

Appendix 1 Capital Strategy 2026/27 and Annual minimum Revenue Provision Statement

INTRODUCTION

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

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.

CAPITAL EXPENDITURE AND FINANCING

Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2026/27, the Authority is planning capital expenditure of £46.4m as summarised below:

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

	2024/25 actual £m	2025/26 forecast £m	2026/27 budget £m	2027/28 budget £m	2028/29 budget £m
General Fund services	5.1	20.6	25.4	6.8	1.0
Council housing (HRA)	9.3	20.1	16.3	15.1	19.8
Capital investments	8.5	4.5	4.7	2.1	2.1
TOTAL	22.9	45.2	46.4	24.0	22.9

* There was no capital expenditure in 2024/25 that arose from a change in the accounting for leases.

The main General Fund capital projects for 26/27 include Folkestone – A Brighter Future (4.7m) mostly funded by Levelling Up Fund Grant, Otterpool Park (£4.6m), Folca 2 (£11m), Leisure Strategy (£2.4m), Hythe Pool Refurbishment (£2m), Private Sector Housing Initiatives (£1.5m), Coastal Park Play Area Refurbishment (£0.7m), Coast Protection Works (£1.4m), Seabrook Play Area Refurbishment (£0.2m) and Grounds Maintenance Replacement Equipment (£0.3m).

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. A new 30-year HRA Business Plan was approved by Cabinet on 13 December 2023. Separate to this, a five-year medium term capital programme for the HRA to 30/31 has been prepared which focuses on maintaining and improving the existing stock to meet both the Decent Homes Standard Plus and the EPC C energy efficiency rating and provides for investment to increase the supply of affordable homes for rent. Cabinet will consider the HRA medium term capital programme before it being submitted to full Council for approval on 25 February 2026, as part of the current budget process.

Governance: Service managers bid annually in September through a formal project appraisal process for growth proposals to include projects in the Council's capital programme. Bids are initially evaluated

by the Finance Team against a series of criteria to determine their business need against the Council's existing corporate priorities and the financial impact of the proposal. The Finance Team collate and submit a summary of the evaluated growth bids to the Corporate Leadership Team (CLT) to consider against the funding available (including external funding). CLT then makes recommendations to Cabinet for consideration through Finance and Performance (January 2026), then the final capital programme is presented to Cabinet in January and to Council in February each year.

Details of the Authority's capital programme, including the project appraisals undertaken can be found in the Medium-Term Capital Programme report as presented to Cabinet on 11 February 2026.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2024/25 actual £m	2025/26 forecast £m	2026/27 budget £m	2027/28 budget £m	2028/29 budget £m
External sources	5.9	20.3	12.0	4.5	0.5
Own resources	6.0	10.5	14.3	7.9	14.4
Debt	11.0	14.4	20.1	11.6	8.0
TOTAL	22.9	45.2	46.4	24.0	22.9

* There was no debt financing in 2024/25 that arose from a change in the accounting for leases.

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2024/25 actual £m	2025/26 forecast £m	2026/27 budget £m	2027/28 budget £m	2028/29 budget £m
Minimum revenue provision (MRP)	1.7	0.4	0.4	0.5	0.5
TOTAL	1.7	0.4	0.4	0.5	0.5

During 2025/26, the Council engaged its advisors to undertake a review of the MRP. As a result of the review, it was recommended to change the MRP method from straight line to annuity; this means lower charges in the early years and higher charges in later years. This is allowable under the current MRP policy although it cannot be applied retrospectively; therefore, it is being implemented from 2025/26 via a recommendation to Full Council before 31 March 2026 as required by the regulations.

The Council's minimum revenue provision statement can be found in appendix 2 of the Capital Strategy 2026/27 report as presented to Cabinet on 11 February 2026.

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP

and capital receipts used to replace debt. The CFR is expected to be £170.8m during 2026/27. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

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

	2024/25 actual £m	2025/26 forecast £m	2026/27 budget £m	2027/28 budget £m	2028/29 budget £m
General Fund services	15.4	18.0	24.4	26.3	26.2
Council housing (HRA)	50.4	60.8	69.9	77.3	83.2
Capital investments	91.0	93.8	98.0	99.8	101.5
TOTAL CFR	156.8	172.7	192.3	203.4	210.9

* There has been no increase in the CFR in 2024/25 from a change in the accounting for leases. In line with the existing approved HRA Business Plan, no provision is made to reduce the HRA CFR in the future. This helps to support the HRA's financial position over the life of the business plan.

Asset management: To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place. This strategy was adopted in July 2017 by Cabinet and sets out how property asset management is delivered for the Council to meet its long-term objective and goals. It outlines how the long-term objectives for managing the asset portfolio are met, including statutory obligations, stakeholder needs and the overall performance of property within the context of any constraints such as funding. A new five-year asset management strategy was published in 2025 - <https://www.folkestone-hythe.gov.uk/downloads/file/6083/corporate-property-asset-management-strategy-2025-2030>.

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. The Authority is currently also permitted to spend capital receipts "flexibly" on service transformation projects up until and including 2029/30. Repayments of capital grants, loans and investments also generate capital receipts. The Authority plans to receive £6.5m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts receivable in £ millions

	2024/25 actual £m	2025/26 forecast £m	2026/27 budget £m	2027/28 budget £m	2028/29 budget £m
Asset sales	5.8	6.0	6.0	1.5	1.5
Loans etc repaid	0.3	0.5	0.5	0.5	0.5
TOTAL	6.1	6.5	6.5	2.0	2.0

No capital receipts from Otterpool Park development are anticipated to be received over the three-year period to 2028/29.

TREASURY MANAGEMENT

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred

before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Authority, as at 31 December 2025, has £106.8m borrowing at an average interest rate of 3.76% and £30.2m treasury investments at an average rate of 4.73%.

Borrowing strategy: The Authority’s main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

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.

Projected levels of the Authority’s total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown below, compared with the capital financing requirement (see above).

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

	2024/25 actual £m	2025/26 forecast £m	2026/27 budget £m	2027/28 Budget £m	2028/29 budget £m
Debt (incl. PFI & leases)	107.5	111.7	122.9	127.1	129.2
Capital Financing Requirement	156.8	172.7	192.3	203.4	210.9

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Authority expects to comply with this in the medium term.

Liability benchmark: To compare the Authority’s actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to £15m at each year-end. This benchmark is currently £120.7m and is forecast to rise to £175m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	2024/25 actual £m	2025/26 forecast £m	2026/27 budget £m	2027/28 budget £m	2028/29 budget £m
Existing borrowing	107.5	111.7	122.9	127.1	129.2
Liability benchmark	107.5	122.6	150.1	163.4	175.9

The table shows that the Authority expects to remain borrowed below its liability benchmark. This is because cash outflows to date have been below the assumptions made when the loans were borrowed.

Affordable borrowing limit: The Authority 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.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2025/26 limit £m	2026/27 limit £m	2027/28 limit £m	2028/29 limit £m
Authorised limit – borrowing	195.0	206.0	214.0	218.0
Operational boundary – borrowing	172.0	192.0	203.0	211.0

Further details on borrowing are in section 4 of the 2026/27 treasury management strategy report as presented to Cabinet on 11 February 2026.

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 Authority’s policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

Table 9: Treasury management investments in £millions

	2024/25 actual £m	2025/26 forecast £m	2026/27 budget £m	2027/28 budget £m	2028/29 budget £m
Near-term investments	4.0	10.0	10.0	10.0	10.0
Longer-term investments	14.0	14.0	14.0	14.0	14.0
TOTAL	18.4	24.0	24.0	24.0	24.0

Further details on treasury investments can be found in section 5 of the 2026/27 treasury management strategy report presented to Cabinet on 11 February 2026.

Risk management: The effective management and control of risk are prime objectives of the Authority’s treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

The treasury management prudential indicators can be found in Section 6 of the treasury management strategy as presented to Cabinet on 11 February 2026.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are

presented to Cabinet. The Finance and Performance Scrutiny Sub-Committee is responsible for scrutinising treasury management decisions.

INVESTMENTS FOR SERVICE PURPOSES

The Authority makes investments to assist local public services, including making loans to its subsidiaries, its charities where the Council is the trustee, its external service providers, local residents and its employees to support local public services and to stimulate local economic growth. Total investments for service purposes are currently valued at £34m with the largest being Otterpool Park LLP.

Risk management: In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to generate a profit after all costs. The risk of incurring unexpected losses is managed by accessing the long-term financial viability of the entity, its ability to meet loan repayment term and also the internal governance arrangements in place to support its operations. A limit of £79.1m is placed on total investments for service purposes to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Director 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. The relevant service director is responsible for ensuring that adequate due diligence is carried out before investment is made.

Further details on service investments are can be found in Appendix 1, sections 3 and 4 of the Non-Treasury Investment Strategy as presented to Cabinet on 11 February 2026.

COMMERCIAL ACTIVITIES

With central government financial support for local public services declining, the Authority previously invested in commercial property and land with the intention of making capital gains or generating new revenue streams to spend on local public services. Total commercial investments are currently valued at £27.1m with the largest being Connect 38 in Ashford (£16.4m) and land and property held for the Otterpool Park development (£8.5m).

Risk management: With financial return being the main objective, the Authority accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include fluctuations in future demand of the market including competition, risk of void tenancies, fall in capital values etc. These risks are managed by the project lead as well as assessed through the corporate risk register. The authority has an established proactive risk management framework, which incorporates key projects, and reports quarterly to the Audit & Governance Committee as well as annually to the Cabinet.

Governance: Decisions on commercial investments are made by Cabinet and/or full Council in line with the criteria and limits outlined within the Constitution, in specific circumstances the Executive have delegated authority to progress certain projects to the Director of Strategy and Resources and the Director of Housing and Operations in consultation with the relevant Portfolio holders. Property and most other commercial investments are also capital expenditure, and purchases will therefore also be approved as part of the capital programme.

Further details commercial investments are in the investment strategy 2026/27.

Table 10: Prudential indicator: Net income from commercial and service investments to net revenue stream

	2024/25 actual £m	2025/26 forecast £m	2026/27 budget £m	2027/28 budget £m	2028/29 budget £m
Total net income from service and commercial investments	1.4	1.6	1.6	1.7	1.7
Proportion of net revenue stream	7.2%	7.8%	6.3%	6.3%	6.3%

OTHER LIABILITIES

In addition to debt of £122.9m as at 31 March 2026, the Authority is committed to making future payments to cover its pension fund deficit (valued at £8m), and its impact to 2028/29 is factored into the MTFs. The Council has also allowed for prudent provisions in its business rates budget to cover risks of the business rates appeals.

Governance: Decisions on incurring new discretionary liabilities are taken by service managers in consultation with the Director of Finance. The risk of liabilities crystallising and requiring payment is monitored by Finance and reported through the regular budget monitoring process to Cabinet. New liabilities exceeding the auditor's materiality threshold would be reported to full council for approval/notification as appropriate.

REVENUE BUDGET IMPLICATIONS

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.

Table 11: Prudential Indicator: Proportion of financing costs to net revenue stream

	2024/25 actual	2025/26 forecast	2026/27 budget	2027/28 budget	2028/29 budget
General Fund Financing costs (£m)	18.8	20.1	25.9	26.7	27.5
Proportion of net revenue stream	23.4%	15.1%	14.0%	14.5%	14.0%
HRA Financing costs (£m)	20.5	21.1	23.0	24.0	24.7
Proportion of net revenue stream	9.2%	11.4%	12.9%	13.8%	12.3%

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 Director of Finance is satisfied that the proposed capital programme is prudent, affordable

and sustainable because it has been evaluated and risk assessed and is considered to be a balanced portfolio with minimal risks.

KNOWLEDGE AND SKILLS

The authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Finance (Section 151 Officer) is a qualified accountant with 19 years' experience, the Director of Housing and Operations has a degree and post graduate certificate in strategic leadership and over 20 years extensive and relevant experience in contract and project management. The Housing and Operations teams include suitably qualified and experienced professionals ranging from FRCIS through to MSc Engineering and senior project management qualifications. The authority pays for staff to study towards relevant professional qualifications including ACCA.

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, Savills and Montague Evans as property consultants, Wilks-Head & Eve LLP as valuers and as well as other bodies on an ad hoc basis. 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.