

Appendix 2a

Capital Strategy 2026/27

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1.0 Introduction

1.1 Introduction

The Capital Strategy is a key policy document for the Council and provides guidance on the Capital Programme and the use of Capital Resources and the Asset Management Plans. The strategy reflect links to other Council plans such as the Commercial Investment Strategy. It provides 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.

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 (Prudential Code 2018) and to local policy framework, summarised in this report and is required to be approved by Full Council. The objectives of the Capital Strategy are to :-

- Provide an overview of the governance process for approval and monitoring of capital expenditure,
- Provide a longer term view of capital expenditure plans,
- Provide an overview of asset management planning,
- Provide expectations around debt and use of internal borrowing to support capital expenditure,
- Define the authority's approach to commercial activities including due diligence and risk appetite,

2.0 Capital Expenditure and Financing

2.1 Capital Expenditure

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 (REFCUS), and loans and grants to other bodies enabling them to buy assets. For details of the Council's policy on capitalisation, see the Council's Code of Financial Management and accounting policies.

Capital expenditure is to be incurred in line with Financial Procedure Rules.

In 2026/27, the Council is planning capital expenditure of £29.2m, and for future years is summarised below:

Prudential Indicator Capital Expenditure Actual/Estimate	2024/25 Actual £000s	2025/26 Forecast ⁽¹⁾ £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
General Fund	16,851	24,048	29,457	19,275	8,552
Total	16,851	24,048	29,457	19,275	8,552

⁽¹⁾ Q2 forecast

The main capital projects in 2026/27 include Huntingdon Health and Sport Hub £9m, Vehicle Replacements £2.4m, One Leisure St Ives Pitch £1.4m, Hinchingbrooke Country Park Enhanced Scheme £1.4m, Eastfield House Power Upgrade £0.6m and Additional Waste Rounds £0.6m.

Some projects within the proposed capital programme may be eligible for external funding from organisations such as Sport England, the National Lottery, or government departments including the Department for Culture, Media and Sport. Other projects could benefit from the proposed new approach to using the Community Infrastructure Levy (CIL) to support capital infrastructure investment. Securing additional funding from these sources would reduce the level of borrowing required by the Council, thereby lowering the Capital Financing Requirement (CFR) and, in turn, reducing the associated revenue costs of borrowing.

In addition to the proposed capital programme outlined above, Cabinet has approved the next stage of a regeneration project with Capital and Centrica (C&C) focused on sites within our Market Towns. C&C are experienced property developers with a strong track record of delivering innovative, high quality new developments.

This project will see the delivery of over 300 homes and additional commercial space in our area. This in turn will lead to an increase in the number of residents and businesses in our area from which the Council can generate additional Council Tax and Business Rate income that can be reinvested in local services.

The project requires short term financing from the Council for which a specific earmarked reserve of £2m has been set aside.

2.2 Governance

Service managers bid annually through the “New Ideas” programme and the capital bidding process, to include new projects in the Council’s capital programme. Continuation of replacement schemes such as fleet replacement, or IT hardware/software are considered for inclusion by the s151 Officer. Schemes where external funding is available or a return on investment is made, will be considered more favourably.

Major capital projects will be monitored through its lifecycle by the Treasury & Capital Management Group.

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:

Capital Financing	2024/25 Actual £000s	2025/26 Forecast ⁽¹⁾ £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
External sources	12,908	14,862	9,936	4,001	4,001
Own resources	3,360	2,961	50	50	2,009
Internal Borrowing/Debt	514	6,225	19,471	15,224	2,542
Total	16,851	24,048	29,457	19,275	8,552

⁽¹⁾ Q2 forecast

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 (capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Replacement of prior years' debt finance	2024/25 Actual £000s	2025/26 Forecast ⁽¹⁾ £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
MRP	2,824	2,861	3,350	3,943	4,115

⁽¹⁾ Q2 forecast

To reduce the Council's reliance on debt and the associated high financing costs, Finance and Planning have submitted a separate report detailing Stage 2 of the Council's Community Infrastructure Levy (CIL) Governance Review. This builds on the Statement of Intent agreed in June 2024. The report recommends a more flexible use of CIL to support Council capital programme projects, enabling CIL to be applied to eligible Council-led schemes. This would reduce reliance on borrowing and reserves, improve long-term financial sustainability, and allow for forward funding where appropriate. Overall, the approach seeks to maximise the benefit of CIL for Huntingdonshire while ensuring the efficient and prudent use of Council reserves.

The Council's full minimum revenue provision statement is at Appendix 4.

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 increase by £16.1m during 2026/27. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Prudential Indicator Estimate of Capital Financing Requirement	2024/25 Actual £000s	2025/26 Forecast ⁽¹⁾ £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
General Fund services	72,855	79,080	94,911	105,742	104,220
Total CFR	72,855	79,080	94,911	105,742	104,220

⁽¹⁾ Q2 forecast

2.3 Asset management

To ensure that capital assets continue to be of long-term use, the Council has strategies to manage assets held by services.

2.4 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 has budgeted to receive £0.1m of capital receipts in the coming financial year and following years as follows:

Capital Receipts	2024/25 Actual £000s	2025/26 Forecast ⁽¹⁾ £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
Asset sales ⁽²⁾	229	100	50	50	25
Loans repaid	32	0	0	0	1,984
Total	261	100	50	50	2,009

⁽¹⁾ Q2 forecast

⁽²⁾ Includes right to buy clawback which ceases in 2028/29. In 2028/29 a loan to Urban and Civic Ltd is repaid, as this was paid as a capital loan the repayment of principal is classed as a capital receipt.

3.0 Borrowing, debt and investments

3.1 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 short-term borrowing. 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 expenditure which reduces overall borrowing.

Due to decisions taken in the past, the Council currently (December 2025) has £34.26m borrowing at a weighted average interest rate of 2.84%, and £79.59m treasury investments (bank, MMFs, DMO, property fund) at an average rate of 3.84%.

3.2 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 4.4%) and long-term fixed rate loans where the future cost is known but higher (currently 5.3% for 10 years).

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

Projected levels of the Council's total outstanding long-term external debt (which comprises borrowing, and leases are shown below, compared with the capital financing requirement (see above).

Prudential Indicator Gross Debt and the CFR	2024/25 Actual £000s	2025/26 Forecast ⁽¹⁾ £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
Debt	34,264	34,255	34,255	34,255	34,255
Leases	545	544	543	542	541
Total	34,809	34,799	34,798	34,797	34,796
Capital Financing Requirement	72,855	79,080	95,201	106,482	104,910

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 Council expects to comply with this in the medium term.

3.3 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 at least £10m at each year-end. This benchmark is currently £(17.1m) and is forecast to rise to £(31.9)m in 2028/29.

Borrowing and the Liability Benchmark	2024/25 Actual £000s	2025/26 Forecast ⁽¹⁾ £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
Outstanding borrowing	34,264	34,255	34,255	34,255	34,255
Liability benchmark	(5,745)	(9,095)	(13,088)	788	(3,491)

The table shows that the Council expects to reduce its borrowing towards the liability benchmark over the long-term. It is not expected to reduce to the benchmark because fixed borrowing that took place in the past (and was required at that time), and the Council's current high levels of balance sheet resources (reserves and working capital).

3.4 Affordable borrowing limit

The Council 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.

Prudential Indicators: Authorised limit and Operational Boundary for external debt	2025/26 Limit £m	2026/27 Limit £m
Authorised limit – General	95	95
Authorised limit – Loans	15	15
Authorised limit – CIS	25	25
Authorised limit – total external debt	135	135
Operational boundary – General	75	75
Authorised limit – Loans	15	15
Authorised limit – CIS	25	25
Operational boundary – total external debt	115	115

Further details on borrowing are in detailed in the Treasury Management Strategy.

3.5 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.

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 could be held for longer terms is generally invested in the DMO. 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 but with a longer notice period.

Treasury management investments	2024/25 Actual £000s	2025/26 Forecast⁽¹⁾ £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
Near-term investments	65,113	60,000	55,500	56,625	52,625
Longer-term investments	4,000	4,000	4,000	4,000	4,000
Total	69,113	64,000	59,500	60,625	56,625

Further details on treasury investments are in the Council's Treasury Management Strategy 2026/27.

3.6 Risk Management and Governance

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 and details the extent to which financial derivatives may be used to manage treasury risks.

The treasury management prudential indicators are included in the Treasury Management Strategy

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Corporate Director (Finance and Resources) and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are presented to Overview and Scrutiny Panel, Cabinet, and Council. The Overview and Scrutiny Panel (Performance and Growth) is responsible for scrutinising treasury management reporting.

4.0 Investments for Service Purposes

4.1 Service Investments

The Council has made investments to assist local public services, including making loans to local organisations. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break-even and/or generate a surplus.

4.2 Governance

Decisions on service investments are made by the relevant service manager in consultation with the Corporate Director (Finance and Resources), and must meet the criteria and limits laid down in the Treasury Management Strategy. Most loans and shares are capital expenditure, and purchases will therefore also be approved as part of the capital programme.

Further details on service investments are in the Investment Strategy.

5.0 Commercial Activities

5.1 Purpose of commercial activity

The Council has invested in commercial property, the total commercial investments are valued at £73.2m (31/03/2025) with the largest being Tri-link, Wakefield at £15.9m. The total portfolio provides a gross yield (rental income/valuation) of 6.53% for 2024/25. The Council's Commercial Investment Strategy, introduced in 2015, was last refreshed and reviewed in 2025.

5.2 Risk Management

The principal risk exposures include see also Annex A for further description and mitigation.

- Declining capital values risk
- Rising borrowing costs risk
- Illiquidity of assets risk
- Void risk
- Economic environment risk
- Regulatory risk
- Policy risk
- Resource risk

In order that commercial investments remain proportionate to the size of the Council, these were subject to a 6% expected gross yield at purchase.

5.3 Governance

Decisions on commercial investments are made by the Corporate Director (Finance and Resources), in line with the criteria and limits approved by Council in the Treasury Management, Capital and Investment Strategies. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme. Additionally, capital proposals are required to be submitted to the Treasury and Capital Management Group for scrutiny before submission for approval.

The new 2025 strategy sets out the framework that the Council will use to govern its Commercial Investment Strategy. The main aims being to generate sustainable revenue income streams, support economic growth and enhance public services.

The governance arrangements are that the council will ensure that a Board is convened (currently the Treasury and Capital Management Group - TCMG) to support consistent decision making. This Board will comprise Officers and Members and will hold a Terms of Reference appropriate to its activities, and will follow the council's constitution. The Board (TCMG) will be advised of key decisions and appraised with regular reports on the performance of the Investment portfolio.

The governance will from time to time need to be agile to respond to rapid market changes that impact acquisitions or disposals whilst complying with existing schemes of delegation.

Urgent decisions can be taken by exception with delegated authority to the Chief Executive Officer, Section 151 Officer, Leader of the Council, and Portfolio Holder, in line with the council's constitution.

Decision will take account of the Strategy as a whole including the guiding principles of the Strategy which are;

- **Commercial Viability:** Each investment must demonstrate strong financial returns or significant socio-economic benefits. It is recommended that investments profile a returning yield of 5-8% to be considered.
- **Local Impact:** Prioritise property investments that enhance Huntingdonshire's economic resilience and infrastructure.
- **Risk Management:** Conduct rigorous due diligence, diversification, and ongoing monitoring.
- **Sustainability:** Focus on environmentally responsible projects that contribute to Net Zero goals.
- **Divestment:** Investments should be standalone and be divestable in a timely manner should the investment trajectory look unfavourable.

Further details on commercial investments and limits on their use are in the Investment Strategy.

Further details on the risk management of commercial investments are in Annex A.

Prudential Indicator: Net Income from Commercial and service investments to net revenue stream	2024/25 Actual £000s	2025/26 Forecast £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
Net income from service and commercial investments ⁽¹⁾	3,409	2,810	3,755	3,796	3,780
Net revenue stream	26,058	27,373	27,715	27,316	28,284
Proportion	13%	10%	14%	14%	13%

⁽¹⁾This includes CCLA property fund, loans to local organisations, and commercial estates.

6.0 Liabilities and Guarantees

6.1 Liabilities

In addition to debt of £34.259m as at 31st December 2025, the Council has also set aside as at 31st March 2025 £3.7m to cover risks from NDR Appeals. The Council is also at risk of having to pay for contingent liabilities of £2.9m as at 31st March 2025, including Contaminated Land (£2.2m) and Municipal Mutual Insurance Liquidation (£0.7m). The Council has not put aside any money because the requirement to pay will only materialise if a future event outside the control of the Council occurs.

6.2 Risk Management and Governance

Decisions on incurring new discretionary liabilities are taken by service managers in consultation with the Corporate Director (Finance and Resources). The risk of liabilities crystallising and requiring payment is monitored by the Finance team. New liabilities are reported to the Corporate Director (Finance and Resources) for approval and notification and inclusion in the statement of accounts.

Further details on liabilities are included in the 2024/25 statement of accounts.

7.0 Revenue Budget Implications

7.1 Minimum Revenue Provision

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.

Prudential Indicator: Proportion of financing costs to net revenue stream	2024/25 Actual £000s	2025/26 Forecast⁽¹⁾ £000s	2026/27 Budget £000s	2027/28 Budget £000s	2028/29 Budget £000s
Net revenue stream	26,058	27,373	27,715	27,316	28,284
Financing costs (£m)	3,795	3,833	4,322	4,915	5,087
Proportion of net revenue stream	15%	14%	16%	18%	18%

Further details on the revenue implications of capital expenditure are set out in the 2026/27 MTFS.

7.2 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 can extend for up to 50 years into the future. The Corporate Director (Finance and Resources) is satisfied that the proposed capital programme is prudent, affordable and sustainable, on the basis that;

- Services have been involved in the process to identify future capital requirements.
- MRP has been calculated according to the approved policy.
- A business plan will need to be produced for each significant project before it commences.
- Large capital projects will be monitored by the Project Programme Board (where appropriate).
- Capital receipt projections are prudent and based on historic experience.
- The costs of borrowing have been built into the budget and MTFS.

8.0 Knowledge and Skills

8.1 Qualifications

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example both the Corporate Director (Finance and Resources) and the Chief Finance Officer are qualified accountants. The Council can provide junior staff with funding to study relevant professional qualifications including CIPFA and AAT.

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 treasury management advisers and uses other consultants as specialist tasks are identified. 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. The Council's Code of Procurement sets out the regulatory and legal framework for procuring professional services.

9.0 Capitalisation of Debt Charges (New Policy)

9.1 Existing Policy

Huntingdonshire currently charge all debt financing incurred for capital projects to revenue. This is normal practice for most local authorities. As revenue pressures have increased over the years, more local authorities are opting to capitalise interest costs incurred. This applies to major capital projects whilst the asset is under construction.

It is permissible under Prudential Borrowing Guidelines to capitalise such costs. These could comprise interest on bank overdrafts and short- and long-term debt, plus amortisation of ancillary costs incurred in connection with the arrangement of debt, arising as a result of fixed assets taking a substantial period of time to bring into service.

9.2 Policy from 2026/27

Under the new policy of capitalising these borrowing costs, the financial impact will be to reduce revenue costs during the development phase of large-scale capital projects. It should be noted that these debt charges will be chargeable to revenue in later years once each relevant project becomes operational.

The proposed accounting policy in respect of the capitalisation of debt charges that will be in place for the 2026/27 accounts is as follows:

The Council will capitalise borrowing costs incurred against major projects, whilst the assets are under construction. Major projects are considered to be those where total planned (multi-year) borrowing for a single asset (including land and building components) exceeds £5m, and where the construction period exceeds twelve months. This applies to the first tranche of capital expenditure financed from borrowing up until the asset is operationally complete and ready to be brought into use. Both tests will be determined using the estimated costs at the time of preparing the accounts in the first year of capitalisation. Should either test fail in subsequent financial years, the prior year's treatment will not be adjusted retrospectively.

Where borrowing costs are to be capitalised and specific funds are borrowed, the amount to be capitalised will be the actual borrowing cost incurred on that borrowing during the period, less any investment income arising on the temporary investment of any borrowings taken out in advance of need.

Where an authority borrows funds generally, the Code requires authorities to determine a capitalisation rate to expenditure incurred on the asset. This rate is to be calculated as the weighted average of borrowing costs that are outstanding during the capitalisation period.

Huntingdonshire will disclose within the PPE note in the Statement of Accounts the amount of borrowing costs capitalised during the year, and the capitalisation rate used to determine the amount of eligible borrowing costs.

A capital budget will be approved each year to allow for capitalised debt charges. At year end, the charge will be made to the relevant project by crediting revenue (interest charges) and debiting the capital project accordingly.

Annex A

Risks inherent in the Council's investments in commercial property

	Risk	Description of risk	Mitigation
A	Falling capital value	Reduction in the market value of the property	<p>Commission regular condition surveys</p> <p>Ensure maintenance is carried out (including tenant repairs)</p> <p>Perform regular maintenance</p> <p>Plan capital improvements</p> <p>Monitor general market movements, if falling consider divestment of some of the portfolio</p> <p>Use active asset management including negotiation leases before terminations to maintain asset values</p>
B	Rising borrowing costs	Increase in the cost of servicing loan interest	Only use fixed rate borrowing
C	Illiquidity of assets	Assets cannot be sold in the short-term	<p>Keep sufficient funds in short-term investments</p> <p>Keep funds in the CCLA property fund, which is property based but is available to sell quicker than property</p> <p>Keep open channels to short-term borrowing</p> <p>Seek relationships with other local authorities that have surplus cash</p> <p>Maintain properties to make them more desirable if a sale is required</p>
D	Void risk	Empty properties reduce rental income	<p>Market empty properties on an active basis</p> <p>Keep close contact with tenants so their intentions are known</p> <p>Monitor tenant covenant</p>

E	Economic environment risk	General economic condition worsen leading to reduced demand for commercial properties	Diversify the portfolio geographically and by type (retail, commercial, industrial)
F	Regulatory risks	Changes to legislation or accounting regulations effect the operation of the CIS	Maintain awareness of the direction of Government and Treasury policies. Influence policy direction through nation groups, e.g. CIPFA, LGA, s151. Respond to consultations on relevant regulation changes
G	Policy risks	Changes to Council priorities lead to lack of corporate support for the CIS	Influence corporate policy through officer forums Maintain relationships with political leadership Market the CIS internally to ensure the strategy is understood Integrate the CIS income streams into the budget
H	Resource risk	Lack of resource in terms of skills and time	Pay market salaries to recruit and retain the people with the right skills and experience Provide training to keep skills up to date Have sufficient budget to buy in professional skills and advice when required Provide member commercial investment training