such as s106 planning agreements and Community Infrastructure Levy and the use of reserves or from revenue budget contributions. Any capital expenditure not financed by the above will need to be funded by borrowing. Existing council debt is the consequence of historical capital expenditure funded from borrowing.

5.2 Since 1st April 2004 local authority borrowing for the purpose of capital expenditure has been governed by the CIPFA Prudential Code. The Code replaces the previous borrowing regime, and the Council is able to undertake further borrowing as long as it complies with the Code and can demonstrate that it is affordable, sustainable, and prudent. Each year, Full Council is asked to approve parameters for borrowing as part of the Code.

5.3 The funding of any project from prudential borrowing is subject to there being sufficient headroom within the Council's prudential indicators. A number of broad principles have been developed which have been approved by Full Cabinet:

i. Prudential borrowing could be used (in part or potentially in full) to finance the capital cost of the scheme.

ii. The borrowing would be based on a maximum repayment period of 50 years (or the estimated lifespan of the asset, whichever was the shorter). (*Note that a period of 60 years may be considered in specific circumstances where appropriate.)*

iii. This would be subject to:

a. The assets being maintained over that period to an agreed lifecycle standard,

b. Sufficient provision to cover these costs in the financial model presented as part of any business case.

6. Flexible Use of Capital Receipts Strategy

<u>Background and approval requirements</u>

6.1 The 2015 Autumn Statement announced a new flexibility for local authorities to use capital receipts from the sale of property, plant and equipment assets to fund the costs of service reform. It was announced in December 2023 that this flexibility would be extended until March 2030. Councils can only use sale proceeds realised over that period, and not existing receipts.

6.2 Local authorities can use capital receipts from the sale of property, plant and equipment in the years flexibility is offered (2016/17 – 2029/30). For expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years.

6.3 Local authorities are required to publish their plans for the flexible use of capital receipts in a strategy which must be approved by Full Council.

6.4 Since 2019/20 the flexible use of capital receipts strategy has been prepared as part of the Corporate Capital Strategy as permitted by the guidance.

6.5 The strategy should be approved before the beginning of each financial year by Full Council. If changes are proposed to the strategy during the course of the financial year, for example if a project is identified which can be funded using this flexibility, then the revised strategy will require the approval of Full Council. Furthermore, any revisions to the strategy in-year will need to be reported to the **Department for Levelling Up, Housing and Communities** (DLUHC).

Capital receipts forecast

6.6 The capital receipts projected during the qualifying period for the general fund are shown in the table below. However, beyond 2023/24 the majority of this funding is already committed to the capital programme and if it was put to an alternative use it would need to be replaced by other funding.

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Projected Capital Receipts	0.285	0.462	5.770	5.278	11.795

6.7 The capital receipts forecast in the table above are taken into consideration in the Council's Corporate Capital Strategy in identifying the surplus/deficit between available capital funding and the proposed capital programme.

Qualifying projects

6.8 Qualifying expenditure is that which is forecast to generate on-going savings to an authority's and/or to another public sector body's net service expenditure. Examples provided in the guidance include service sharing, reform feasibility work, freeing up land, digital investment, procurement aggregation, systems to tackle fraud and setting up alternative delivery models. Capital receipts can only be applied to fund set up and implementation costs and must not be used for on-going revenue costs.

6.9 To aid accountability and transparency the strategy is required to list each project that plans to make use of the capital receipts flexibility.

6.10 During 2023/24 a number of schemes were identified which could be take advantage of the capital receipts flexibility and by doing so would support the overall council MTFS position. The current proposed schemes, for which member approval is being sought, are appended at D1 to this strategy.

6.11 The maximum expenditure which could be eligible is currently forecast at £4.080 million, however the current level of available capital receipts held by the authority is £3.639 million. This represents amounts brought forward from previous years, in addition to the 2023/24 projected receipts shown in the table at 6.6 above. Members will be asked to approve the maximum amounts to give some flexibility over the actual application of the total final amount of flexible capital receipts funding which will confirmed as part of the Council's out-turn position for 2023/24 to be reported to Full Cabinet in June as part of the out-turn report.

6.12 The final list of projects undertaken and the outcomes achieved against these projects will be reported in future iterations of this strategy.

Projects approved in previous years

6.13 The strategy is required to list the projects approved in previous years and comment on progress against delivery of the planned savings or service transformation initially targeted for each project.

6.14 In December 2017, Full Council approved the inclusion of the termination of the Leisure PPP contract as a qualifying project for the flexible use of capital receipts. This enabled the Council to utilise capital receipts received between April 2016 and March 2018. The projects that were originally planned to be funded from these capital receipts will be financed by prudential borrowing, funded from the Leisure contract annual savings. To date this is the only scheme (other than those identified at 6.10) which the Council has used flexible capital receipts to support.

6.15 As with previous years, any changes to this strategy, including any further qualifying projects identified for inclusion, will be reported to Full Council for approval.

7. Capital Receipts

7.1 The Council continues to face the challenge to effectively prioritise and manage capital investment. The projects highlighted at 6.10 are intended to support the Council's overall MTFS, but in doing so will exhaust the existing capital receipts that the Council has built up. The forecast receipts highlighted in paragraph 6.6 indicate limited receipts will be available in the short term, and these will need to be considered in line with the aims of this strategy and the overall MTFS requirements of the Council.

7.2 With the exception of specific receipts from housing and school related asset disposals, capital receipts are treated as a corporate resource available to fund the corporate capital programme. Full Cabinet is responsible for deciding how corporate capital receipts are to be utilised in line with council objectives.

7.3 The Corporate Capital Strategy is supported by the Council's Corporate Asset Management Strategy which includes an objective to optimise the Council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property assets.

7.4 The Council will continue to realise the value of any assets that have been declared surplus to requirements in a timely manner, having regard to the prevailing market conditions.

8. The Revenue Implications of Capital Investment Decisions

8.1 The Council shall ensure that the revenue implications of capital finance, including financing costs, are properly taken into account within the option appraisal process.

8.2 The capital financing charges and additional running costs arising from major corporate capital investment decisions have been fed into the latest MTFS. This enables members to consider the consequences of major capital investment alongside other competing priorities for revenue funding.

8.3 For self-funded projects the relevant service area is required to identify the revenue implications of the project and demonstrate how they will be financed as part of the approval process. In addition, if the capital investment generates income, the risks to the income stream should be considered during the business case evaluation including the impact of potential vacant periods, decline in market rents etc.

9. Long Term Implications of Capital Investment Decisions

9.1 Capital investment decision making is not only about ensuring the initial allocation of capital funds meet the corporate and service priorities, further review ensures that the asset is fully utilised, sustainable and affordable throughout its whole life. This overarching commitment to long term affordability is a key principle in any capital investment appraisal decision. In making its capital investment decisions the Council must have explicit regard to consider all reasonable options available.

10. Prudent Implications of Capital Investment Decisions

10.1 In producing the Corporate Capital Strategy, the Council ensures all of the capital and investment plans are prudent and sustainable.

10.2 In doing so we take into account the arrangements for the repayment of debt, through a prudent MRP policy in line with MRP guidance produced by the Department for Levelling Up, Housing and Communities.

10.3 Further consideration is given to risk and the impact, or potential impact, of capital investment decisions on the Council's overall fiscal sustainability.

11. Risk Implications of Capital Investment Decisions

11.1 Any proposed substantial capital or investment plan will be subject to a risk analysis review. It is important to note that risk will always exist in some measure and cannot be removed in its entirety. The results of the risk analysis will be considered in line with the risk management strategies we have in place commensurate with the Council's low risk appetite.

11.2 Managing the Council's risks is an area of priority focus for senior management and Members including managing strategic risks associated with capital investment decisions. The Council aims to minimise its exposure to unwanted risks through the risk analysis review.

12. Affordability Implications of Capital Investment Decisions

12.1 The fundamental objective is to ensure the affordability of the Council's capital and investment plans. To further ensure that the total capital investment of the Council remains within sustainable limits, the Council is required to consider all of the resources available to it and those estimated to be available in the future, together with the totality of its capital plans and income and expenditure forecasts.

12.2 The Prudential Code refers to both affordability and prudence. In order to ensure long term affordability, decisions have also to be prudent and in the long term sustainable. Where borrowing is to be used, the principles detailed in paragraph 5.3 represent the affordability test; that is, the ability to fund interest costs with the repayment of the borrowing (the MRP charge) must be prudently matched to the asset life and any income streams to fund this asset acquisition must be sustainable.

13. Value for Money Implications of Capital Investment Decisions

13.1 Another key principle is to ensure value for money in any asset investment over the life of the asset. Initially the manner in which capital monies are spent is governed by the Procurement Strategy to ensure that the acquisition of all goods and services secures value for money.

13.2 Value for money is not just limited to financial costs and efficiency but could also consider various impacts on the economy, the environment and social welfare. Value for money is assessed in a number of ways including as part of the annual external audit of the Council's financial statements which concluded that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

14. Prudential Indicators

14.1 The Council shall set and monitor against the specified prudential indicators for capital expenditure and external debt. The prudential indicators provide a broad framework to be considered alongside robust forecasting procedures embedded into the budget consideration process.

14.2 The prudential indicators required by the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable. They are not designed to be comparative performance indicators.

14.3 They should be considered in parallel with the treasury management indicators required by the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

14.4 The prudential and treasury indicators contained within the Treasury Strategy and this Corporate Capital Strategy approved by Full Council will be monitored by Audit Committee as part of the Mid Year Treasury Management Report. The Prudential Indicators are set out below.

Estimates of Capital Expenditure

14.5 The estimate of capital expenditure is the first prudential indicator and must show the total capital expenditure the Council plans to incur during the forthcoming financial year and at least the following two financial years. This information is shown in paragraph 3.1 and summarised below with the financing of the capital expenditure. Any shortfall in resources results in a borrowing need.

	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 to 2033/34 Estimate £m
Non-HRA	41.585	51.289	74.010	50.578	189.383
HRA	33.163	30.836	13.214	14.400	157.777
Total	**74.748**	**82.125**	**87.224**	**64.978**	**347.160**
Financed by:					
Capital receipts	5.433	6.023	1.656	0.060	9.000
Capital grants	34.535	35.150	56.159	23.212	73.321
Contributions	2.179	4.216	0.496	0.300	2.100
Revenue	15.494	14.471	13.570	14.856	159.989
Net financing need for the year	**17.107**	**22.265**	**15.343**	**26.550**	**102.750**

Actual Capital Expenditure

14.6 After the year end, the actual capital expenditure incurred during the financial year will be recorded. This prudential indicator will be referred to as the actual capital expenditure.

	2022/23 Actual £m
Non-HRA	49.584
HRA	21.787
Total	**71.371**

Estimates of Financing Costs to Net Revenue Stream

14.7 Prudential indicators are required to assess the affordability of the capital investment plans, to provide an indication of the impact of the capital investment plans on the Council’s overall finances. This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Non-HRA	10.08%	10.48%	10.26%	9.66%	9.88%
HRA	13.84%	13.84%	14.90%	13.88%	13.46%

	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate	2031/32 Estimate	2032/33 Estimate	2033/34 Estimate
Non-HRA	10.23%	10.05%	9.55%	9.71%	9.30%	9.22%
HRA	13.30%	13.13%	12.97%	12.81%	12.66%	12.51%

Actual Financing Costs to Net Revenue Stream

14.8 After the year end the proportion of financing costs to net revenue stream will be calculated directly from the Council's comprehensive income and expenditure statement.

	2022/23 Actual
Non-HRA	10.09%
HRA	15.32%

Estimates of the incremental impact of capital investment decisions on council tax

14.9 This indicator identifies the revenue costs associated with proposed changes to the capital programme compared to the Council's existing approved commitments and current plans. The indicator takes into account the level of borrowing required within the programme so in later years where there are less known schemes then the impact is significantly reduced. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which are not published in advance of years.

Incremental impact of capital investment decisions on the Band D Council Tax

	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Council Tax – Band D	£11.91	£15.83	£15.40	£23.15	£27.76

	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate	2031/32 Estimate	2032/33 Estimate	2033/34 Estimate
Council Tax – Band D	£16.21	£14.59	£23.38	£7.31	£5.80	£8.82

Estimates of the incremental impact of capital investment decisions on housing rent levels

14.10 Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator shows the notional revenue impact of any newly proposed borrowing requirement, although any discrete impact will be constrained by rent controls. Where the capital programme is fully funded and there is no borrowing requirement then the impact will be nil.

	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Weekly Housing Rent Levels	£50.89	£44.92	£0.00	£0.00	£0.00

	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate	2031/32 Estimate	2032/33 Estimate	2033/34 Estimate
Weekly Housing Rent Levels	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00

15. Minimum Revenue Provision (MRP) Policy Statement

15.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

15.2 Regulations have been issued which require Full Council to approve an 'MRP Statement' in advance of each year. A variety of options are provided to councils; however, these are not compulsory as long as there is a prudent provision.

The Council is recommended to approve the following MRP Policy Statement:

15.3 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, MRP will be charged on a 2% straight line basis, net of 'Adjustment A'. This ensures that the debt will be repaid within 50 years.

15.4 From 1 April 2008, for all unsupported borrowing (including PFI and Finance Leases) the MRP policy will be the:

15.5 Asset Life Method - There are 2 methods of calculating the annual charge under this option. Firstly, equal annual instalments or secondly by the annuity method where annual payments gradually increase during the life of the asset**.**

Equal Instalment Method - MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). MRP in respect of leases brought on balance sheet will equal the annual repayment of the deferred liability; and the

Annuity Method – MRP is linked to schemes where the flow of benefits is expected to increase in later years. It may be particularly attractive in connection with projects promoting regeneration.

15.6 These options provide for a reduction in the borrowing need over the asset's approximate life and each option is used in appropriate circumstances.

15.7 Regulations allow authorities to apply an 'MRP holiday', whereby the MRP charge is deferred until a year after the practical completion of the asset. The Council will apply this allowance where appropriate.

15.8 There is no requirement on the HRA to make a minimum revenue provision but following HRA reform, there is a requirement for a charge for depreciation to be made. However, since 2012 the HRA has opted to make voluntary repayment provisions (VRP) for any new debt incurred. As a result of this VRP charges totalling £10.376 million have been made in the last 12 years. For any debt where provision is not made on an annual basis then payment provision is considered as part of the long term financial plans.

15.9 Repayments included in annual PFI or finance leases are applied as MRP**.**

15.10 For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

15.11 Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

15.12 MRP on investments in equities will be made on an annuity profile over 20 years, as recommended by government guidance.

16. Treasury Management Strategy

16.1 The prime policy objective of the Council's treasury management strategy is the security of funds, and the Council should avoid exposing public funds to unnecessary or unquantified risk.

16.2 The treasury management service is also involved in funding the Council's capital plans. These capital plans provide a guide to the borrowing needs of the Council and the longer term cash flow planning to ensure that the Council can meet its capital spending obligations.

16.3 The Treasury Management Strategy 2024/25 – 2033/34 contains the Treasury Indicators.

17. Property Acquisitions

17.1 The Council has an approved Property investment Strategy which sets a framework for decision making relating to strategic property acquisitions. In light of guidance from both the Government and the Chartered Institute of Public Finance and Accountancy (CIPFA) relating to the practice of some Local Authorities to use borrowing to invest heavily in assets primarily to generate income, a significantly revised Property Investment Strategy was approved by members in November 2020. This was subsequently updated and approved in February 2022.

17.2 The Strategy is predominately concerned with direct property investment but also allows the Council to invest in property funds or to take on the role of property development, either on its own or with a development partner. Preference will be given to investments of economic or social benefit to the borough.

17.1 The Strategy proposes that once a potential investment is identified, detailed due diligence will take place and the proposal will be reviewed by the Property Investment Board. If the Board support the investment then a report will be presented to Full Cabinet for consideration.

17.2 The Strategy contains several key performance indicators which are used to monitor existing property investments and evaluate new investment decisions, these are:

- Ratio of net profit to net service expenditure - This measures the extent to which any surplus income from the acquired assets contributes to funding service expenditure with the risk being that a rapid and material reduction in that income could have significant implications for front line services. As shown in the table below, surplus income has never exceeded 0.5% and this reinforces the point that Solihull has never invested under this strategy with the objective of generating surplus income to offset funding reductions elsewhere. Investment has been made to further the Council's economic development and regeneration objectives. However, it is still important that the income received from these properties is sufficient to repay the associated debt.

- Limit of gross debt to net service expenditure - Members previously agreed a total borrowing limit of £100 million that can be applied to assets considered under this Strategy. Actual debt incurred to date is £72.6 million. No changes to the overall limit of £100 million are proposed at this stage but in the event that there are any future proposals that would result in the £100 million limit being breached a further report will be brought to Cabinet beforehand setting out the implications for the Council's Treasury Management Strategy, including overall borrowing limits, risk exposure and prudential indicators. The indicator has reduced over the period shown in the table as Net Service Expenditure has increased (whist the £100 million limit has remained constant).

- Loan to value ratio - This measures the original borrowing undertaken as a consequence of this Strategy against the value of assets acquired. The assets are revalued on an annual basis. It should be noted that these valuations are technical exercises required by the accounting regulations and, whilst they have reduced over the period shown, will continue to vary each year. It is also the case that this indicator measures the original debt taken to purchase the asset against the most recent valuation available. However, the Council makes an annual provision from its revenue budget for the repayment of that debt over the lifetime of the asset and therefore the actual outstanding debt relating to the acquisition of these assets will reduce on a year-by-year basis. To illustrate this effect, an additional ratio has been added that shows the impact of that annual debt repayment.

- Investment cover ratio – this measures the annual income from the assets (after any costs incurred in operating the asset) against the annual cost of servicing the debt (interest and principal) undertaken to acquire those assets. As shown in the table, income has been more than sufficient to cover debt costs in the period covered.

17.3 The actual outturn against these indicators, along with the forecast position for 2023/24 is shown below.

	2020/21 Actual	2021/22 Actual	2022/23 Actual	2023/24 Estimate
Ratio of net profit to net service expenditure	0.003:1	0.004:1	0.005:1	0.003:1
Limit of gross debt to net service expenditure	0.63:1	0.66:1	0.61:1	0.50:1
Original loan to value	1.12:1	1.20:1	1.26:1	1.26:1
Loan to value ratio (after MRP)	1.11:1	1.19:1	1.23:1	1.21:1
Investment cover ratio	1.37:1	1.24:1	1.32:1	1.20:1

17.4 The Strategy includes a section on risk mitigation in the event that income is insufficient to service the associated debt in any one year. To that end the Council established a sinking fund where by 5% of the gross rent (excluding Mell Square) is contributed to a sinking fund reserve at the end of each year at the end of 2022/23 that reserve stood at £0.347 million and is forecast to increase by a further £0.091 million in 2023/24. This sum of £0.438m represents 34% of the annual cost of the borrowing for those assets.

17.5 Mell Square has its own reserve, established for the same purpose, which at the end of 2022/23 stood at £1.563 million and which will increase to £2.354 million at the end of 2023/24. This sum represents 195% of the annual cost of servicing the debt associated with that asset.

Corporate Asset Framework

17.6 Particularly strong links exist between the Corporate Capital Strategy and the Corporate Asset Framework which is reviewed and updated to members regularly. The Corporate Capital Strategy sets out the corporate framework to capital investment whilst the Corporate Asset Framework provides more detailed information on the asset portfolio and how officers will deliver a suitable, sustainable and efficient asset portfolio fit for service delivery.

17.7 The strategy summarises how the Council intends to use its land and property assets in accordance with the local plan and other policies and strategies to make a significant contribution to:

- Delivery of the Council Priorities;
- Support improved service delivery;
- Continue to provide a significant and improved revenue stream from a managed investment portfolio;
- Drive efficiencies in both financial and environmental terms through major initiative including investing in the operational estate and expansion of shared services.

17.8 The Corporate Asset Management Strategy sets out the Council's direction to 2025. The next stage involves the process of delivering an Asset Management Plan.

17.9 The masterplan will be underpinned by the data we hold including full stock condition surveys that are carried out on a rolling programme every 5 years. Priorities will be addressed using a range of data including, condition surveys, suitability assessments, energy performance, running costs, maintenance costs and assessment of service needs.

17.10 With this in place then the Corporate Capital Strategy will be able to enhance the presentation of the long term context in which capital decisions and investment decisions are made in relation to corporate property assets.

18. Knowledge and Skills

18.1 The Council has professionally qualified staff across a range of disciplines including, finance, legal, commercial and property. Staff undertake continuing professional development and attend courses on an ongoing basis to ensure compliance with latest legislation and guidance and to maintain their technical skills in order to meet the challenge and delivery of accurate and secure capital and treasury decisions. This combined knowledge supports the affordability, prudence and proportionality of Corporate Capital Strategy decision making.

18.2 External professional advice is acquired where required and will always be sought in respect of any major capital project or property investment decision to provide specialist skills and resources.

18.3 External training is offered to members to ensure they have up to date knowledge and expertise to understand and provide sufficient scrutiny and challenge for any proposed capital and treasury management decisions.

19. Conclusion

19.1 This Corporate Capital Strategy outlines the context for the Council's capital programme and summarises the key considerations which the Council takes into account when making capital investment decisions. As the strategy highlights, the Council continues to manage a significant programme of investment which is targeted at improving the lives of people in the borough in line with the objectives set out in the Council Plan.

19.2 The strategy adds to our comprehensive approach to managing resources in Solihull. The measures outlined in this strategy complement the revenue strategy in maintaining the authority’s sound financial base and providing a solid platform from which the Council can deliver its priorities.

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