Capital Strategy Report 2025/26

1. 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.

2. Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, which 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.

In 2025/26, the Council is planning capital expenditure of £47m as summarised below:

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

	2024/25 forecast	**2025/26 budget**	**2026/27 budget**	**2027/28 budget**
General Fund services	16,699	46,524	42,099	22,518

The capital expenditure forecast for 2025/26 continues to be monitored and reviewed, in terms of both project delivery and affordability. The Council is currently working on a long term capital expenditure forecast and will update the above table when this becomes available.

Governance – The Council's Capital Programme is agreed by the Strategic Policy & Resources Committee in its role as the Council's investment decision maker. All capital projects must go through a 3-stage approval process and decisions on which projects are added to the Capital Programme and which projects progress are also taken by SP&R Committee. This provides assurance as to the level of financial control and allows Members to properly consider the opportunity costs of approving capital projects. The Property & Projects Department and Financial Services calculate the financing cost of all proposals, including emerging proposals. As part of the final investment decision it must be confirmed that any project is within the affordability limits of the Council.

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 and leasing). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £thousands

	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
External sources	0	0	0	0
Own resources	14,322	33,840	23,590	14,942
Debt	2,377	12,684	18,509	7,576
TOTAL	**16,699**	**46,524**	**42,099**	**22,518**

Debt is only a temporary source of finance, since loans and leases must be repaid, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is as follows:

Table 3: Repayment of debt finance in £thousands (MRP)

	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
Own resources	8,947	9,103	9,057	9,586

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 capital receipts used to repay debt. The CFR is expected to increase by £3.6m during 2025/26. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

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

	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
General Fund services	115,073	118,654	128,106	126,095

Asset Management – The Council is committed to ensuring that all Capital projects contribute to the strategic direction of the city and continue to be of long term use. The Council is currently in the process of looking at its Asset Management Strategy and is implementing a new Asset Management System to support the strategic objectives of better financial management, information management, planning and performance and asset management

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. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £1.7m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £thousands

	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
Asset sales	£7,298	£1,710	£3,300	£1,900
Loans repaid	0	0	0	0
TOTAL	**£7,298**	**£1,710**	**£3,300**	**£1,900**

3. 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 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.

The Council currently has £33m borrowing, the weighted average interest rate of these loans is 2.17%. The council is projecting a £59m treasury investment balance at 31 March 2025, at current average rate of 4.3%. The investments balance is higher than prior years mainly due to timing of monies being paid to the Council and this monies being paid out again.

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 short-term loans (currently available at around 6%) and long-term fixed rate loans where the future cost is known (currently over 5.5%).

Projected levels of the Council's total outstanding debt (which comprises borrowing, leases and transfers from local government reorganisation) are shown below, compared with the capital financing requirement (see above).

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

	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Debt (incl. PFI & leases)	33,146	28,633	33,426	32,523
Capital Financing Requirement	115,073	118,654	128,106	126,095

Statutory guidance is that debt should remain below the capital financing requirement, as can be seen from table 6.

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 £4m and is forecast to rise to £22m over the next three years.

Table 7: Prudential Indicator: Borrowing and the liability benchmark £thousands

	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Forecast borrowing	33,146	28,633	33,426	32,523
Liability Benchmark	4,073	19,654	24,106	22,095

The table shows that the Council's borrowing is currently above its liability benchmark. The Council is projecting to borrow over the next few years to meet capital expenditure requirements. This external borrowing is currently projected to be higher than the estimated liability benchmark over the next three years, based on current forecasts. Work is progressing on the long term capital expenditure forecasts and when finalised the budget figures in the above table will be reviewed and amended accordingly.

Affordable borrowing limit: The Council is 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.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £thousands

	2025/26 limit	2026/27 limit	2027/28 limit
Authorised limit – borrowing	118,654	128,106	126,095
Authorised limit – PFI and leases	0	0	0
Authorised limit – total external debt	118,654	128,106	126,095
Operational boundary – borrowing	102,654	112,106	110,095
Operational boundary – PFI and leases	0	0	0
Operational boundary – total external debt	102,654	112,106	110,095

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.

The Council'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. 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 9: Treasury management investments in £thousands

	31.3.2025 forecast	**31.3.2026 budget**	**31.3.2027 budget**	**31.3.2028 budget**
Near-term investments	39,000*	20,000	20,000	20,000
Longer-term investments	0	0	0	0
TOTAL	**39,000**	**20,000**	**20,000**	**20,000**

*This balance excludes monies that the Council has received (approx. £20m) and is due to be paid out again in the short term

Governance: 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 Strategic Policy and Resources Committee (SP&R). Quarterly reports on treasury management activity may be presented to SP&R, where this committee is responsible for scrutinising treasury management decisions.

Liabilities

In addition to debt of £33m detailed above, the Council is making payments to cover its pension fund liability. It has also set aside £5m to cover risks of insurance claims and Landfill Closure. The Council is also at risk of having to pay for its share of the ARC 21 Joint Committee contingent liability but has not put aside any money.

Governance: Decisions on incurring new discretional liabilities are taken by departmental Chief Officers in consultation with the Director of Finance. The risk of liabilities crystallising and requiring payment is monitored by central finance and reported quarterly to the Director of Finance. New liabilities exceeding £1m are reported to Strategic Policy and Resources Committee for approval/notification as appropriate.

4. Revenue Budget Implications

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 the District Rate and general government grants.

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

	2024/25 forecast	**2025/26 budget**	**2026/27 budget**	**2027/28 budget**
Financing costs (£'000)	9,763	9,801	10,453	11,296
Proportion of net revenue stream	4.74%	4.5%	4.8%	5.19%

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 may 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 due to the processes in place to scrutinise any plans coming forward and are designed to highlight not only the ongoing financing costs but also the recurring running costs to ensure they remain within the affordability limits identified and agreed by the Council.

5. 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 Finance is a qualified accountant with over 25 years' experience. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury), ACCA, etc.

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 more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.