

Oldham Council

Capital Strategy
2025/26 to 2029/30
&
Minimum Revenue Provision (MRP)
Policy Statement 2025/26

1.0 Capital Strategy 2025/26 Report Tables

1.1 Introduction

1.1.1 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 sometime technical areas.

1.1.2 Decisions made this year on capital and treasury management will have financial consequences for the Authority 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.

1.2 Capital Expenditure and Financing

Capital expenditure is where the Authority 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.

1.2.1 In 2025/26, the Authority is planning capital expenditure of £108.501m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2023/24 Outturn £000	2024/25 Forecast £000*	2025/26 Budget £000	2026/27 Budget £000	2027/28 Budget £000	2028/29 Budget £000	2029/30 Budget £000
Community Health and Adult Social Care	6,946	2,900	4,106	3,000	3,000	-	-
Children's Services	4,440	6,770	10,482	3,151	2,000	-	-
Communities	70	216	338	-	-	-	-
Heritage Libraries and Arts	-	460	-	-	-	-	-
Place and Economic Growth							
- Corporate Property	5,202	4,194	3,818	3,287	3,343	2,055	-
- Environment	1,317	1,638	121	1,116	100	-	-
- Housing	1,187	528	5,677	-	-	-	-
- Regeneration	44,326	45,055	57,417	3,692	12,059	-	-
- Transport	11,963	17,402	13,584	6,903	-	-	-
Housing Revenue Account (HRA)	64	200	3,193	206	210	215	219
Corporate/Information Technology (IT)	3,096	3,298	3,165	3,123	2,595	1,877	-
Capital, Treasury & Technical Accounting	2,600	4,600	3,600	2,628	4,373	2,500	5,000
Funding for Emerging Priorities	-	-	3,000	2,885	2,000	-	-
Grand Total	81,211	87,261	108,501	29,991	29,680	6,647	5,219

(subject to rounding – tolerance +/- £1k)

1.2.2 Full details of the Authority's capital programme, including the project appraisals undertaken are included within Appendix 1.

1.2.3 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.

Governance

1.2.4 Services bid to include projects in the Authorities capital programme which is considered alongside financing costs/funding streams. The Capital Investment Programme Board (CIPB) appraises new schemes and makes recommendations. The final capital programme is then presented to Cabinet in January and to Council in February/March each year.

1.2.5 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority'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

Funding	2023/24 Outturn £000	2024/25 Forecast £000*	2025/26 Budget £000	2026/27 Budget £000	2027/28 Budget £000	2028/29 Budget £000	2029/30 Budget £000
Ringfenced Grants	(30,061)	(24,602)	(52,250)	(3,962)	(7,700)	-	-
Un-ringfenced Grants	(825)	(6,865)	(8,450)	(5,775)	(1,858)	(780)	-
Other Contributions	(2,963)	(1,116)	(100)	-	-	-	-
Capital Receipts	(6,536)	(6,878)	(4,653)	(2,568)	(2,252)	(2,309)	(2,000)
Prudential Borrowing	(40,448)	(47,567)	(39,855)	(17,480)	(17,660)	(3,343)	(3,000)
Revenue (HRA)	(320)	(200)	(3,193)	(206)	(210)	(215)	(219)
Revenue General Fund	(58)	(33)	-	-	-	-	-
Total Funding	(81,211)	(87,261)	(108,501)	(29,991)	(29,680)	(6,647)	(5,219)

1.2.6 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 Minimum Revenue Provision (MRP).

Table 3: Replacement of prior years' debt finance

	2023/24 Outturn £000	2024/25 Forecast £000*	2025/26 Budget £000	2026/27 Budget £000	2027/28 Budget £000	2028/29 Budget £000	2029/30 Budget £000
Minimum revenue provision (MRP)	17,838	11,506	13,360	14,990	16,663	17,202	18,159

1.2.5 The Authority's full Minimum Revenue Provision (MRP) statement forms part of this Appendix at Section 2.

1.2.6 The Authority'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 funds repayments and capital receipts used to replace debt. The CFR is expected to increase by £26.495m during 2025/26. Based on the above figures for expenditure and financing, the Authority's estimated CFR is shown in Table 6:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	2023/24 Outturn £000	2024/25 Forecast £000*	2025/26 Budget £000	2026/27 Budget £000	2027/28 Budget £000	2028/29 Budget £000	2029/30 Budget £000
Capital Financing Requirement	488,980	525,040	551,535	554,025	555,022	541,163	526,004

1.2.7 Asset management: To ensure that capital assets continue to be of long-term use, the Authority has an asset management strategy in place.

1.2.8 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 Authority is currently also permitted to spend capital receipts "flexibly" on service transformation projects until 202/30. Repayments of capital grants, loans and investments also generate capital receipts. The Authority anticipates it will receive £20.660m of capital receipts between 2024/25 and 2029/30.

Table 5: Budgeted Capital receipts

	2023/24 Outturn £000	2024/25 Forecast £000*	2025/26 Budget £000	2026/27 Budget £000	2027/28 Budget £000	2028/29 Budget £000	2029/30 Budget £000
Capital Receipts	(6,536)	(6,878)	(4,653)	(2,568)	(2,252)	(2,309)	(2,000)

The Authority's Flexible Use of Capital Receipts Policy is included within Appendix 1.

1.3 Treasury Management

1.3.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority'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 Authority is typically cash rich in the short-term as revenue income is received before it is spent, but 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.

1.3.2 Due to decisions taken in the past, the Authority currently has £226.649m (comprising £190.996m long-term borrowing and £35.653m of temporary borrowing), of which £181.110m was borrowed in previous years. There will be a requirement to arrange additional borrowing circa £25.000m to cover the year end position and the Authority will monitor this alongside advice provided by our treasury advisors. The current average interest rate of borrowings is 4.32%. The current value of treasury investments is £34.435m at an average rate of 4.71%.

1.3.3 Borrowing strategy: The Authority'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 Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

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

1.3.5 Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	2023/24 Outturn £000	2024/25 Forecast £000*	2025/26 Budget £000	2026/27 Budget £000	2027/28 Budget £000	2028/29 Budget £000	2029/30 Budget £000
Debt (incl. PFI & leases)	357,075	412,304	448,799	456,288	462,285	448,427	433,268
Capital Financing Requirement	488,980	525,040	551,535	554,025	555,022	541,163	526,004

1.3.6 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 Authority expects to comply with this in the medium term.

1.3.7 Liability benchmark: To compare the Authority'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 £20.000m at each year-end. This benchmark is currently £149.585m and is forecast to rise to £272.881m over the next five years.

Table 7: Borrowing and the Liability Benchmark

	31.3.2024 Outturn £000	31.3.2025 Estimate £000	31.3.2026 Estimate £000	31.3.2027 Estimate £000	31.3.2028 Estimate £000	31.3.2029 Estimate £000	31.3.2030 Estimate £000
Loans CFR	294,939	336,105	367,859	375,795	382,506	374,627	365,617
Less: Balance sheet resources	(155,354)	(132,736)	(122,736)	(117,736)	(112,736)	(112,736)	(112,736)
Net loans requirement	139,585	203,369	245,123	258,059	269,770	261,891	252,881
Plus: Liquidity allowance	10,000	20,000	20,000	20,000	20,000	20,000	20,000
Liability benchmark	149,585	223,369	265,123	278,059	289,770	281,891	272,881

1.3.8 The table shows that the Authority expects to borrow in later years to finance the capital programme. This is because there is a significant proportion of the capital programme financed by Prudential Borrowing, and an expected reduction in overall balance sheet resources.

1.3.9 Affordable borrowing limit: The Authority 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 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2024/25 Estimate £000	2025/26 Estimate £000*	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000	2029/30 Estimate £000
Operational Boundary						
Borrowing	305,000	356,000	387,000	395,000	400,000	395,000
Other Long Term Liabilities (inc PFI)	194,750	195,000	190,000	185,000	183,000	181,000
Total External Debt	499,750	551,000	577,000	580,000	583,000	576,000
Authorised Limit						
Borrowing	320,000	371,000	402,000	410,000	415,000	410,000
Other Long Term Liabilities inc PFI	199,750	200,000	195,000	190,000	188,000	186,000
Total Long Term Debt	519,750	571,000	597,000	600,000	603,000	596,000

- Further details on borrowing is within sections 2.7 and 2.8 of the Treasury Management Strategy

1.3.10 Treasury Investment Strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

1.3.11 The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is 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 more widely, including in bonds, shares and property, 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 Authority may request its money back at short notice.

Table 9: Treasury Management Investments

	31.3.2024 Outturn £000	31.3.2025 Estimate £000	31.3.2026 Estimate £000	31.3.2027 Estimate £000	31.3.2028 Estimate £000	31.3.2029 Estimate £000	31.3.2030 Estimate £000
Near-term investments							
Local Authorities	10,000						
Money market funds	13,360	20,000	20,000	20,000	20,000	20,000	20,000
Longer-term investments							
Strategic pooled funds - CCLA Property	13,354	13,127	13,127	13,127	13,127	13,127	13,127
TOTAL	36,714	31,127	31,127	31,127	31,127	31,127	31,127

- Further details on treasury investments are within section 2.7 of the treasury management strategy statement 2024/25.

1.4 Commercial Activities

- 1.4.1 The Council does not hold any investment in commercial property purely for financial gain.

1.5 Risk management:

- 1.5.1 The effective management and control of risk are prime objectives of the Authority'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.

- 1.5.2 The treasury management prudential indicators are within section 2.8 of the Treasury Management Strategy.

1.6 Governance:

- 1.6.1 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and staff, who must act in line with the treasury management strategy approved by Audit Committee. Quarterly reports on treasury management activity are presented to Audit Committee. The Audit Committee is responsible for scrutinising treasury management decisions.

1.7 Other Liabilities

- 1.7.2 The Council has set aside £12.436m provisions for potential insurance claims and other potential liabilities.

- 1.7.2 Additionally, the Council has identified the following Contingent Liabilities as at 31 March 2024.

a) **Stock Transfer Warranties**

The Council agreed to a number of warranties under the stock transfer agreements with First Choice Homes Oldham (FCHO) and other housing providers. Such arrangements give rise to a possible obligation of the Council, which will be confirmed upon the occurrence or non-occurrence of the invocation of the warranties.

b) **Historical Disputes**

There are potential liabilities arising from an education premises where a former employee has been convicted of criminal offences. As some of these actions are at an early stage there is insufficient certainty about the potential implications and the amounts being claimed. Unforeseen legal claims based upon past actions that could give rise to a possible future financial obligation for the Council.

- Further details on liabilities and guarantees are within Note 28 and Note 21 of the 2023/24 statement of accounts.

1.8 Governance:

- 1.8.1 Decisions on incurring new provisions are taken by Senior Officers in consultation with the Director of Finance. The risk of liabilities crystallising and requiring payment is monitored by the Finance Directorate and reported as part of the Council's regular Budget Monitoring reports. Any liabilities or guarantees entered into which are anticipated to be over £250k will need to be reported to Cabinet.

1.9. Revenue Budget Implications

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

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

	2023/24 Outturn £000	2024/25 Forecast £000	2025/26 Budget £000	2026/27 Budget £000	2027/28 Budget £000	2028/29 Budget £000	2029/30 Budget £000
Financing costs	24,124	14,002	17,341	20,068	22,016	22,383	22,836
General Fund	298,906	302,600	321,700	341,346	351,773	363,968	380,746
Proportion of net revenue stream	8.07%	4.63%	5.39%	5.88%	6.26%	6.15%	6.00%

1.9.2 Sustainability

Due to the very long nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Director of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable.

1.10. Knowledge and Skills

- 1.10.1 The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Authority employs professionally qualified accountants and pays for junior staff to study towards relevant qualifications, including AAT and CIPFA.
- 1.10.2 Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingcose Limited as treasury management advisors. This approach is more cost effective than employing such staff directly, and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

2.0 Minimum Revenue Provision (MRP) Policy Statement 2025/26

- 2.1 Where the Authority funds capital expenditure with debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local

Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance), most recently issued in April 2024.

- 2.2 The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is aligned with that over which the capital expenditure provides benefits.
- 2.3 The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.
- 2.4 For capital expenditure incurred before 1 April 2008, MRP will be determined on an annuity basis using the PWLB certainty rate at the date of the policy change (1 April 2024) assuming a remaining life of 42 years.
- 2.5 For capital expenditure incurred after 31 March 2008 and up to 31 March 2023, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset on an annuity basis using the PWLB certainty rate for the remaining asset life at the date of the policy change, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- 2.6 For PFI assets where the asset passes to the Council at the end of the contract, or the Council continues to receive service benefit from the assets beyond the life of the contract, MRP will be determined over the remaining life of the assets on an annuity basis using the PWLB certainty rate for the remaining life at the time of the policy change.
- 2.7 For assets acquired by leases or the Private Finance Initiative (where the asset does not pass to the Council at the end of the contract or the Council does not receive service benefits beyond the life of the contract), MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- 2.8 For capital expenditure loans to third parties, the Authority will make nil MRP unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.
- 2.9 No MRP will be charged in respect of non- PFI assets held within the Housing Revenue Account but depreciation on those assets will be charged instead in line with regulations.
- 2.10 MRP on transferred debt is provided for on an annuity basis in line with schedules sent to the Council from the Lead authority administering the debt.

- 2.11 Capital expenditure incurred during 2025/26 will not be subject to a MRP charge until 2026/27 or later.
- 2.12 Based on the Authority's estimated capital financing requirement (CFR) at 31 March 2025, the charges for MRP under the revised and previous MRP policies is shown below:

	31/03/2025 CFR (£000)	Estimated 25/26 MRP (£000)
Pre -2008 Supported Borrowing	114,375	847
Asset Life MRP	201,576	7,153
Loans	9,677	0
PFI Schemes & Finance leases	188,935	5,253
Transferred Debt	21	6
Adjustment A	19,465	144
HRA CFR	(9,009)	(43)
Total	525,040	13,360

Capital receipts.

- 3.1 Proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:
- 3.2 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.
- 3.3 Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.
- 3.4 Capital receipts arising from other assets which form an identified part of the Authority's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.