

Capital Strategy Report 2025/26

Introduction

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.
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.

Capital Expenditure and Financing

3. Capital expenditure is where the Council expends money on assets, such as property, vehicles or other assets 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 £5,000 are generally not capitalised and are charged to revenue in year. A review is currently being undertaken as to appropriate de-minimus level below which capitalisation will not take place. Details of the Council's policy on capitalisation is set out in the annual Statement of Accounts.
4. In 2025/26, the Council is planning capital expenditure of £346.5m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

Capital Expenditure & Financing (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total 2025/26-2029/30
	Budget	Budget	Budget	Budget	Budget	Budget	
Corporate Landlord	13.5	9.7	36.1	24.3	3.7	4.5	78.3
Housing GF	76.1	117.2	34.6	15.3	0.0	0.0	167.1
Schools	28.3	16.9	26.6	5.8	5.3	0.0	54.6
Regeneration	45.6	106.5	33.6	23.3	14.1	0.0	177.5
Public Realm	24.9	17.8	4.7	1.6	6.2	0.2	30.5
South Kilburn	33.4	28.0	20.2	16.9	7.6	1.2	73.9
HRA	54.7	50.4	94.1	28.0	13.9	11.1	197.5
Total Capital Expenditure	276.5	346.5	249.9	115.2	50.8	17.0	779.4

Appendix F

5. The Capital Programme comprises of projects approved by Cabinet from previous year budget setting, new projects approved in year and being brought forward including those promoted from the pipeline provision. Furthermore, future pipeline projects have been included in Table1.
6. The main General Fund capital projects between 2025/26 and 2029/30 include the Council Homes Programme £167.2m (including I4B investment); Housing Zones Regeneration Programme £90.0m; South Kilburn regeneration programme £73.8m; Schools capital programme £54.7m; Bridge Park Regeneration £46.9m; and Development of College Northwest London £49.9m. The Council also plans to incur capital expenditure on investments, which are discussed in more detail within the Investment Strategy for 2025/26.
7. 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 building of new homes as well as expenditure on improving and maintaining council homes over the planned period. Total planned expenditure between 2024/25 and 2029/30 is expected to be £197.5m.
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

Capital Financing (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total 2025/26-2029/30
	Budget	Budget	Budget	Budget	Budget	Budget	
Grants	66.1	40.3	30.8	7.1	5.7	2.0	85.9
Section 106	27.5	13.8	29.6	19.1	11.9	0.0	74.4
Capital Receipts	28.9	41.0	29.9	35.4	2.7	1.2	110.2
Earmarked Reserves	1.2	0.9	0.9	0.9	0.8	0.0	3.5
Major Repairs Reserve	24.0	16.4	0.0	0.0	0.0	0.0	16.4
Revenue Contributions	10.6	0.6	0.6	0.6	0.6	0.6	3.0
Borrowing	118.2	233.5	158.1	52.1	29.1	13.2	486.0
Total Capital Financing	276.5	346.5	249.9	115.2	50.8	17.0	779.4

9. Excluding external sources and the Council's own resources, the remainder of assets are funded from debt. As with any debt, it must be repaid over time, and for a local

Appendix F

authority there is a statutory requirement to set aside “Minimum Revenue Provision” (MRP) in each year’s budget for debt repayment. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP to 2029/30 is as set out in the table 3. There are no known capital receipts available for the repayment of debt.

Table 3: Funds available for the replacement of debt

Debt Repayments (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total 2025/26-2029/30
	Forecast	Estimate	Estimate	Estimate	Estimate	Estimate	
MRP on Prudential Borrowing	15.1	16.7	18.8	20.8	22.3	23.2	101.8
MRP on PFI Schemes & Leases	5.1	5	4.8	5.2	4.4	2.6	22.0
Total MRP	20.2	21.7	23.6	26.0	26.7	25.8	123.8
Total Loan Repayments Deemed Equivalent to MRP	0.9	1.0	1.1	1.3	1.4	1.5	6.3
Total MRP & Loan Repayments	21.1	22.7	24.7	27.3	28.1	27.3	130.1

10. The Council’s full Minimum Revenue Policy Statement is presented as an Appendix J to the annual Council Tax and Budget Setting Report.
11. 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 used to replace debt. The CFR is expected to increase to £1.52bn during 2025/26 and to £1.68bn by 2029/30. 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

CFR Movement (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
Opening CFR	1,236.6	1,333.4	1,544.3	1,677.7	1,702.6	1,689.6
Capital Expenditure	276.5	346.5	249.9	115.2	50.8	17.0
External Resources	(93.6)	(54.1)	(60.4)	(26.2)	(17.6)	(2.0)
Internal Resources	(64.7)	(58.9)	(31.4)	(36.9)	(4.1)	(1.8)
MRP	(20.2)	(21.7)	(23.6)	(26.0)	(26.7)	(25.8)
Capital Loans Repaid	(0.9)	(1.0)	(1.1)	(1.3)	(1.4)	(1.5)
Use of capital receipts	0.0	0.0	0.0	0.0	0.0	0.0
Closing CFR	1,333.7	1,544.2	1,677.7	1,702.5	1,703.6	1,675.5

Capital Programme Governance and Prioritisation

12. The capital programme is updated annually for new schemes, revised profiling, slippage, and changes in expenditure projections. The capital programme and capital pipeline proposals 2025/26 report sets out the indicative capital programme that will be presented to Council in February 2025 as part of the annual budget setting cycle.

Pipeline Schemes

13. During the year the individual capital sub-boards developed a comprehensive list of opportunities and proposals for future aspirational capital investment to meet the council's strategic objectives. These outline bids are then collated by the Capital Programme Management Office. Currently there are 19 schemes on the Pipeline totalling £598.5m which would potentially be funded through grants, levies, section 106 contributions or borrowing. At this stage these strategic pipeline schemes are only indicative and there is a requirement that individually they will still go through the normal approval routes (i.e. Sub-board, Capital Programme Board or Cabinet). Furthermore, Officers will be required to produce detailed business cases, undertake feasibility and consult as appropriate before getting to this stage. The Pipeline schemes have been included in the main capital programme.

Capital Programme Board

14. This Board is the main forum for reviewing the financial viability of the new capital bids and monitoring of existing programme. The Board reviews all capital investment and new opportunities, oversees and maintains the list of pipeline schemes and ensures outcomes are aligned with Council's aspirations and reflective of the circumstances within Brent. The board also ensures that all projects have a viable business case and that value for money (VfM) will be delivered for the Council.

Prioritisation criteria

15. The general criteria for scoring proposals are summarised below, higher scores were applied based on the following criterion:
 - **Strategic Alignment** - How the scheme meets the outcomes of a key service objective as stated in a strategy document, business plan or action plan.
 - **Statutory Obligations** - How the delivery of a scheme is essential to ensuring the Council meets the statutory need and without the project, the Council would otherwise be at risk of failing to meet.
 - **Risk** - Whether the success of the project is dependent on mitigating high associated risks.
 - **Financial Return** - Whether the scheme generates ongoing revenue savings, a capital receipt or attract external funding (partial or fully).

Appendix F

- **Demand and Demographic Changes** - whether the scheme is required following a change in demographic, economic or social change that impact the borough and will reduce the demand for services in the borough.

Asset management

16. To ensure that capital assets continue to be of long-term use, the Council has a Housing Asset Management strategy in place and a Property Asset Management Strategy under review. The strategies provide a planning tool which ensures the assets are well managed and maintained in order to maximise the benefits for local residents.

Asset disposals

17. 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. The Council is currently also permitted to spend capital receipts on service transformation projects until 2025/26. Repayments of capital grants, loans and investments also generate capital receipts.
18. The Council plans to receive £28.9m of capital receipts in the current financial year, and a further £41.0m in 2025/26. A significant proportion of these arise from asset disposals on the South Kilburn site as well as housing sold under the right to buy (RTB) scheme. The capital receipts expected in future financial years are as follows:

Table 5: Capital receipts

£m	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total 2025/26- 2029/30
	Forecast	Estimate	Estimate	Estimate	Estimate	Estimate	
Asset Sales	28.9	41.0	29.9	35.4	2.7	1.2	110.2
Capital Loans Repaid	0.9	1.0	1.1	1.3	1.4	1.5	6.3
Total Capital Receipts	29.8	42.0	31.0	36.7	4.1	2.7	116.5

Treasury Management

19. 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.
20. 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.

Appendix F

21. On 31st December 2024, the Council held £833.3m of borrowing (£763.3m long term and £70.0m short term) at an average rate of 3.9% and £53.9m of cash investments at an average rate of 5.1%.

Borrowing strategy

22. The Council's main objectives when borrowing is 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 at higher rates (currently available at around 5.4% to 5.8%) and long-term fixed rate loans where the future cost is lower (PWLB Annity Standard Rate currently around 5.4% to 6.3%). 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.
23. Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the capital financing requirement (see above).

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

Gross Debt & the Capital Financing Requirement (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
External Loans	846.5	1,055.5	1,183.0	1,202.4	1,207.7	1,196.2
PFI & Leases	32.5	28.5	24.7	22.7	20.4	17.0
Total External Debt Liabilities	879.0	1,084.0	1,207.6	1,225.1	1,228.0	1,213.2
Internal Borrowing	454.7	460.2	470.1	477.4	475.5	462.3
Capital Financing Requirement	1,333.7	1,544.2	1,677.7	1,702.5	1,703.6	1,675.5

24. Statutory guidance prescribes 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 regulation.

Affordable borrowing limit

25. 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.

Appendix F

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt

£m	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Limit	Limit	Limit	Limit	Limit	Limit
Authorised Limit	1,700.0	1,800.0	1,900.0	1,900.0	1,900.0	1,900.0
Operational Boundary	1,500.0	1,600.0	1,700.0	1,700.0	1,700.0	1,700.0

26. Further details on borrowing are contained within the Council's treasury management strategy.

Treasury Investment Strategy

27. Treasury investments balances arise from receiving cash before it is required to be paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

28. The Council's policy on treasury investments is to prioritise security and liquidity over yield and 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 investments to buy, and the Council may request its money back at short notice.

Table 8: Treasury management investments

Investment Category (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Limit	Limit	Limit	Limit	Limit	Limit
Short term investments	20.0	20.0	20.0	20.0	20.0	20.0
Long term investments	0.0	0.0	0.0	0.0	0.0	0.0

29. Further details on treasury investments are contained within the Council's treasury management strategy.

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

Appendix F

31. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Corporate Director of Finance and Resources, who must act in line with the treasury management strategy approved by Council. Reports on treasury management activity are presented quarterly to Cabinet and Full Council, whilst the Audit & Standards Advisory Committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

32. The Council makes investments to assist local public services, including making loans to council subsidiaries to promote economic growth. 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 after all costs.
33. Decisions on service investments are either made by Cabinet or under delegated authority or set down in the approved investment 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 contained within the investment strategy.
34. The risk of incurred unexpected losses is managed by working closely with counterparties and through the securing the loans where necessary, which would allow the Council to recover significant funds in the event of a default. A limit of £550m is placed on total investment for service purposes, to ensure that plausible losses could be absorbed within budgets or reserves without unmanageable detriment to local services.
35. The proposed budget includes sums for investment in the Council's subsidiary i4B for the acquisition of properties as part of the Council's temporary accommodation reform plan. These schemes aim to alleviate affordable housing pressures. A development finance loan to United College's Group to assist with cashflow pressures around their campus redevelopment has also been included.

Commercial Activities

36. The Council has previously invested in property, both to support regeneration and community assets, whilst also securing a financial return. The Council does not at present or in the future invest in commercial property for the purpose of making a profit. Such properties are currently valued at £319.9m and generating £2.1m per annum in rental income. Over time the use of these assets may change as new priorities are confirmed and assets are repurposed to contribute to the delivery of new strategic priorities.

Table 9: Property asset types and income generated

Asset Types	Value £m	Income PA £m
Operational	236.1	1.6
Commercial	0.0	0.0
Community Groups	82.6	0.5
Education	1.2	0.04
Total	319.9	2.14

37. The principal risk exposures include voids, diminution of capital values, etc. These risks are managed by the existing risk management framework. In order that property investments remain proportionate to the size of the authority they are under constant review and contingency plans are in place should expected yields not materialise. The Corporate Director for Finance and Resources is responsible for governance and due diligence on these investments.

Other Liabilities

38. In addition to debt of £879.0m detailed in Table 6 above expected at 31 March 2025, the Council is committed to making future payments to cover its pension fund deficit (valued at £162.0m – Report March 2022 and revalued every three years).
39. 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 Corporate Finance and reported quarterly to Cabinet.

Revenue Budget Implications

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

Appendix F

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

Financing Costs to Net Revenue Stream	Limit	Forecast	Limit	Limit	Limit	Limit	Limit
	2024/25	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Financing Costs (Interest & MRP) (£m)	39.1	26.4	35.0	38.9	40.8	41.9	42.8
Net Revenue Stream (£m)	383.3	387.0	430.1	444.2	461.3	479.3	479.3
Proportion of net revenue stream (%)	10.2%	6.8%	8.1%	8.8%	8.8%	8.7%	8.9%

41. 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 detailed information contained within the Treasury Management Strategy and the Budget & Council Tax Report 2025/26, as well as the prudential indicators included above demonstrates how the Corporate Director for Finance and Resources is satisfied the proposed capital programme is prudent, affordable, and sustainable.

Knowledge and Skills

42. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council also pays for junior staff to study towards relevant professional qualifications including, for example, Chartered Institute Public Finance & Accountancy (CIPFA).
43. 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 can be more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.