Appendix A

Capital Strategy

2026/27

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1. Introduction

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 sometimes technical areas.

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.

2. Capital Expenditure and Financing

2.1. 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.

2.2. In 2026/27, the Authority is planning capital expenditure of £0.845 million as summarised below:

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

	2024/25 actual £'000	2025/26 forecast £'000	2026/27 budget £'000	2027/28 budget £'000	2028/29 budget £'000
General Fund services	7,065	10,763	845	1,900	0.0

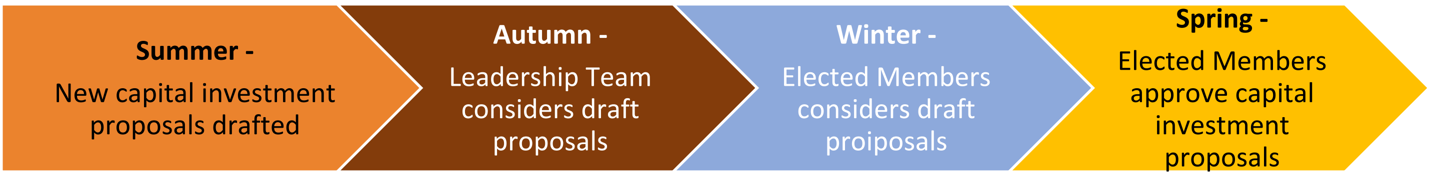
2.3. Due to the limited capital receipts available and the Council's decision not to fund capital expenditure through borrowing, the capital programme for 2026/27 has significantly reduced. The main spends in 2026/27 will be Rolling Programmes (ICT), Old River Lane and URC Church Hall. However, as and when assets are sold and receipts become available, the Council will review its prioritised list of proposed programmes and bring forward recommendations to Members for approval during the year.

2.4. The delivery of the public square at Old River Lane has been deferred by at least one year. This is due to the recent submission of a planning application and the need to align the associated budget with the revised project timetable. The timing will be reviewed next year to determine whether delivery should take place in 2027/28 or be further deferred to 2028/29.

3. Governance

3.1. Service managers bid annually to include projects in the Authority'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 Leadership Team appraises all bids based on a comparison of strategic priorities against financing costs and maintains a prioritised list of proposed programmes. However, due to the limited capital receipts currently available and the decision not to fund capital expenditure through borrowing, there is no immediate capacity to progress additional projects. As and when new receipts are received from asset sales, the Council will review this prioritised list and bring forward recommendations to Members for approval during the year.

Figure 1 Business Planning Process



<u>Process for Developing Capital Investment Proposals</u>

3.2. New proposals are drafted by Project Managers and approved at service level by the Head of Service. They are then reviewed by the Corporate Assets Group and Leadership Team before progressing for consideration and approval as part of the annual budget cycle.

3.3. Project and Service Managers should explore a range of options and prepare a business case using the standardised capital project bid form. This form must include estimated capital costs, revenue implications, funding sources, and demonstrate how the proposal aligns with Council plans and any relevant external strategies. It should also identify risks, outline mitigating actions, and set out timescales. Bid forms must be maintained throughout the project lifecycle to ensure accurate information and lessons learned are captured in closure reports.

<u>Prioritising capital investment</u>

3.4. Given the absence of immediate capital receipts and the Council's decision not to fund capital expenditure through borrowing, it is essential to prioritise investment proposals. The standardised capital project bid forms will be assessed through a consistent evaluation process, supported by a scoring mechanism, to create a prioritised capital investment programme. This approach ensures that, as and when new receipts become available from asset sales, the Council can review its prioritised list and bring forward proposals for Member approval. With ongoing financial challenges and a greatly reduced capital programme compared to previous years, this process is critical to targeting resources effectively and aligning investment with strategic priorities.

4. Financing

4.1. 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

	2024/25 actual £'000	2025/26 forecast £'000	2026/27 budget £'000	2027/28 budget £'000	2028/29 budget £'000
External sources	1,977	786			
Capital receipts	372	2,167	670	1,900	
Revenue resources	3,098				
Debt	1,618	7,810	175		
TOTAL	**7,065**	**10,763**	**845**	**1,900**	**0**

4.2. 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). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance

	2024/25 actual £'000	2025/26 forecast £'000	2026/27 budget £'000	2027/28 budget £'000	2028/29 budget £'000
Minimum revenue provision (MRP)	751	1,431	1,399	1,399	1,425
Capital receipts	0	0	6,563	0	0
TOTAL	**751**	**1,431**	**7,962**	**1,399**	**1,425**

4.3. 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 and capital receipts used to replace debt. The CFR is expected to increase during 2026/27. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	2024/25 actual £m	2025/26 forecast £m	2026/27 budget £m	2027/28 budget £m	2028/29 budget £m
TOTAL CFR	**61.806**	**66.937**	**59.150**	**57.751**	**56.326**

5. Asset Management

5.1. To ensure that capital assets continue to be of long-term use, the Authority has an asset management strategy in place. The council's assets are being regularly reviewed to identify assets for disposal to repay borrowing.

Asset Disposals

5.2. 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 used to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Authority plans to receive £6.9 million of capital receipts in the coming financial year as follows. However, this forecast takes into account a risk factor for potential delays in receiving these receipts or for the actual amounts being lower than anticipated. This uncertainty reinforces the need for a prioritised approach to capital investment, ensuring that projects are only brought forward for approval when funding is confirmed:

Table 5: Capital receipts receivable

	2024/25 actual £m	2025/26 forecast £m	2026/27 budget £m	2027/28 budget £m	2028/29 budget £m
Asset sales	0.372	5.757	5.541	0.162	0.499
Loans etc repaid	-	0.175	1.400	1.400	0
TOTAL	**0.372**	**5.932**	**6.941**	**1.562**	**0.499**

6. Treasury Management

6.1. 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.

6.2. Due to decisions taken in the past, the Authority currently has £1.5 million long term borrowing at a rate of 8.875% and £60m in short term borrowing at an average interest rate of 4.58% and £34 million treasury investments at an average rate of 3.5%.

Borrowing Strategy

6.3. 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.

6.4. 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.

6.5. Projected levels of the Authority's total outstanding debt (which comprises borrowing, 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

	31.3.2025 actual £m	**31.3.2026 forecast £m**	**31.3.2027 budget £m**	**31.3.2028 budget £m**	**31.3.2029 budget £m**
Debt (incl. PFI & leases)	64.5	59.0	56.5	56.5	54.9
Capital Financing Requirement	61.8	66.9	59.2	57.8	56.3

6.6. 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. The council was £2.7 million over borrowed as at 31st March 2025, to avoid risks to cashflow liquidity at year end. This position was only short term.

Liability Benchmark

6.7. 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 £5 million.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2025 actual £m	**31.3.2026 forecast £m**	**31.3.2027 budget £m**	**31.3.2028 budget £m**	**31.3.2029 budget £m**
Existing borrowing	64.5	59.0	56.5	56.5	54.5
Liability benchmark	32.7	46.1	40.1	39.4	38.0

6.8. The actual forecast borrowing is higher than the liability benchmark primarily to protect the Council's liquidity position and ensure resilience. Anticipated cash flows are expected to reduce significantly over the coming periods, which could create pressure on day-to-day operations and capital commitments. By borrowing earlier and maintaining a liquidity buffer, the Council mitigates the risk of having to secure funds at short notice, which could result in higher costs and unfavourable market conditions. This proactive approach ensures that the Council can meet its obligations and deliver its capital programme without resorting to last-minute borrowing at potentially elevated interest rates.

Affordable borrowing limit

6.9. The Authority 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

	2025/26 limit £m	**2026/27 limit £m**	**2027/28 limit £m**	**2028/29 limit £m**
Authorised limit – total external debt	100	100	100	100
Operational boundary – total external debt	75	75	75	75

Investment Strategy

6.10. 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.

6.11. 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

	31.3.2025 actual £m	31.3.2026 forecast £m	31.3.2027 budget £m	31.3.2028 budget £m	31.3.2029 budget £m
Near-term investments	21.3	7.0	15.0	15.0	15.0
Longer-term investments*	12.8	10.8	5.9	0	0
TOTAL	**34.1**	**17.8**	**20.9**	**15.0**	**15.0**

** Long-term investments includes balance of property fund not yet being wound down, shareholding in Millstream Property Company and long term loans to Herts Building Control and Millstream Property Company.*

Risk Management

6.12. 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.

6.13. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director for Finance, Risk & Performance and finance staff, who must act in line with the treasury management strategy approved by council. Half yearly reports on treasury management activity are presented to council. The audit and governance committee is responsible for scrutinising treasury management decisions.

7. Revenue Budget Implications

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

	2024/25 actual	2025/26 forecast	2026/27 budget	2027/28 budget	2028/29 budget
Financing costs (£m)	3.120	4.903	3.961	3.763	3.669
Proportion of net revenue stream	13.7%	23.1%	18.6%	17.5%	16.5%

Sustainability

7.2. 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 [50] years into the future. The Director for Finance, Risk & Performance is satisfied that the proposed capital programme is prudent, affordable and sustainable because it has been reduced to a level where the borrowing remains affordable.

Knowledge and Skills

7.3. The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director for Finance, Risk & Performance is a qualified accountant with 26 years' post experience. The Authority pays for junior staff to study towards relevant professional qualifications including CIPFA, AAT etc.

7.4. 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 Arlingclose Limited as treasury management advisers. 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.