



**South  
Derbyshire  
District Council**

**Capital Strategy  
2025/26 – 2029/30**

## **Introduction**

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes-technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

## **Capital Expenditure and Financing**

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example Property assets costing below £10,000 and vehicles below £5,000 are not capitalised and are charged to revenue in year.

In 2025/26, the Council is planning capital expenditure of £23.4m as summarised below:

*Table 1: Prudential Indicator: Estimates of Capital Expenditure (£)*

	<b>2023/24 Actual</b>	<b>2024/25 Forecast</b>	<b>2025/26 Budget</b>	<b>2026/27 Budget</b>	<b>2027/28 Budget</b>	<b>2028/29 Budget</b>	<b>2029/30 Budget</b>
<b>General Fund services</b>	3,570,886	4,315,543	14,265,718	26,272,000	19,295,000	6,435,000	835,000
<b>Council housing (HRA)</b>	3,681,594	3,476,676	3,500,000	4,630,000	4,200,000	4,300,000	4,300,000
<b>Capital investments</b>	465,491	404,986	5,584,679	2,770,015	52,500	0	303,000
<b>TOTAL</b>	<b>7,717,971</b>	<b>8,197,205</b>	<b>23,350,397</b>	<b>33,672,015</b>	<b>23,547,500</b>	<b>10,735,000</b>	<b>5,438,000</b>

The main General Fund capital project includes the Leisure Centre and Civic Offices. This project is expected to proceed in 2025/26 until 2028/29. This project will be funded from both internal and external borrowing.

The fleet replacement programme was expected to proceed in 2024/25. However, due to audit delays the project has been pushed back with 2024/25 spending expected to be incurred in 2025/26.

Similarly, the Council was awarded £1.108m of levelling up funding to invest in Swadlincote town centre. However, due to delays with the Government this project has now slipped into 2025/26 also.

The only new capital project as part of the 2025/26 budget round was for the Swadlincote Town Centre Grant Scheme (shop frontages). This project will span three years, commencing in 2025/26.

Sources of funding for these projects (as outlined in the table below) include capital contributions, revenue contributions, internal borrowing, debt and external funding.

General Fund Services include the funding received from Derbyshire County Council for the delivery of projects through the Better Care Fund and the BCF Assurance Plan.

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately. The Council has a programme of funding major improvements under self-financing to its current housing stock.

**Governance:** Heads of Service bid annually in September to include projects in the Council's capital programme. Bids are collated by Finance who calculate the financing cost (which can be nil if the project is fully externally financed). The bids are then scrutinised by Senior Leadership team, based on a comparison of corporate priorities and financing costs, and makes recommendations to Finance and Management committee as part of the consolidated draft budget in November. The final capital programme is then presented to Finance and Management Committee and to Full Council in February each year.

All capital expenditure must be financed, either from external sources (government grants and other contributions) the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

*Table 2: Capital financing (£)*

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>
	<b>Actual</b>	<b>Forecast</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>
External sources	2,949,751	2,643,079	1,858,000	750,000	750,000	750,000	750,000
Capital resources	2,377,026	1,798,794	3,870,497	870,000	60,625	0	0
Revenue resources	2,391,194	3,220,332	3,532,000	3,892,000	4,285,000	4,385,000	4,385,000
Internal Borrowing	0	535,000	14,089,900	12,060,015	2,051,875	5,600,000	303,000
Debt	0	0	0	16,100,000	16,400,000	0	0
<b>TOTAL</b>	<b>7,717,971</b>	<b>8,197,205</b>	<b>23,350,397</b>	<b>33,672,015</b>	<b>23,547,500</b>	<b>10,735,000</b>	<b>5,438,000</b>

Debt is only a temporary source of finance, since loans and leases must be repaid and this is therefore replaced over time by other financing, usually from revenue which is known as the **Minimum Revenue Provision (MRP)**. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

MRP represents the minimum amount that must be charged to a Council's revenue account each year for financing of capital expenditure, which will have initially been funded by borrowing. MRP is important for prudent accounting because it allows a Council to put aside an amount of revenue that can be used towards the capital expenditure that was previously financed through either borrowing or credit.

The Council currently uses the annuity method over the life of the asset at an appropriate rate to repay unfinanced capital expenditure.

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP / loans fund repayments and capital receipts used to replace debt. The CFR is expected to increase by £14m during 2025/26. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

*Table 3: Prudential Indicator: Estimates of Capital Financing Requirement (£'000)*

	<b>2023/24 Actual</b>	<b>2024/25 Forecast</b>	<b>2025/26 Budget</b>	<b>2026/27 Budget</b>	<b>2027/28 Budget</b>	<b>2028/29 Budget</b>	<b>2029/30 Budget</b>
General Fund services	6,606	7,104	21,144	48,551	66,372	71,301	70,636
Council housing (HRA)	41,584	41,584	41,584	42,025	41,971	41,914	41,854
Capital Financing Requirement	48,190	48,688	62,728	90,576	108,343	113,215	112,490

*The relevant Prudential Indicators for the capital programme are detailed in the Treasury Management Strategy*

**Asset management:** To ensure that capital assets continue to be of long-term use, the Council has a Corporate Asset Management Plan in place. The Corporate Asset Management Plan seeks to align the Council's non-housing property assets to the corporate objectives. The Plan covers the assets under the Corporate Property Section's management and control, and sits alongside the Housing Asset Management Strategy 2016-46, with the latter addressing the management, regeneration and identification of surplus assets held under the Housing Revenue.

**Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts "flexibly" on service transformation projects up until and including 2029/30.

Capital grants, loans and investments also generate capital receipts. The Council's known capital receipts in the coming financial years are as follows:

*Table 4: General Capital receipts (£'000)*

	<b>2023/24 Actual</b>	<b>2024/25 Forecast</b>	<b>2025/26 Budget</b>	<b>2026/27 Budget</b>	<b>2027/28 Budget</b>	<b>2028/29 Budget</b>	<b>2029/30 Budget</b>
Asset sales	616	759	612	612	612	612	612

Land Sales	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>616</b>	<b>759</b>	<b>612</b>	<b>612</b>	<b>612</b>	<b>612</b>	<b>612</b>

Asset sales will be achieved through the predicted right to buy receipts.

### **Treasury Management**

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the Current Account.

The Council is currently cash rich in the short-term as revenue income is received before it is spent, but potentially cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Council currently has £37.512m borrowing at an average interest rate of 3.31% on fixed term borrowing. Treasury investments total £70m at an average rate of 5.06% (long term investment) and 4.84% in short term investments.

**Borrowing strategy:** The Council's main objectives of borrowing, are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher.

The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

Projected levels of the Council's total outstanding debt are shown below, compared with the capital financing requirement.

*Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement (£'000)*

	<b>2023/24 Actual</b>	<b>2024/25 Forecast</b>	<b>2025/26 Budget</b>	<b>2026/27 Budget</b>	<b>2027/28 Budget</b>	<b>2028/29 Budget</b>	<b>2029/30 Budget</b>
Gross Debt	37,423	37,423	37,423	43,523	59,120	57,382	55,549
Capital Financing Requirement	48,190	48,688	62,728	90,576	108,343	113,215	112,490

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

**Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes

that cash and investment balances are kept to a minimum level of £10m at each year-end. This benchmark is currently -£6.09m and is forecast to drop to £38.99m over the next three years.

*Table 6: Borrowing and the Liability Benchmark in (£'000)*

	<b>2023/24 Actual</b>	<b>2024/25 Forecast</b>	<b>2025/26 Budget</b>	<b>2026/27 Budget</b>	<b>2027/28 Budget</b>	<b>2028/29 Budget</b>	<b>2029/30 Budget</b>
Forecast borrowing	37,423	37,423	37,423	43,523	59,120	57,382	55,549
Liability Benchmark	-6,092	-410	12,753	38,992	55,072	57,751	53,535

The table shows that the Council expects to remain borrowed below its liability benchmark in the medium term. This is because cash inflows to date have been above the assumptions made when the loans were borrowed and there has been no requirement for additional sums.

However, as balance sheet resources are utilised to cover expenditure and the liability benchmark increases, there will be a need to borrow in the longer term.

**Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

*Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt (£'000)*

	<b>2023/24 limit</b>	<b>2024/25 limit</b>	<b>2025/26 limit</b>	<b>2026/27 limit</b>	<b>2027/28 limit</b>	<b>2028/29 limit</b>	<b>2029/30 limit</b>
Authorised limit – borrowing GF	7,267	7,814	23,258	53,406	73,009	78,431	77,700
Authorised limit – borrowing HRA	45,742	45,742	45,742	46,228	46,168	46,105	46,039
Authorised limit – total external debt	53,009	53,557	69,001	99,634	119,177	124,537	123,739
Operational boundary – borrowing	0	0	13,391	40,942	57,826	60,639	56,212
Operational boundary – total external debt	0	0	13,391	40,942	57,826	60,639	56,212

*Further details on borrowing are detailed in the Treasury Management Strategy*

**Treasury Investment strategy:** Treasury investments arise from receiving cash before it is expended. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, i.e., to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested with the CCLA Property Fund to balance the risk of loss against the risk of receiving returns below inflation.

Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy, and the Council may request its money back at short notice.

*Table 8: Treasury management investments (£'000)*

	<b>2023/24 Actual</b>	<b>2024/25 Forecast</b>	<b>2025/26 Budget</b>	<b>2026/27 Budget</b>	<b>2027/28 Budget</b>	<b>2028/29 Budget</b>	<b>2029/30 Budget</b>
Near-term investments	50,081	43,833	30,670	10,531	10,048	5,631	8,014
Longer-term investments	3,434	4,000	4,000	4,000	4,000	4,000	4,000
<b>TOTAL</b>	<b>53,515</b>	<b>47,833</b>	<b>34,670</b>	<b>14,531</b>	<b>14,048</b>	<b>9,631</b>	<b>12,014</b>

*Forecast totals represents the difference between the liability benchmark and borrowing in table 6 plus the minimum investment balance built into the liability benchmark.*

**Risk Management:** The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

**Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Executive Director – Resources and Transformation, Head of Finance and Performance (Deputy Section 151 Officer) and staff, who must act in line with the Treasury Management Strategy approved by the Finance and Management Committee. Quarterly reports on treasury management activity are presented to the Finance and Management Committee. The Council's Audit Sub-Committee is responsible for scrutinising the Treasury Management Framework in response to Auditor's reports.

*The Councils borrowing and investment strategies are detailed in the Treasury Management Strategy*

### **Investments for Service Purposes**

The Council makes investments to assist local public services including making grants and loans to local service providers, local small businesses to promote economic growth and the Council's partnerships that provide services.

**Risk Management:** In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break-even/generate a profit after all costs.

**Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Executive Director – Resources and Transformation and must meet the criteria and limits laid down in the Non-Treasury Investment Strategy which is to be updated. Any loans and shares entered into are capital expenditure and purchases will therefore also be approved as part of the capital programme. The Executive Director – Resources and Transformation is responsible for ensuring that adequate due diligence is carried out before investment is made.

The Council has no plans to make any material investment in services in the medium term.

### **Commercial Activities**

With central government financial support for local public services declining, the Council previously invested in commercial property purely or mainly for financial gain with financial return being the main objective. In these cases, higher risks are accepted on commercial investment than with treasury investments.

**Risk management:** With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments.

**Governance:** Decisions on commercial investments are made by the Executive Director – Resources and Transformation in line with the criteria and limits approved by Finance and Management Committee in the Treasury Management Strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

The Council has a small portfolio of commercial properties which are held to earn rentals and/or for capital appreciation. The following table shows the proportion of income from commercial properties to the net revenue of the Council.

The Council currently has no plans over the medium term to invest in any new commercial activities and follows its non-treasury investment strategy for lower risk returns on surplus funds.

*Table 9: Prudential indicator: Net income from commercial and service investments to net revenue stream.*

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>
	<b>Actual</b>	<b>Forecast</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>
Net Income from Commercial and Service Investments to net revenue stream	777,633	777,990	665,939	668,789	671,725	674,748	677,863
Proportion of net revenue stream	2.11%	2.49%	2.02%	2.00%	1.99%	1.97%	1.96%

### **Liabilities**

In addition to debt of £37.423m detailed previously, the Council is committed to making future payments to cover its pension fund deficit. It has also set aside £0.449m to cover risks of appeals



against planning and NNDR decisions. No contingent liabilities are currently in place at the Council.

**Governance:** Decisions on incurring new discretionary liabilities are taken by Service Managers in consultation with the Executive Director – Resources and Transformation and Head of Finance and Performance (Deputy Section 151 Officer). The risk of liabilities crystallising and requiring payment is monitored by the Head of Finance and Performance (Deputy Section 151 Officer) and reported quarterly to Finance and Management Committee. New liabilities exceeding the materiality threshold are reported to Full Council for approval/notification as appropriate.

### **Revenue Budget Implications**

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP/ loan fund repayments are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream, i.e., the amount funded from Council Tax, Business Rates and General Government grants. The table below illustrates the cost of the HRA debt to rental income.

*Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream.*

	<b>2023/24 Actual</b>	<b>2024/25 Forecast</b>	<b>2025/26 Budget</b>	<b>2026/27 Budget</b>	<b>2027/28 Budget</b>	<b>2028/29 Budget</b>	<b>2029/30 Budget</b>
Financing costs £m	1,505	1,235	1,235	1,235	934	934	934
Proportion of net revenue stream	11.59%	8.80%	8.24%	8.02%	5.90%	5.75%	5.60%

**Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend far into the future. The Executive Director – Resources and Transformation is satisfied that the proposed capital programme is prudent, affordable, and sustainable due to the fact that all business cases and plans for expenditure have been submitted and formally approved following strict governance arrangements before funding is made available.

Investments will be measured using appropriate project appraisals such as NPV (net present value) and direct annual revenue effects will also be considered when assessing affordability. A robust system is in place to ensure that due regard is paid to the Code of Practice on a Prudential Approach to Local Council Commitments in preparing the Capital Programme.

### **Knowledge and Skills**

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

For example, the Head of Finance and Performance (Deputy Section 151 Officer) is a qualified accountant, the Head of Corporate Property is a qualified Chartered Surveyor, and the Committee are advised by the Section 151 Officer (Chief Finance) Officer who is the Executive Director – Resources and Transformation.

The day-to-day operational responsibility of the Capital Programme is undertaken by the Chief Accountant in the Financial Services Unit at the Council. The Council pays for junior staff to study towards relevant professional qualifications including AAT, CIPFA, ACCA and CIMA for continued professional development and business continuity.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is considered to be more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.