

Capital Strategy 2026/27

Introduction

1. This capital strategy 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. 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.
3. The report also includes the prudential indicators, as required by the Prudential Code.

Capital Expenditure and Financing

4. 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.
5. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are generally not capitalised and are charged to revenue in year.
6. In 2026/27, the Council is planning capital expenditure of £46.196 million as summarised below:
7. Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2024/25 Actual	2025/26 Forecast	2026/27 Budget	2027/28 Budget	2028/29 Budget
General Fund services	15.331	20.948	14.646	18.538	16.250
Council housing (HRA)	28.652	31.943	31.550	30.530	30.900
Capital investments	-0.007	0.000	0.000	0.000	0.000
TOTAL	43.976	52.891	46.196	49.068	47.150

8. The General Fund capital programme includes the cyclical replacement of vehicles and plant, and containers/vehicles for the new Waste Strategy.
9. Due to the ongoing comparatively high, albeit reducing, interest rate environment, no further expenditure on commercial and residential properties is assumed at this time (save for exceptional opportunities).
10. The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised by, other local services. HRA capital expenditure is therefore recorded separately and includes the maintenance and decarbonisation of existing stock and the building and acquisition of new homes over the forecast period, in line with the Housing strategy.
11. **Governance:** Service managers bid annually in the early Autumn to include projects in the Council's capital programme. Bids are collated by the Chief Finance Officer and reviewed collectively by the Capital Board. The Resources and Transformation Overview and Scrutiny Panel appraises the proposed programme and makes recommendations to the Cabinet. The final capital programme is then presented to Cabinet and to Council in February each year.
12. Full details of the Council's capital programme are available within the February 2026 Cabinet papers (Medium Term Financial Plan / Annual Budget 2026/27).
13. 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 (loan/borrowing). The planned financing of the above expenditure is as follows:

14. Table 2: Capital financing in £ millions

	2024/25 Actual	2025/26 Forecast	2026/27 Budget	2027/28 Budget	2028/29 Budget
External sources	10.211	14.466	9.992	16.121	12.885
Capital Receipts	6.086	7.200	6.080	2.000	1.000
Capital Reserves	6.088	0.950	2.932	2.630	1.131
Revenue Contributions	10.728	11.100	10.200	10.500	10.800
Debt / Loan	10.863	19.175	16.992	17.817	21.334
TOTAL	43.976	52.891	46.196	49.068	47.150

15. Prior to 2023/24 any borrowing required to meet the Council's capital expenditure was met by using cash held in reserves rather than raising loans. This action is known as internal borrowing. Internal borrowing is replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP, explained further below). Alternatively, additional (beyond those already anticipated within the financing as shown within table 2) proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and debt repayment are as follows:

16. Table 3: Replacement of debt finance in £ millions

	2024/25 Actual	2025/26 Forecast	2026/27 Budget	2027/28 Budget	2028/29 Budget
Capital Expenditure Financed by Debt / Loan	10.863	19.175	16.992	17.817	21.334
Own resources - Net Debt Repayment	-4.100	-2.402	-2.808	-2.499	-2.331
Own resources - MRP Provision	-2.415	-3.148	-3.691	-4.000	-4.168
Movement in CFR	4.348	13.625	10.493	11.318	14.835

17. 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, debt repayments and capital receipts used to replace debt. The CFR is expected to increase by £10.493 million during 2026/27. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

18. Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2025 Actual	31.3.2026 Forecast	31.3.2027 Budget	31.3.2028 Budget	31.3.2029 Budget
General Fund services	9.639	17.258	17.841	16.490	17.585
Council housing (HRA)	137.267	143.709	154.054	167.159	181.335
Capital investments	20.537	20.102	19.666	19.231	18.795
Total CFR at Year End	167.443	181.069	191.562	202.880	217.715
Movement in CFR from one year to the next	1.747	13.625	10.493	11.318	14.835

19. **Minimum Revenue Provision:** Where General Fund capital spend has been financed by loan (internal borrowing), and has increased the CFR, the Council is required to make a provision to repay a proportion of the accumulated amount each year. This amount is charged to revenue and is called the Minimum Revenue Provision (MRP). This charge reduces the CFR each year and is based on the expected economic use period related to the capital expenditure.
20. Full Council is required to approve an MRP statement in advance of each financial year. The Council is recommended to approve the following MRP statement:
- “For capital expenditure that has been incurred, and which has given rise to a CFR, the MRP policy for expenditure other than that incurred on investment property and dwellings, shall be to charge revenue an amount equal to the depreciation of any asset financed by loan. The MRP policy specific to investment properties and dwellings financed by loan, shall be to charge revenue an amount equivalent to the sum of borrowing utilised, over a repayment period of 50 years.”***
21. For Council Housing and the refinancing settlement of 2012, the Council approved a business plan that charged amounts to revenue to ensure that any borrowings are reduced in accordance with the maturity of the debt outstanding. The proposed 2026/27 HRA budget confirms that new borrowing is required to provide the necessary finance to the Capital Programme.
22. **Asset management:** Service Managers from across the Council manage assets in their service delivery areas. The Council’s Service Manager for Estates and Valuation has overall responsibility for the

management of the Council’s property estate records, including liaising with the Council’s Accountancy department on statutory annual financial reporting. To ensure that property assets continue to be of long-term use, the Council has produced a Strategic Asset Management Strategy (SAMP).

23. **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds (capital receipts), can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. Council dwelling sales through the Right to Buy scheme also generate capital receipts. The Council plans to receive £3.540 million of capital receipts in the coming financial year as follows:

24. Table 5: Capital receipts in £ millions

	2024/25 Actual	2025/26 Forecast	2026/27 Budget	2027/28 Budget	2028/29 Budget
Asset sales	5.181	6.098	3.540	1.410	1.100
Loans repaid	0.250	0.050	0.000	0.000	0.000
TOTAL	5.431	6.148	3.540	1.410	1.100

25. The majority of forecast asset disposals relate to Right to Buy receipts.

Treasury Management

26. 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 (‘spent’ in this context also includes the payment of collected council tax to the relevant precepting authorities) but will become 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.
27. At the last balance sheet date (31/03/2025), the Council had £132.9 million borrowing at an average interest rate of 3.69% (due principally to the HRA refinancing settlement in 2012) and held £32.4 million treasury investments (including sums received from

Central government for redistribution) earning an average rate of 4.76%.

28. **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 cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.
29. 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.
30. Projected levels of the Council's total outstanding debt are shown in table 6 below, compared with the capital financing requirement (see above).
31. Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £millions

	31.3.2025 Actual	31.3.2026 Forecast	31.3.2027 Budget	31.3.2028 Budget	31.3.2029 Budget
Debt - HRA settlement	109.9	105.8	101.7	97.6	93.5
Debt - Capital programme	23.0	27.0	48.0	73.0	89.0
Total debt	132.9	132.8	149.7	170.6	182.5
Capital Financing Requirement	167.4	181.1	191.6	202.9	217.7

32. 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 for the duration of the current programme.
33. The figures shown in the Debt – Capital Programme row highlight the amount of external borrowing that is anticipated to be needed from 31 March 2025, but this will be managed against actual overall cash balances, as part of the Treasury Strategy.
34. **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.

35. Table 7: 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 – total external debt	233.6	230.9	236.7	245.3	261.5
Operational boundary – total external debt	214.5	211.0	216.2	224.1	239.6

36. Further details on borrowing are included within the treasury management strategy.
37. **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.
38. 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.

Table 8: Treasury management investments in £millions

	31.3.2025 Actual	31.3.2026 Forecast	31.3.2027 Budget	31.3.2028 Budget	31.3.2029 Budget
Near-term investments	23.3	10.0	10.3	10.2	10.1
Longer-term investments	9.1	9.1	9.1	9.1	9.1
TOTAL	32.4	19.1	19.4	19.3	19.2

39. Further details on treasury investments are included within the treasury management strategy
40. Table 8 highlights that the majority of the Council’s cash will be utilised over the period through internal borrowing to fund the needs of the Council’s capital programme, until minimum balances reach £10 million. Use of cash for capital programme financing will then be supplemented through external borrowing, when required. The Council should expect to retain a minimum level of cash, known as the **Liability Benchmark**. The General Fund balance reserve at £3 million and the HRA reserve at £1 million are an absolute minimum, with further headroom added to set where the Council’s basic benchmark should be (**£10 million** in total).
41. **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by Council. A mid-year and an outturn report on treasury management activity are presented to the audit committee. The audit committee is responsible for scrutinising treasury management decisions.

Commercial Activities for the Purpose of Economic Sustainability, Regeneration and Income

42. The Council has invested in commercial and residential property to support a sustainable local economy within the New Forest and encourage regeneration projects. The Council will invest in and will lend to its Wholly Owned Trading Company (WOTC) and will in return receive an income. Investment properties were valued at £28.3 million on the Council’s balance sheet as at 31/03/25 and long terms loans to the WOTC totalled £3.713 million as at the same date.
43. To support the wider objective of economic sustainability and regeneration the Council accepts higher risk on commercial and

residential investment than with treasury investments. The principal risk exposures include vacancies and falls in capital values. These risks in relation to commercial property are managed by predominantly targeting acquisitions with existing medium-long term tenancies in place and being sensible about the purchase price in relation to the Council's desire to promote and sustain employment sites within the district, and the income yields achievable. In order that commercial investments remain proportionate to the size of the authority, these are currently subject to an overall maximum investment limit of £50 million. Residential property investments are currently subject to an overall investment limit of £10 million.

44. Expenditure on these approved strategies remains paused due to the interest return that can currently be received on cash balances, and as the Council is now in an external borrowing position, the interest charges are currently too high to satisfy the financial parameters of the business case requirements.
45. **Governance:** Decisions on commercial investments are made by an investment panel in line with the criteria and limits approved by Council in the Commercial Property Investment strategy. Decisions on residential investments are taken by the Board of Directors of the wholly owned trading company, in line with the criteria and limits approved by Council in the Residential Property Strategy. Property and most other commercial investments are also capital expenditure and purchases have therefore also been pre-approved as part of the capital programme.
46. Further details, including the risk management on commercial and residential investments are outlined in these respective strategy documents;
 - Commercial Property Investment Strategy 2022
 - Residential Property Investment Strategy

Other Liabilities

47. In addition to debt of £132.9 million detailed above, the Council is committed to making future payments to cover its pension fund liability (valued at £5 million as at 31/03/2025), It has also set aside £1.9 million in provisions, with £1.4 million of this to cover risks of business rate appeals.

48. **Governance:** Decisions on incurring new discretionary liabilities are taken by the Chief Finance Officer. The risk of liabilities crystallising and requiring payment is monitored by Accountancy and reported when necessary.
49. Further details on liabilities are shown within the Council’s draft balance sheet on page 18 of the 2024/25 draft Annual Financial Report, further supported by notes to the accounts originally published May 2025 (to be confirmed following conclusion of the external audit by the 28 February 2026 backstop date):
50. [Draft Annual Financial Report 2024-25](#)
51. 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 (In relation to the finance costs incurred within the General Fund, the income to be generated from Commercial and Residential property will exceed the additional MRP and interest charges, but as this income is to be used to directly contribute towards the funding of services, the income is not netted off against the finance costs within the table 9.) . 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 for the General fund, and the income receivable from rents within the HRA.
52. Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	31.3.2025 Actual	31.3.2026 Forecast	31.3.2027 Budget	31.3.2028 Budget	31.3.2029 Budget
General Fund; Financing costs (£m)	1.97	2.93	3.21	3.31	3.39
General Fund; Proportion of net revenue stream	8.0%	11.5%	12.3%	12.7%	13.1%
Financing costs (£m)	5.0	5.6	6.8	8.1	8.8
HRA; Proportion of net revenue stream	13.7%	15.2%	17.4%	19.7%	20.4%

53. The Financing costs of both the General Fund and HRA are set to increase as a result of the required Capital Financing Requirement, reducing cash balances (and assumed interest rates) for investment and costs of external borrowing, as the council has an ongoing greater reliance on external debt to fund its capital programme.
54. **Financial 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 50 years into the future. The Chief Finance Officer is satisfied that the proposed capital programme is appropriate according to required projects aligned to service delivery and in light of the proposed Local Government Reorganisation. The medium-long term affordability remains reliant on service change savings being delivered, and government transitional support (with regards to the waste strategy roll-out & the large decarbonisation requirements within the HRA).

Knowledge and Skills

55. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Finance Officer, Assistant Director – Finance, the Principal Service Accountant and the Principal Corporate Accountant are all qualified accountants with several years' experience between them. Senior Estates, Valuation & Facilities Officers are highly experienced in commercial property transactions and facilities management and are supported by experienced and professionally qualified surveyors and valuers (members of the Royal Institution of Chartered Surveyors).
56. 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 has a Service Level Agreement with Hampshire County Council's Treasury Management department for day-to-day treasury management activities. The Council instructs external surveyors, valuers, architects and quantity surveyors to provide specialist advice on specific projects, where required. 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.