

**AUDIT AND GOVERNANCE
COMMITTEE**

**EXECUTIVE HEAD OF FINANCE
REPORT NO. FIN2605**

28 JANUARY 2026

KEY DECISION? NO

ANNUAL CAPITAL STRATEGY 2026/27

SUMMARY AND RECOMMENDATIONS:

SUMMARY:

The Council is required to approve a Capital Strategy for 2026/27 before 1 April 2026.

The Capital Strategy 2026/27 (Appendix 1) is in accordance with CIPFA's "Prudential Code" and the "Treasury Management Code of Practice" 2021, and the Ministry of Housing, Communities and Local Government (MHCLG) guidance on Local Government Investment.

RECOMMENDATION:

Members are requested to recommend to Council:

- (i) Approval of the Capital Strategy for 2026/27 to 2028/29 and Prudential Indicators for 2026/27.

1 INTRODUCTION

- 1.1 This report sets out the proposed Capital Strategy for the year 2026/27 to 2028/29, including the Prudential indicators for capital finance for 2026/27.
- 1.2 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.
- 1.3 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.

- 1.4 The Council follows best practice by adhering to the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021* (the CIPFA Code), incorporating any subsequent revised guidance. Subsequently the Council approves both a Capital Strategy and the related Treasury Management Strategy before the start of each financial year.

2 PURPOSE

- 2.1 The purpose of the Capital Strategy is to give an 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.
- 2.2 The purpose of investment management operations is to ensure that all investment decisions that are made primarily to generate a profit have a suitable level of security and liquidity. Ensuring risks and rewards are monitored regularly.
- 2.3 The second main function of the Capital Strategy is to set the Prudential indicators for affordable, prudent and sustainable capital investment.
- 2.4 Appendix 1 sets out the Capital Strategy for 2026/27 to 2028/29 and fulfil key legislative requirements as follows:
- The **Capital Strategy** sets out 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 accordance with CIPFA's Code of Practice on Treasury Management, the CIPFA Prudential Code and MHCLG guidance on local government investments.
- 2.5 These policies and parameters provide an approved framework within which officers undertake the day-to-day capital, treasury and non-treasury investment activities.

3 SCOPE

- 3.1 This report covers the Council's capital management activities as set out in paragraphs 2.1 to 2.3 above. A summary of Treasury Management and commercial investments and the Council's borrowing requirements to fund the Capital strategy are set out. Prudential indicators are identified to set measures for affordability, prudent and sustainable.

- 3.2 Where a material change occurs to the attached strategies during the year a revised strategy will be presented to full council before the change is implemented.

BACKGROUND DOCUMENTS:

1. *Treasury Management in the Public Services (CIPFA) 2021 Edition*
2. *Treasury Management in the Public Services Guidance Notes for Local Authorities (CIPFA) 2021 Edition*
3. *The Prudential Code for Capital Finance (CIPFA) 2021 Edition*
4. *Guidance Notes for Practitioners: The Prudential Code (CIPFA) 2021 Edition*
5. *MHCLG Statutory Guidance on Local Government Investments (3rd Edition)*
6. *SI 2003/3146 - Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended)*
7. *Prudential Property Investment (CIPFA) 2019*

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CAPITAL STRATEGY 2026/27

1 INTRODUCTION

- 1.1 This capital strategy is 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.
- 1.2 Decisions made this year on capital and treasury management will have financial consequences for the Council 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 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 £20,000 (land and buildings) and £10,000 (plant, vehicles and equipment) are not capitalised and are charged to revenue in year. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.
- 2.2 In 2026/27, the Council is planning capital expenditure of £3.6m as summarised below:

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

	2024/25 Actual	2025/26 Forecast *	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Capital Expenditure	14.7	10.3	3.6	2.7	2.5

** The forecast for 2025/26 is based the revised capital programme for 2025/26 and reflects the estimated out turn on all projects.*

- 2.3 The full capital programme can be found in the MTFFS 2026-27 to 2029-30 report.
- 2.4 In November 2020, the PWLB lending facility issued lending terms that were subject to further clarification in August 2021. This makes it a condition of access to the PWLB funding that local authorities have no intention to buy

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investment assets primarily for yield in the current and following two financial years. No expenditure has been incurred on the acquisition of such assets since November 2020 and the Council does not plan to incur expenditure on investment assets primarily for yield within the capital programme.

- 2.5 The Council's capital programme has historically been financed primarily through prudential borrowing. The Council has adopted a strategy to generate capital receipts to as far as possible mitigate the currently high borrowing levels and cost of interest.
- 2.6 The Council has identified assets for disposal to generate capital receipts. These are set out within the 2026-27 to 2029-30 MTFS. The Council's ambition to build a leisure centre at Farnborough is dependent upon securing guaranteed operator income sufficient to fund the required borrowing to bridge the gap between the cost of build and the remaining Levelling Up Funding allocated by government, the overall revenue impact on the Council must be at least cost neutral every year.
- 2.7 **Governance:** non treasury management investment. Variation to capital bids and new capital bids can be received during the year, usually on the basis of a business case or in relation to urgent and unforeseen works. All projects to be recommended for inclusion in the Capital programme are appraised by the Senior Leadership Team before being proposed to Cabinet. Cabinet and Full Council is responsible for approving capital investment decisions and monitoring progress on the delivery of the capital strategy. A revised capital programme is presented to Cabinet early February and to Full Council in late February each year.
- 2.8 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:

Table 2: Capital financing in £ millions

	2024/25 Actual	2025/26 Forecast	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
External sources	3.4	4.4	1.5	1.5	1.5
Capital Receipts	2.5	1.6	2.1	1.2	1.0
Revenue Resources	0.3	-	-	-	-
Debt	8.4	4.3	0.0	0.0	0.0
TOTAL	14.7	10.3	3.6	2.7	2.5

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2.9 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 debt finance in £ millions

	2024/25 Actual	2025/26 Forecast	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
MRP	1.7	2.1	2.2	1.3	1.3
Capital receipts	-	4.8	23.6	0	2.5

2.10 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 replace debt. The CFR is expected to decrease to £170.9m 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 £ millions

	2024/25 Actual	2025/26 Forecast	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
CFR	174.2	170.9	145.0	141.6	135.5

2.11 **Asset management:** The Council uses experienced asset managers (currently Lambert Smith Hampton Investment Management (LSHIM)) to provide services to support the Council's property portfolio.

2.12 **Asset disposals:** When a capital asset is sold the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is permitted to spend capital receipts on service transformation projects until 2030. Repayments of capital grants, loans and investments also generate capital receipts. The Council is forecasting to receive the following capital receipts over the medium term.

Table 5: Capital receipts in £ millions

	2024/25 Actual	2025/26 Forecast	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Capital Receipts	-	4.8	23.6	0.0	2.5

3 TREASURY MANAGEMENT

- 3.1 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. Where possible cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 3.2 Due to decisions taken in the past, at 31st December 2025 the Council had £159.0m borrowing at a weighted average interest rate of 4.7% and £52.2m treasury investments at a weighted average interest rate of 4.75%.
- 3.3 **Borrowing strategy:** The Council has historically adopted an approach of borrowing on a short-term basis to take advantage of historically low short-term interest rates. Since late 2021 however interest rates have risen: Bank Rate was 0.1% in December 2021, rose to a high of 5.25% in August 2023 and is currently 3.75%. In view of this the Council has reduced its reliance on very short-term borrowing and has some loans with a final maturity date in up to 5 years' time. That said the majority of debt remains relatively short term, loans had an average duration of 1.5 years on 31st December 2025.
- 3.4 The Council has lengthened the duration of the debt portfolio in the medium term by replacing some short-term loans with longer term loans. This will provide more longer-term certainty on interest costs. Short term interest rates are expected to reduce marginally whilst longer term rates are expected to remain near current levels. The situation is kept under constant review.

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

	2024/25 Actual	2025/26 Forecast	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Debt (incl. leases)	166.6	149.6	75.2	65.1	25.0
Capital Financing Requirement	174.2	170.9	145.0	141.6	135.5

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- 3.5 This table only shows loans which the Council has or is contractually committed to, most of these loans will be repaid within the next 4 years which is why the debt figures for future years reduce significantly. The forecasted figures for loans which expect to be undertaken in future, as opposed to loans currently held, is shown in table 7.
- 3.6 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term because the CFR represents the amount of capital expenditure yet to be paid for from the Council's own resources and it cannot fund its revenue expenditure from borrowing. As can be seen from table 6, the Council expects to comply with this in the medium term.
- 3.7 **Liability benchmark:** This benchmark represents the minimum amount of borrowing the Council will have to carry to ensure it has sufficient funds to manage its cash flow without carrying a cash surplus beyond the set cash limit of £5m, plus its long term cash invested in pooled funds (£13m).
- 3.8 The liability benchmark was £149.1m on 31st March 2025 and is forecast to fall to £147.5m by 31st March 2026, before falling to £113.0m over the next three years.

Table 7: Borrowing and Liability Benchmark in £ millions.

	2024/25 Actual	2025/26 Forecast	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Maturity of Existing borrowing	166.0	149.0	75.0	65.0	25.0
Forecast total borrowing	166.0	148.0	123.0	119.2	113.0
Liability benchmark	149.1	147.5	123.0	119.2	113.0

- 3.9 The Council borrowed £17m more than the liability benchmark on 31st March 2025 (24/25 actual). The reason for this was that the Council borrowed earlier than required to access cheaper longer-term funds and to gain cost certainty in line with its strategy. The over borrowing position was absorbed by debt repayment in April and May 2025. This figure is not excessive and borrowing at a slightly different level to the liability benchmark is common as a result of day to day cashflow variations. As the table shows in future the Council expect borrowing to be at the liability benchmark.
- 3.10 **Affordable borrowing limit:** The Council is legally obliged to set an

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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 in £ millions

	2024/25 limit	2025/26 limit	2026/27 limit	2027/28 limit	2028/29 limit
Authorised limit – borrowing	200.0	200.0	180.0	180.0	180.0
Authorised limit – leases	2.0	2.0	2.0	2.0	2.0
Authorised limit – total external debt	202.0	202.0	182.0	182.0	182.0
Operational boundary – borrowing	170.0	170.0	160.0	150.0	150.0
Operational boundary – leases	1.8	1.8	1.8	1.8	1.8
Operational boundary – total external debt	171.8	171.8	161.8	151.8	151.8

- 3.11 **Treasury Management 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.
- 3.12 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. 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 Council may request its money back at short notice.
- 3.13 The table below estimated future levels of investments for the Council. The £13.0m in long term investments represents the estimated value of strategic pooled funds. The £5.0m represents a suitable liquidity buffer to be held in shorter-term investment products.

Table 9: Treasury Management Investments in £ millions

	2024/25 Actual	2025/26 Forecast	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Near-term investments	26.0	6.7	5.0	5.0	5.0
Longer-term investments	11.9	12.8	13.0	13.0	13.0
TOTAL	37.9	19.5	18.0	18.0	18.0

- 3.14 **Risk management:** The effective management and control of risk are prime objectives of the Council’s treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses.
- 3.15 **Governance:** Treasury Management Investments. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Executive Head of Finance and staff, who must act in line with the treasury management strategy approved by full council. Quarterly reports on treasury management activity will be presented to Audit and Governance Committee (AGC). AGC is responsible for scrutinising treasury management decisions.

4 NON-TREASURY INVESTMENTS FOR SERVICE PURPOSES

- 4.1 The Council lends money to its subsidiary (Rushmoor Homes Limited) and is a funding partner of Farnborough International Limited. Considering the public service objective, the Council is willing to take more risk than with treasury investments. The outstanding loans to RHL will be assessed for expected credit loss each year and charged to the revenue account as necessary.
- 4.2 **Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Executive Head of Finance 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.

5 COMMERCIAL ACTIVITIES

- 5.1 Between 2016 and 2021 in the context of central government financial support for local public services declining, the Council undertook some investment in commercial properties purely or mainly for financial gain. These investments were acquired and managed in line with the Council's Commercial Property Strategy.
- 5.2 With financial return being the main objective, the Council has a risk appetite for property of, Cautious – requirement to adopt a range of agreed solutions for purchase, investment, rental, disposal, construction and refurbishment that is likely to produce good value for money or return and for financial, Cautious – Seek delivery of Corporate Plan – with consideration of the MTFS Reserve & capital receipts Strategies and ability to maintain a balanced budget. The principal risk exposures for commercial investments include level of competition, barriers to entry/exit, and future market prospects. For commercial properties, risks include quality and financial security of tenants, building quality and relevance.

For the existing portfolio of investments these risks are managed by:

- Assessment of the relevant market sector(s) including the level of competition, barriers to entry/exit, future market prospects
 - Assessment of exposure to particular market segments to ensure adequate diversification
 - Appointment of external advisor to manage designated commercial property investments
 - Use of further external advisors if considered appropriate by the Executive Head of Finance
 - Continual monitoring of risk across the whole portfolio and specific assets
- 5.3 The Council can confirm it has no intention to acquire investment assets primarily for yield in the current and following two financial years. The Council thus retains access loans from the PWLB lending facility.
- 5.4 The Council will have due regard to the potential sale of commercial investments where this would be an appropriate option. This will be done as part of an ongoing process assessing the relative risks of return from these investments to the Council.
- 5.5 **Governance:** Decisions on the day-to-day management of commercial investments are made by the Head of Service responsible for the Council's Property and Estates functions in line with the criteria and limits as set out in the Council's constitution.

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Table 10: Prudential Indicator: Net Income from Commercial and Service Investments to Net Revenue Stream in £ millions

	2024/25 Actual	2025/26 Forecast	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Total Net Income from Service and Commercial Investments	7.9	8.1	8.3	8.0	7.7
Proportion of Revenue Stream	57.1%	51.5%	47.7%	46.0%	43.4%

6 OTHER LIABILITIES

- 6.1 In addition to debt detailed above, the Council also set aside funds to cover risks of Business Rate Appeals.
- 6.2 **Governance:** Decisions on incurring new discretionary liabilities are taken by service managers in consultation with the Executive Head of Finance. The risk of liabilities crystallising and requiring payment is monitored by Finance and reported quarterly to committee. New liabilities exceeding £2m are reported to full council for approval/notification as appropriate.

7 REVENUE BUDGET IMPLICATIONS

- 7.1 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.

Table 11: Prudential Indicator: Proportion of Financing Costs to Net Core Revenue Stream in £ million.

	2024/25 Actual	2025/26 Forecast	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Financing Costs	7.0	7.2	6.2	4.7	4.6
Proportion of Net Core Revenue Stream	50.6%	45.8%	35.6%	27.0%	25.9%

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- 7.2 **Sustainability:** The current high levels of borrowing are not considered to be affordable on a long term, sustainable basis. For this reason, asset sales (and FIL loan repayment) of £32.9m over the next four years are expected to reduce borrowing to a more affordable level. Future capital expenditure and borrowing decision will consider their long-term sustainability and affordability and will be reviewed considering the Council's risk appetite and tolerances.
- 7.3 It should be noted that there are uncertainties around the timing of asset sales and the amount that assets can be sold for. The expectations shown in table 3 are that £4.8m of capital receipts will be received in 2025/26 and £25.6m being received in 2026/27. There is the possibility that these amounts may be different or be received in different years.

8 KNOWLEDGE AND SKILLS

- 8.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Executive Head of Finance is a qualified accountant (Institute of Chartered Accountants England and Wales) with 25 years' experience of local government finance, the Property and Estates team include permanent and contracted resources who are appropriately qualified (including a number of Chartered Surveyors).
- 8.2 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 and Lambert Smith Hampton Investment Management Ltd (LSHIM) as commercial property consultants as required depending on the nature of the professional advice sought. 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.