



**COMHAIRLE NAN EILEAN SIAR**

**CAPITAL STRATEGY**

**2023-28**

## Introduction

The 2017 edition of the Prudential Code requires Local Authorities to prepare a Capital Strategy from 2019/20, giving 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.

## Capital Expenditure and Financing

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis, providing the fixed assets yield benefit for more than one year to the Comhairle and the services it provides. The Code of Practice gives some limited discretion on what counts as capital expenditure, as per the Comhairle's Accounting Policies assets costing below £10k are not capitalised but are charged to revenue in year.

In February 2023 the Comhairle set the Capital Programme for 2023-28. The main capital projects forming the Capital Programme are the works at Castlebay School, the creation of a new landfill cell and the completion of the works at Lochmaddy Pier. In line with statutory guidance the Comhairle is legally obliged to determine the maximum amount it may allocate to capital expenditure. The planned capital expenditure for 2025/26 and the following 2 years is shown in the table below, broken down by committee.

*Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ thousands*

	<b>Total</b>	<b>2023/24 Actual</b>	<b>2024/25 Forecast</b>	<b>2025/26 estimate</b>	<b>2026/27 estimate</b>	<b>2027/28 estimate</b>
Education, Sport & Children's Services	22,369	1,265	2,167	7,330	9,152	2,455
Social Care Board	3,118	1,824	1,294	-	-	-
Sustainable Development	12,702	2,071	5,896	3,935	400	400
Transportation & Infrastructure	35,348	11,119	7,321	10,741	3,958	2,209
Policy & Resources	1,796	19	141	1,086	275	275
<b>Total</b>	<b>75,333</b>	<b>16,298</b>	<b>16,819</b>	<b>23,092</b>	<b>13,785</b>	<b>5,339</b>

## Governance

The Comhairle determined the Capital Programme through consideration of the core and statutory requirements to maintain its asset base in line with the Corporate Strategy.

The governance arrangements for each strand of the programme are:

**a) Property**

Proposals for expenditure will be prioritised by the Head of Property and Infrastructure, in consultation with the Asset Investment Group.

**b) Roads**

Priorities will be agreed by the Transportation and Infrastructure Committee and management of the programme delegated to the Head of Property and Infrastructure.

**c) Burial Grounds**

Proposals for expenditure will be submitted to the Transportation and Infrastructure Committee and projects managed by the Head of Municipal Services.

**d) Landfill Cell**

Proposals for expenditure will be submitted to the Transportation and Infrastructure Committee and projects managed by the Head of Municipal Services.

**e) Marine Infrastructure**

Identification of priorities, based on service need, and management of projects will be delegated to the Head of Property and Infrastructure.

**f) ICT**

Proposals for expenditure on Schools ICT will be submitted to the Education, Sport and Children's Services Committee and managed by the Chief Officer for Education and Children's Services and proposals for expenditure on Corporate ICT will be submitted to the Policy and Resources Committee and managed by the responsible Chief Officers. Allocation of resources across the two areas will be agreed in consultation with the Asset Investment Group.

**g) Housing**

Priorities will be agreed by the Sustainable Development Committee and management of the programme delegated to Chief Officer Economic & Community Regeneration.

**h) Barra and Vatersay Community Campus**

Proposals will be agreed by the Education, Sport and Children's Services and Policy and Resources Committees, in consultation with the Integration Joint Board, and managed by the BVCC Project Executive Board.

**i) Scalpay Bridge**

Priorities will be agreed by the Transportation and Infrastructure Committee and management of the programme delegated to the Head of Property and Infrastructure.

**j) Stornoway Primary & School Estate**

Proposals for expenditure on Schools ICT will be submitted to the Education, Sport and Children's Services Committee and managed by the Chief Officer for Education and Children's Services and the Head of Property and Infrastructure.

**k) Climate Change**

Management delegated to the Head of Property and Infrastructure in consultation with the Climate Change Focus Group.

**l) Match Fund**

Proposals for expenditure will be considered by the Policy and Resources Committee on the recommendation of the Chief Executive and the Chief Financial Officer.

**m) Contingency**

Proposals for expenditure will be considered by the Policy and Resources Committee on the recommendation of the Chief Executive and the Chief Financial Officer.

Expenditure on pre set-up fees should be limited to 8% for engineering works and 13% for building works.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Comhairle'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 in £ millions

	Total	2023/24 Actual	2024/25 Forecast	2025/26 estimate	2026/27 estimate	2027/28 estimate
Scottish Government Capital Grant	32.4	9.1	8.1	5.2	5	5
Other grants & contributions	31.7	8.5	14.6	8.6	-	-
Programme Management*	11.2	-1.3	-5.9	9.3	8.8	0.3
<b>TOTAL</b>	<b>75.3</b>	<b>16.3</b>	<b>16.8</b>	<b>23.1</b>	<b>13.8</b>	<b>5.3</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 loans fund repayments. Planned repayments are as follows:

Table 3: Repayment of debt finance in £ thousands

	2023/24 Actual	2024/25 Forecast	2025/26 estimate	2026/27 estimate	2027/28 estimate
Own resources	6,766	6,483	6,785	6,470	6,144

The Comhairle'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 loans fund repayments. Based on the forecast figures for expenditure and financing, the Comhairle's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ thousands

	31/03/2024 actual	31/03/2025 forecast	31/03/2026 estimate	31/03/2027 estimate	31/03/2028 estimate
Capital financing requirement	147,403	144,193	154,357	155,737	148,970

**Asset Management:** to ensure that capital assets continue to be of long-term use, the Comhairle has a Corporate Asset Management Policy, Strategy & Plan in place, approved by Committee in April 2023.

**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 Comhairle has an asset disposal procedure and surplus assets are reported to each Committee series. The Comhairle estimates that the level of capital receipts will not be significant in terms of the capital programme.

### Treasury Management

Treasury management is concerned with keeping sufficient, but not excessive, cash available to meet the Comhairle'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 Comhairle holds significant invested funds representing income received in advance of expenditure, plus balances and reserves held. In the longer term it would be expected that the level of investments would reduce as capital projects are funded and borrowing is repaid.

Due to decisions taken in the past, as at 31 March 2024, the Comhairle had £127m borrowing at an average interest rate of 6.85% and £33.5m treasury investments at an average rate of 4.43%.

**Borrowing Strategy:** The Comhairle’s Balance Sheet forecast indicates that the Comhairle does not expect to borrow long term in 2025/26. Consequently, any loans that mature will not be replaced and long-term debt will reduce. The Comhairle’s current Capital Programme was set on the basis that it was funded from grant and capital receipts and there would be no need for borrowing.

In December 2019 the Comhairle agreed to support Stornoway Port Authority’s Deep-Water Port development by providing 2 loans totalling £40.3m. Although the Comhairle has been able to utilise reserves to make these loan advances, it may have implications for the Comhairle’s future external borrowing requirements as the Comhairle’s capital expenditure plans progress.

In the medium-term, the receipts from the loan interest have been incorporated into the Revenue Budget. Should the Comhairle’s financial position improve in the future, there may be an opportunity to use the receipts to fund capital expenditure.

Projected levels of the Comhairle’s total outstanding debt (which comprises borrowing and leases are shown below, compared with the capital financing requirement (see above)).

*Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ thousands*

	<b>31/03/2024 actual</b>	<b>31/03/2025 forecast</b>	<b>31/03/2026 estimate</b>	<b>31/03/2027 estimate</b>	<b>31/03/2028 estimate</b>
Debt (incl. leases)	127,266	126,263	124,927	119,580	119,580
Capital Financing Requirement	147,403	144,193	154,357	155,737	148,970

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term.

**Liability Benchmark:** To compare the Comhairle’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 of £10m at each year-end.

*Table 6: Borrowing and the Liability Benchmark in £ thousands*

	<b>31/03/2024 actual</b>	<b>31/03/2025 forecast</b>	<b>31/03/2026 estimate</b>	<b>31/03/2027 estimate</b>	<b>31/03/2028 estimate</b>
Outstanding borrowing	127,266	126,263	124,927	119,580	119,580
Liability benchmark	112,000	119,500	137,000	140,700	132,100

The table shows that the Comhairle expects to remain borrowed above its liability benchmark. This is because of the nature of our historic debt. The premium associated with the early repayment of PWLB debt makes it an unaffordable option.

**Affordable Borrowing Limit:** Local Authorities out with Scotland are legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year, and to keep it under review. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit. Although the Comhairle is not obliged to set these limits it is good practice to do so, and these are detailed below.

Table 7: Prudential Indicators: Authorised limit & operational boundary for external debt in £ thousands

	2023/24 actual	2024/25 forecast	2025/26 estimate	2026/27 estimate	2027/28 estimate
Authorised limit – total external debt	166,602	166,000	164,000	162,000	156,000
Operational boundary – total external debt	166,602	166,000	164,000	162,000	156,000

**Investment Strategy:** Treasury investments arise from receiving cash in advance of expenditure being incurred. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Comhairle’s Policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. The Comhairle’s surplus cash is currently invested in short-term unsecured bank deposits and with other local authorities. Diversification is crucial to managing risk in addition to determining counterparty and maturity limits. The Comhairle’s permitted investments are included within the Treasury Strategy and are approved by the Comhairle every year.

Table 8: Treasury Management investments in £ thousands

	31/03/2024 actual	31/03/2025 forecast	31/03/2026 estimate	31/03/2027 estimate	31/03/2028 estimate
Total	33,519	25,000	20,000	15,000	10,000

**Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director for Assets, Finance and Resources and staff, who must act in line with the Treasury Management Strategy approved by the Comhairle annually. Half yearly reports on treasury management activity are presented the Policy and Resources Committee.

### Investments for Service Purposes

**Risk management:** The Comhairle makes investments to assist local public services, including making loans to local small businesses to promote economic growth. In light of the public service objective, the Comhairle is willing to take more risk than with treasury investments.

**Governance:** Decisions on service investments are made by the relevant Head of Service in consultation with the Director for Assets, Finance and Resources and must meet the criteria and limits laid down by the service department.

**Liabilities:** In addition to PWLB borrowing the Comhairle is committed to making future payments to cover its pension fund deficit and to fulfilling the obligations of the finance lease for the Stornoway Library.

The Comhairle has also made provisions in relation to Council Tax, sundry debtors and charges on properties and the restoration costs of landfill sites and the decommissioning costs of the Creed wind turbine.

**Governance:** The risk of liabilities materialising and requiring payment is monitored by the Director for Assets, Finance and Resources and liabilities to be written off are reported to the Policy and Resources Committee.

## Revenue Budget Implications

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

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2023/24 actual	2024/25 forecast	2025/26 estimate	2026/27 estimate	2027/28 estimate
Financing costs (£ thousands)	7,547	7,988	7,634	7,969	7,776
Proportion of net revenue stream	6.40%	6.45%	6.13%	6.35%	6.14%

**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 up to 40 years into the future. The Chief Financial Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable because the plan is based on only spending grant and capital receipts and not incurring any additional borrowing.

## Knowledge and Skills

The Comhairle employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Chief Financial Officer is a Chartered Public Finance Accountant and is supported by an experienced and qualified Treasury team and an experienced and qualified Asset Management team.

In addition, the Comhairle engages specialised external advisers and consultants. The Comhairle currently employs Arlingclose Limited as treasury management advisers.