Appendix A

Capital Strategy Report 2025/26

Introduction

This capital strategy 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 stakeholders' understanding of these sometimes technical areas.

As well as detailing the approved capital programme, the document also sets out the Councils ambitions over the medium to longer term.

The basic elements of the Strategy therefore include:

- A direct relationship to the Community Plan;
- An investment programme expressed over the medium to long term;
- A framework that prioritises the use of capital resources;
- A consideration of the need to pursue external financing (grants, contributions, borrowing etc), which reconcile external funding opportunities with the Council's priorities and organisational objectives, so that it is the achievement of the latter that directs effort to secure the former; and
- A direct relationship with the Treasury Management Strategy, and the limitations on activity through the treasury management Prudential Indicators.

This document is intended for the use by all stakeholders to show how the Council makes decisions on capital investment:

- for Cabinet and Council – to decide on capital investment policy within the overall context of investment need/opportunity and affordability;
- for Councillors – to provide an understanding of the need for capital investment and help them scrutinise policy and management;
- for Officers – to provide an understanding of the Council's capital investment priorities, to assist them in bidding for capital resources, and to confirm their role in the capital project management and monitoring arrangements;
- for taxpayers – to demonstrate how the Council seeks to prudently manage capital resources and look after its assets; and
- for partners – to share with them our Vision and help to co-ordinate and seek further opportunities for joint ventures.

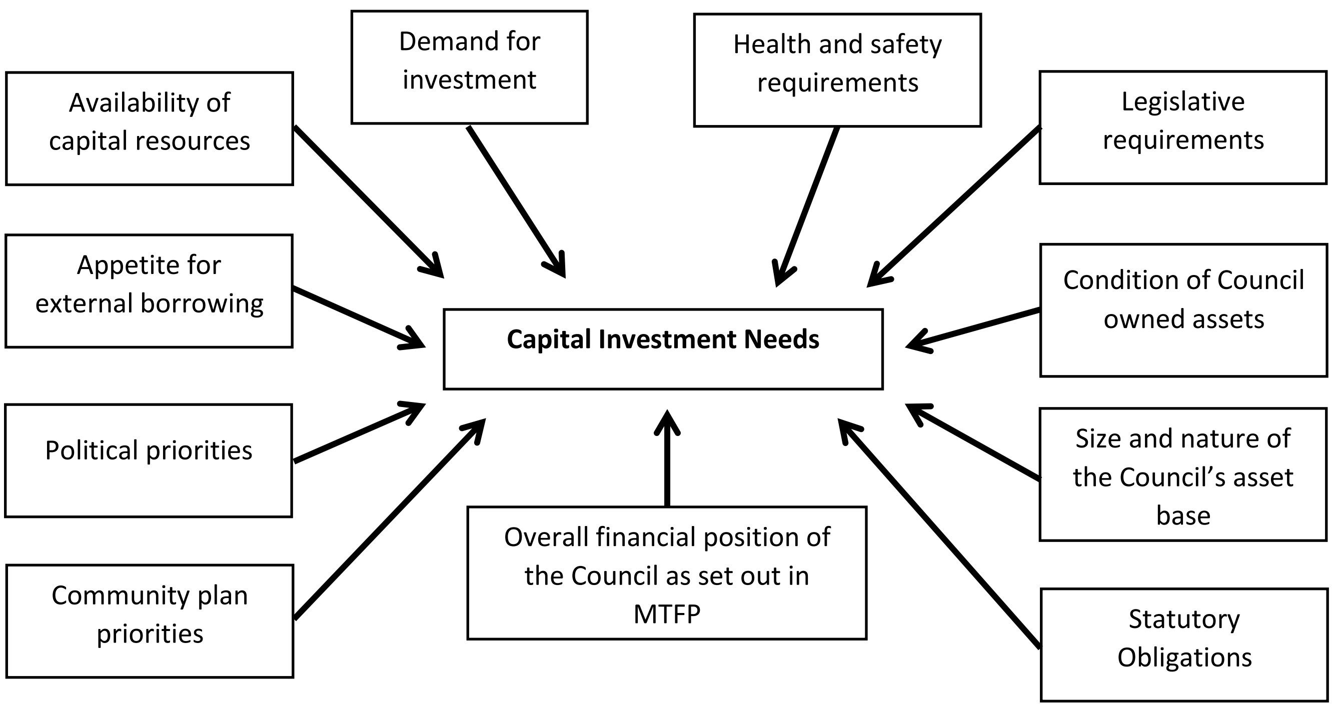
CAPITAL INVESTMENT PRIORITIES

Newark and Sherwood's Community Plan covers the period from 2023 to 2027 and sets out what the Council intends to achieve over the next four years providing a focus for activities and prioritisation of public money.

The Council's Purpose and Values:

- ***Ambitious and forward thinking***: Focused on achieving the very best and always looking to improve and innovate.
- ***Caring and compassionate***: Sensitive to the different needs and circumstances of others; seeks to empower people to fulfil their potential.
- ***Commercial and business-like***: Careful and creative with resources; securing value for money.
- ***Professional and trustworthy***: Open, honest, and transparent. Consistently delivering on promises; providing good quality and demonstrating integrity.
- ***Welcoming and responsive***: Approachable, friendly, and inclusive. Open to feedback and challenge and swift to act.

Capital investment should be directly linked to the objectives as outlined in the Community Plan. There are however a number of other factors that affect the need for capital investment both internal and external. The diagram below identifies a number of these:



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 assets costing below £15,000 are not capitalised and are charged to revenue in year in accordance with its de minimus limits as set out in the Financial Regulations.

- For details of the Council's policy on capitalisation, see: Accounting Policy 1.17 under note 1 of the Councils Statement of Accounts.

In 2025/26, the Council is planning capital expenditure of £57.7m as summarised below:

Prudential Indicator 9: Estimates of Capital Expenditure in £'000

	2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Budget	2027/28 Budget
General Fund services	41,350	19,885	31,031	7,954	5,075
Council housing (HRA)	14,035	21,270	23,295	23,850	18,033
Capital Loan (GF)	0	8,000	3,408	0	0
TOTAL	**55,385**	**49,155**	**57,734**	**31,804**	**23,108**

The General Fund Capital Programme with a proposed budget for 2025/26 of £31m and £3.4m of capital funding in the form of capital loans to the Councils housing development company for regeneration purposes.

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 and has a proposed budget for 2025/26 of £23.2m, which supports the maintenance of the Councils circa 5,550 council houses.

Governance: During early July a 'Capital Bid Request Form' is sent to all Business Managers and Directors. Each bid is required to include details of the nature of the scheme and how it meets the priorities within the Community Plan. It must also include detailed costs for expenditure and all financing costs (which can be nil if the project is fully externally financed) in order to assess the viability of each scheme against the available resources. All bids are required to be authorised by the relevant director and then collated by the Capital Finance team.

The Senior Leadership Team appraises all bids based on a comparison of service priorities against financing costs. Criteria can be found at **Appendix E**. Based on this assessment a final

Capital Programme report is prepared for submission to Cabinet in February before final approval by Council in March.

- Full details of the 'Capital Bid Request Form' and the prioritisation criteria can be found at **Appendix E**.

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:

Prudential Indicator 10: Capital financing in £'000

	2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Budget	2027/28 Budget
External sources					
Capital Grants	33,845	6,245	7,787	1,378	1,675
Other Contributions	1,284	4,573	2,451	0	0
Own resources					
CIL	0	76	2,500	3,000	0
Capital Receipts	2,184	2,744	3,404	1,916	2,444
Revenue/ Major Repairs Reserve	14,814	12,492	9,730	7,204	4,413
Debt					
Borrowing	3,258	23,025	31,862	18,306	14,576
Leasing	0	0	0	0	0
TOTAL	**55,385**	**49,155**	**57,734**	**31,804**	**23,108**

Debt is only a temporary source of finance, since loans and leases must be repaid this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). This is a charge to the General Fund Balance and is mandated by legislation to ensure that a prudent charge for the repayment of debt be made by the revenue account. An MRP Statement which sets out how this charge should be calculated each year must be produced which is appended at **Appendix C**.

As the HRA account is self-financing there is no requirement for an MRP charge as the actual debt repayments are made as the loans mature. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The forecast General Fund MRP charge and the HRA actual debt loan repayments are below:

Replacement of debt finance in £'000

	2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Budget	2027/28 Budget
General Fund - MRP	1,139	673	719	1,076	1,092
HRA - Debt Repayment	5,534	3,037	5,041	3,044	6,046

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 and loan debt repayments and capital receipts used to replace debt. The CFR is expected to increase by £26.1m during 2025/26. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Prudential Indicator 11: Estimates of Capital Financing Requirement in £'000

	2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Budget	2027/28 Budget
General Fund services	34,591	37,335	52,502	52,226	51,935
Council housing (HRA)	101,067	111,637	119,165	133,624	141,775
Capital investments	0	8,000	11,408	11,408	11,408
TOTAL CFR	**135,658**	**156,972**	**183,075**	**197,258**	**205,118**

Asset management: The overriding objective of asset management within the council is to achieve a corporate portfolio of property assets that is appropriate, fit for purpose and affordable. The council's property portfolio consists of operational property and property held for specific community or regeneration purposes. The council has specific reasons for owning and retaining property:

- Operational purposes e.g. assets that support core business and service delivery e.g. office buildings.
- Parks, playgrounds and open spaces.
- Regeneration, enabling strategic place shaping and economic growth.

Asset management is an important part of the council's business management arrangements and is crucial to the delivery of efficient and effective services, the ongoing management and maintenance of capital assets will be considered as part of this strategy. The asset management planning 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.

Asset disposal: The Council will continue to realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to the prevailing market conditions in order to maximise the sale proceeds, known as capital receipts, which can then be spent on new assets or repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2025/26, although the Council does not expect to utilise this ability during 2025/26. Repayments of capital grants, loans and investments also generate capital receipts.

- The Council's Flexible Use of Capital Receipts Policy is available at **Appendix D**.

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 bank current account. The Council typically has a surplus of cash in the short-term as revenue income is received before it is spent, but a shortfall of cash 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 at 31 December 2024 had £95m borrowing at an average interest rate of 5.59% and £47m treasury investments at an average rate of 4.65%.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 4.75%) and long-term fixed rate loans where the future cost is known but higher (currently between 4.5% to 5.0% depending on the length of the loan).

The table below shows the Council's actual debt position against the forecasted capital financing requirement, where no additional borrowing has been included based on the proposed capital program.

Gross Debt and the Capital Financing Requirement in £'000

Debt	2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Budget	2027/28 Budget
External Debt at 1 April	90,429	84,935	108,897	103,857	100,812
Expected change in Debt	-5,494	23,962	-5,040	-3,045	-6,046
Actual gross debt at 31 March	**84,935**	**108,897**	**103,857**	**100,812**	**94,766**
The Capital Financing Requirement	**135,658**	**156,972**	**183,075**	**197,258**	**205,118**
Under / (over) borrowing	**26,795**	**48,075**	**79,218**	**96,446**	**110,352**

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

Authorised limit and operational boundary for external debt in £'000

	2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Budget
Authorised limit – total external debt	168,972	195,075	209,258	217,118
Operational boundary – total external debt	163,972	190,075	204,258	212,118

- Further details on borrowing are in pages 4 to 7 of the treasury management strategy.

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons may be for purely financial gain or in order to stimulate the local economy and 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, which is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent over the short - 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 more widely, including in bonds, shares and property funds, to balance the risk of loss against the risk of receiving returns below inflation. Both short-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.

Treasury management investments in £'000

	2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Budget	2027/28 Budget
Short-term investments	50,292	39,310	31,627	26,835	25,549
Longer-term investments	7,500	9,827	13,554	11,501	10,949
TOTAL	**57,792**	**49,137**	**45,181**	**38,336**	**36,498**

- Further details on treasury investments are in pages 8 to 13 of the treasury management strategy.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Resources/Deputy Chief Executive and treasury staff, who must act in line with the Treasury Management Strategy approved by Full Council. Half yearly reports on treasury management activity are presented to the Audit and Governance committee and then to Full Council. The Audit and Governance committee is responsible for scrutinising treasury management decisions. Quarterly reporting against the Prudential Indicators will be included within Budget Monitoring and Forecasting reports from April 2023 which will be presented to the Audit and Governance Committee.

Investments for Service Purposes

The Council makes investments to assist local public services, including making loans to and buying shares in local service providers, local small businesses to promote economic growth and the Council's subsidiaries that provide services. 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 after all costs.

Governance: Decisions on service investments are made by the relevant Business Manager in consultation with the Director of Resources/Deputy Chief Executive and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on service investments are contained within the investment strategy.

Commercial Activities

With central government financial support for local public services declining, the Council has the ability to invest in commercial property if it meets both wider Council objectives and provides a financial return that can be used to support Council services.

The Chartered Institute of Public Finance and Accountancy (CIPFA) define investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. In the context of the Capital Strategy, the council is using capital to invest in property to provide a positive surplus/financial return. The council may fund the purchase of the property by borrowing money. The rental income paid by the tenant should exceed the cost of repaying the borrowed money each year. The annual surplus then supports the council's budget position, and enables the council to continue to provide services for local people. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. In order that commercial investments remain proportionate to the size of the council, these are subject to an overall maximum investment limit of £15m. However, the Council does not hold any investment properties on its balance sheet and has no plans to invest in these types of assets.

Governance: Property and most other commercial investments would be classed as capital expenditure and purchases will therefore be approved as part of the capital programme.

- Further details on commercial investments and limits on their use are contained within the investment strategy.

Liabilities

In addition to debt of £95m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £11.9m 2023/24).

Governance: Decisions on incurring new discretionary liabilities are taken by Business Managers in consultation with the Director of Resources/Deputy Chief Executive. The risk of liabilities crystallising and requiring payment is monitored by the corporate finance team. New liabilities are reported to full Council for approval/notification as appropriate.

- Further details on liabilities and guarantees are on pages 86 to 90 of the 2023/24 statement of accounts.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP 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.

Prudential Indicator 12: Proportion of financing costs to net revenue stream in £'000

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget
General Fund					
MRP Charge	1,139	673	719	1,076	1,092
Interest Payable	51	326	461	827	1,026
Less: Investment Income	-3,917	-2,146	-1,980	-1,959	-1,966
Total GF Financing costs	**-2,727**	**-1,147**	**-800**	**-56**	**152**
Proportion of net revenue stream	-16.00%	-7.06%	-7.13%	-5.80%	-4.74%

Housing Revenue Account					
Interest Payable	3,879	3,399	4,294	4,656	5,193
Depreciation	5,784	6,388	6,369	6,740	6,790
MRR contributions including debt repayments	5,009	4,081	2,249	1,906	2,023
Less: Investment Income	-4	-5	-51	-20	-20
Total HRA Financing costs	**14,668**	**13,863**	**12,861**	**13,282**	**13,986**
Proportion of net revenue stream	52.75%	46.28%	41.03%	41.30%	42.07%

- Further details on the revenue implications of capital expenditure are contained within the 2025/26 revenue budget.

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 for potentially up to 50 years into the future. The Director of Resources/Deputy Chief Executive is satisfied that the proposed capital programme is prudent, affordable and sustainable.

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 Director of Resources/Deputy Chief Executive is a qualified accountant with 20 years' experience, the Business Manager – Corporate Property is a qualified Chartered Surveyor and also has 11 years' experience. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, AAT, ACT (treasury) and actively encourages staff to attend relevant training courses and seminars.

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 Link Group as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

- The Council's policy on the use of temporary agency workers and consultants is available on the Councils Intranet.

APPENDIX B

MANAGING THE CAPITAL PROGRAMME

A key role in the monitoring of the capital programme is undertaken by the Capital Monitoring Group, which meets on a quarterly basis. This Group is attended by responsible officers and the relevant accountant and is chaired by the Business Manager for Financial Services. It is a supportive environment in which problem areas are identified and corrective actions agreed and implemented at an early stage to avoid slippage. Each scheme has a nominated project manager who is responsible for the successful completion of the scheme both to time and on budget.

The Council maintains comprehensive and robust procedures for managing and monitoring its Capital Programme. Ongoing monitoring arrangements for the delivery of the approved programme consist of:

- Project Managers are identified for each scheme who are responsible for monitoring progress, spend and income and producing action plans to respond to variations in pace or cost of delivery;
- The Deputy Chief Executive/Director of Resources and S151 Officer co-ordinates high level monthly reporting and detailed quarterly reporting to the Management Senior Leadership Team and Cabinet;
- The quarterly capital monitoring where project managers report on performance outputs on each of their capital projects in progress. Variations and unexpected items are discussed and appropriate action taken; and
- Business Managers are responsible for ensuring that their Project Manager's monitoring reports are quality assured and challenged, and that corporate implications arising from capital monitoring are brought to the attention of the Senior Leadership Team and Cabinet for approval of variations where necessary.

PROCUREMENT

The purchase of capital assets should be conducted in accordance with the Contract Procedure Rules, ensuring value for money, legality and sustainability at all times. Contract standing orders and rules governing the disposal or write off of assets are contained in the Constitution which is consistently reviewed.

VALUE FOR MONEY

The Council recognises that effective procurement lies at the heart of delivering value for money and is essential if the Council is to obtain real improvements to quality and service costs. The Council seeks to achieve value for money by applying rigorous procurement standards in the selection of suppliers and contractors to ensure efficiency, economy and effectiveness is received throughout the life of a contract. The significant resources applied to capital expenditure require the adopted principles of value for money to be at the heart of our capital strategy. Specifically, we will seek to strengthen the outcome indicators as part of post project reviews.

APPENDIX C

ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2025/25

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Council has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (the minimum revenue provision - MRP). The Council is required by statute to make a prudent provision for the repayment of its debt. It is also required to 'have regard' to guidance on how to calculate this provision, issued by the Ministry of Housing, Communities and Local Government, most recently in 2024.

The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

In developing this policy statement, the Council is satisfied that the guidelines for their annual amount of MRP will result in it making a prudent provision.

MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Council's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.

The Council reserves the right to determine alternative MRP approaches in particular cases, in the interests of making a prudent provision, where this is material, taking account of local circumstances, including specific project timetables and revenue-earning profiles.

<u>The Council is recommended to approve the following MRP Statement:</u>

Where capital expenditure was incurred before 1 April 2008, the guidance suggests writing down the remaining Capital Financing Requirement by providing MRP of 4% per annum on a reducing balance method.

However, due to the lack of financial information on capital expenditure financed by borrowing incurred before 1 April 2016, the MRP Policy will be:

- **2% Straight Line Basis** - as the Council deems it more prudent 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, which will be far sooner than under the 4% reducing balance method.

From 1 April 2016 for all unsupported borrowing the MRP policy will be*:*

- **Asset life method** – MRP will be based on the estimated life of the assets, with a maximum of 50 years life, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's useful life.

Capital expenditure incurred during 2024/25 will not be subject to an MRP charge until 2025/26 or the first year following the date that an asset becomes operational.

The Council will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

The Council has determined that MRP is not required for borrowing or credit arrangements used to finance capital expenditure on housing assets and accounted for within the Housing Revenue Account (HRA) as it has determined, through its duty to charge depreciation and hold a Major Repairs Reserve, that prudent provision has been made.

For the following types of capital expenditure, the Council has determined that an alternative methodology for determining the annual MRP charge should be adopted:

- MRP in respect of PFI contracts will be calculated by the amount that writes down the balance sheet liability unless the asset life is considerably longer than the PFI contract, where MRP will be calculated on an asset life basis.
- MRP in respect of leases where a right of use asset is on the balance sheet will equal the repayment amount in year that writes down the balance sheet liability.

Capital Loans

For capital expenditure on loans to third parties which were made primarily for service purposes, the Council will make nil MRP except where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Instead, the Council will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value of any repayments of loan principal received during the financial year with the capital receipts received applied to finance the expenditure instead.

Capital Receipts

Capital receipts - proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the Council decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.

MRP Overpayments

Under the MRP guidance, charges made more than the statutory MRP can be made and are known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Cumulative VRP overpayments made up to 31 March 2024 are £1.793m.

Each year a new MRP statement will be presented.

APPENDIX D

FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY

Introduction and Background

Traditionally, capital receipts could only be used for specific purposes as set out in Regulation 23 of the Local Authorities (Capital Finance and Accounting) (England) regulations 2003 made under section 11 of the Local Government Act 2003. The main permitted purpose is to fund capital expenditure. The use of capital receipts to support revenue expenditure is not permitted by the regulations.

The proposals within this Flexible use of Capital Receipts Strategy have been prepared based on a capitalisation direction issued by the Secretary of State under Sections 16(2)(b) and 20 of the Local Government Act 2003: Treatment of Costs as Capital Expenditure.

The government allows local authorities further flexibilities to fund revenue costs from capital sources including allowing borrowing to fund general cost pressures (with a commitment to future efficiency savings), funding specific invest to save revenue costs from borrowing, and allowing authorities to use the proceeds from selling investment assets to fund revenue pressures or increase reserves or repay debt.

The current government directive allowing the flexible use of capital receipts ends on 31 March 2030.

In summary, the key elements of the MHCLG guidance on the flexible use of capital receipts are:

Types of qualifying expenditure

1. Qualifying expenditure is 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 and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

2. Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure. In addition, one off costs, such as banking savings against temporary increases in costs/pay cannot be classified as qualifying expenditure.

Financing of the qualifying expenditure

1. Up to 100% of capital receipts from property, plant and equipment disposals received from 2025/26 (excluding Right to Buy receipts) can be used to finance qualifying expenditure (existing capital receipts in hand prior to 2025/26 are not permitted to be used).

2. Local authorities may not borrow to finance qualifying expenditure.

3. The guidance will apply for 2025/26.

APPENDIX E

NEWARK & SHERWOOD DISTRICT COUNCIL
CAPITAL PROJECT APPRAISAL FORM

PORTFOLIO	
DIRECTORATE	
BUSINESS MANAGER	
PROJECT OFFICER	
PROJECT TITLE	

1. DESCRIPTION OF PROJECT

2. DEMONSTRATION OF NEED (is a statutory requirement to carry out the works, can you provide evidence to support this)

3. DETAIL HOW THE PROJECT LINKS TO THE COMMUNITY PLAN

4. DESCRIBE THE IMPACT OF THIS PROJECT ON OTHER BUSINESS UNITS (including officers in other BU's involvement in the project) *Particularly Legal and Asset Management.*

5. PROJECT DEPENDANCIES

6. RESOURCE REQUIREMENTS

6a. LAND/BUILDINGS CURRENTLY IN COUNCIL OWNERSHIP (State whether General Fund or HRA).

6b. ESTIMATED CAPITAL COSTS INCLUDING PROFILE OF SPEND OVER FINANCIAL YEARS (best estimates should be given which can be firmed up when details scoping has been completed)

***Consideration to be given to inflation and contingency**

2026/27 £	2027/28 £	2028/29 £	2029/30 £

6d. FUNDING AVAILABLE

Source	2026/27 £	2027/28 £	2028/29 £	2029/30 £

6e. REVENUE IMPLICATIONS (this should include costs associated with implementation, ongoing revenue costs and ongoing savings and should be agreed with relevant accountant).

6f. VAT IMPLICATIONS (do we need to consider an option to tax?) Please do not assume no, for advice on this please contact Jenna Norton, Financial Services.

7. OTHER INFORMATION

7a. HEALTH & SAFETY ISSUES

7b. EQUALITIES IMPLICATIONS

7c. **CRIME & DISORDER ISSUES**

7d. **PLANNING IMPLICATIONS** (if a planning application is required, has this cost been factored into the cost in section 6?)

7e. **LISTED BUILDING IMPLICATIONS**

7f. **PROJECT RISKS AND UNCERTAINTIES**

7f. **HAVE ALTERNATIVE PROCUREMENT STRATEGIES SUCH AS JOINT PROCUREMENT BEEN EXPLORED?**

8. **ANTICIPATED START AND END DATES FOR PROJECT ONCE APPROVED**

9. **ANY ADDITIONAL INFORMATION** (results of tenant survey, cost breakdown per site or type of work etc)

FORM COMPLETED BY: ____

DATE: __________________

SIGNATURE OF SPONSORING DIRECTOR: ______________________________

PRIORITISATION CRITERIA

	STAGE 1 FACTOR	Comments	STAGE 2 DETAILED PRIORITISATION	STAGE 2 WEIGHTING
1	**Key Priorities** Scheme must link to at least one of the Council's priorities and be an objective contained within a Service Plan.	If a scheme does not clearly relate to these areas it will not be considered further.	Each scheme to be marked as to how well it fits with the Community Plan	**35%**
2	**Evidence of Need** Service Strategy National Strategy or Guidelines Statutory Obligation	In some cases local demands are in excess of national guidelines and strategies and this tries to acknowledge that the two must be balanced. This will cover Health and Safety related schemes.	The following factors will receive equal weighting :- • Statutory Obligation • National Strategy • Validity of consultation in relation to project. e.g. How specific to this project? Who was consulted, was this comprehensive? • Quality of evidence of need for project .e.g. size of sample base, date of evidence, format of evidence	**10%**
3	**Partnership** Eligibility under existing criteria can be demonstrated.	Show that work has been done to ensure that the obtaining of external finance is realistic. The degree to which the partnership will add value to the project.	The proportion of finance which will be met by third party. The likelihood of receiving support. Assessment of the value the partner will add to the project.	**15%**

	STAGE 1 FACTOR	Comments	STAGE 2 DETAILED PRIORITISATION	STAGE 2 WEIGHTING
4	**Outputs and Outcomes** These have been clearly identified and can be justified from supporting evidence. Specific comments should be made as to how the scheme represents value for money when compared to other options	This will enable the council to improve the way it reports its work and clearly show what is being achieved. The comments should refer to any performance indicators which the proposal is addressing specifying what the improvement target is.	Assessment then made on what the scheme will achieve.	**15%** Assessment of all factors or group of factors
5	**Financial** Capital costs have been based on internal or external professional advice Revenue implications have been properly developed	Capital costs include both works and land purchase and cover all associated costs. Try and avoid "guesstimates" which result in schemes requiring increased finance or having to be reduced to meet finance available.	Capital will be based on the quality of work which has been put into estimate. e.g. costed feasibility studies. Revenue will be based on whether the effect is positive, neutral or negative on the revenue budget. Positive effect scores 10 Neutral effect scores 3 Negative effect scores 0	**5%** **10%**

6	**Risk Assessment** Identify the level of risk in a project not being able to proceed. For example planning appeals, listed building consent. Over subscription of partnership funds	Try and ensure that not all schemes selected are high risk with the danger that there will be delays in delivery or no-delivery.	The following will all need to be considered:- Technical Issues Financial Uncertainty Partnership uncertainty Planning Issues Legal issues Timescale	**10%**