

# Capital Strategy

2026-35 Appendix 1c

Business Plan Section 5



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# 1. Executive Summary

The council's strategic financial plan is comprised of three distinct, but interdependent, strategies set out within this Business Plan:

- Medium-Term Financial Strategy (MTFS) (section 2)
- Capital Strategy (section 5)
- Treasury Management Strategy (section 6)

This strategy, the Capital Strategy, describes how the council's investment of capital resources over the next ten years will optimise the ability of the council to achieve its strategic vision and ambitions outlined within the council's strategic framework. The Strategy is concerned with all aspects of the council's capital expenditure programme: planning; prioritisation; management; and funding, and is updated each year as part of the business planning process.

To enable delivery of the business plan, the council needs to undertake capital investment. This includes investment in new schools and in modernising school buildings, regeneration and improvement of the county's transport infrastructure, and tackling the council's ambitious net-zero target towards 2045.

It is crucial that when long-term investment decisions are undertaken, decision-makers can rely on clear and informed information. This includes:

- A long-term view of capital expenditure plans and any financial risks to which the council is exposed.
- Ensuring due regard to the long-term financing affordability implications and potential risks.
- A clear overview of the council's asset management planning arrangements and any maintenance requirements that have resource and business planning implications.

Local Government Reorganisation will impact on the composition of this Capital Strategy. As the council navigates through the initial stages of this process, we have continued to construct this strategy using the information available at this point in time, reflecting the short- and medium-term need of the current organisation.

The council's 2026-27 ten-year capital programme, based on funding known at this point, is summarised by service as follows:

	Prev Years £000	2026-27 £000	2027-28 £000	2028-29 £000	2029-30 £000	2030-31 £000	Later Yrs £000	Total £000
Children, Education and Families	93,246	55,477	42,776	31,190	39,367	19,110	4,271	285,437
Adults, Health and Commissioning	-	6,690	6,690	6,690	6,690	6,690	33,450	66,900
Place and Sustainability	165,826	79,244	62,781	24,990	6,782	1,440	20,664	361,727
Finance and Resources	10,703	3,597	2,860	2,088	1,944	1,944	8,064	31,200
Office of the Chief Executive	1,500	1,500	253	253	253	253	1,518	5,530
<b>Total spend</b>	<b>271,275</b>	<b>146,508</b>	<b>115,360</b>	<b>65,211</b>	<b>55,036</b>	<b>29,437</b>	<b>67,967</b>	<b>750,794</b>

This is due to be funded as follows:

	Prev Years £000	2026-27 £000	2027-28 £000	2028-29 £000	2029-30 £000	2030-31 £000	Later Yrs £000	Total £000
Grants	48,216	57,666	45,423	34,832	14,222	7,130	33,070	240,559
Contributions	76,370	44,252	62,865	19,575	28,458	10,860	11,081	253,461
Capital Receipts	3,500	7,000	8,253	4,253	3,253	2,253	9,518	38,030
Prudential Borrowing	151,050	43,199	44,740	11,103	12,155	12,246	18,823	293,316
Prudential Borrowing (repayable)	-7,861	-5,609	-45,921	-4,552	-3,052	-3,052	-4,525	-74,572
<b>Total funding</b>	<b>271,275</b>	<b>146,508</b>	<b>115,360</b>	<b>65,211</b>	<b>55,036</b>	<b>29,437</b>	<b>67,967</b>	<b>750,794</b>

Please see the following sections for further detail.

## 2. Strategic context

The development of this Strategy, along with the council's other core strategies and plans, is informed by the current and longer-term strategic context, as set out in the strategic framework.

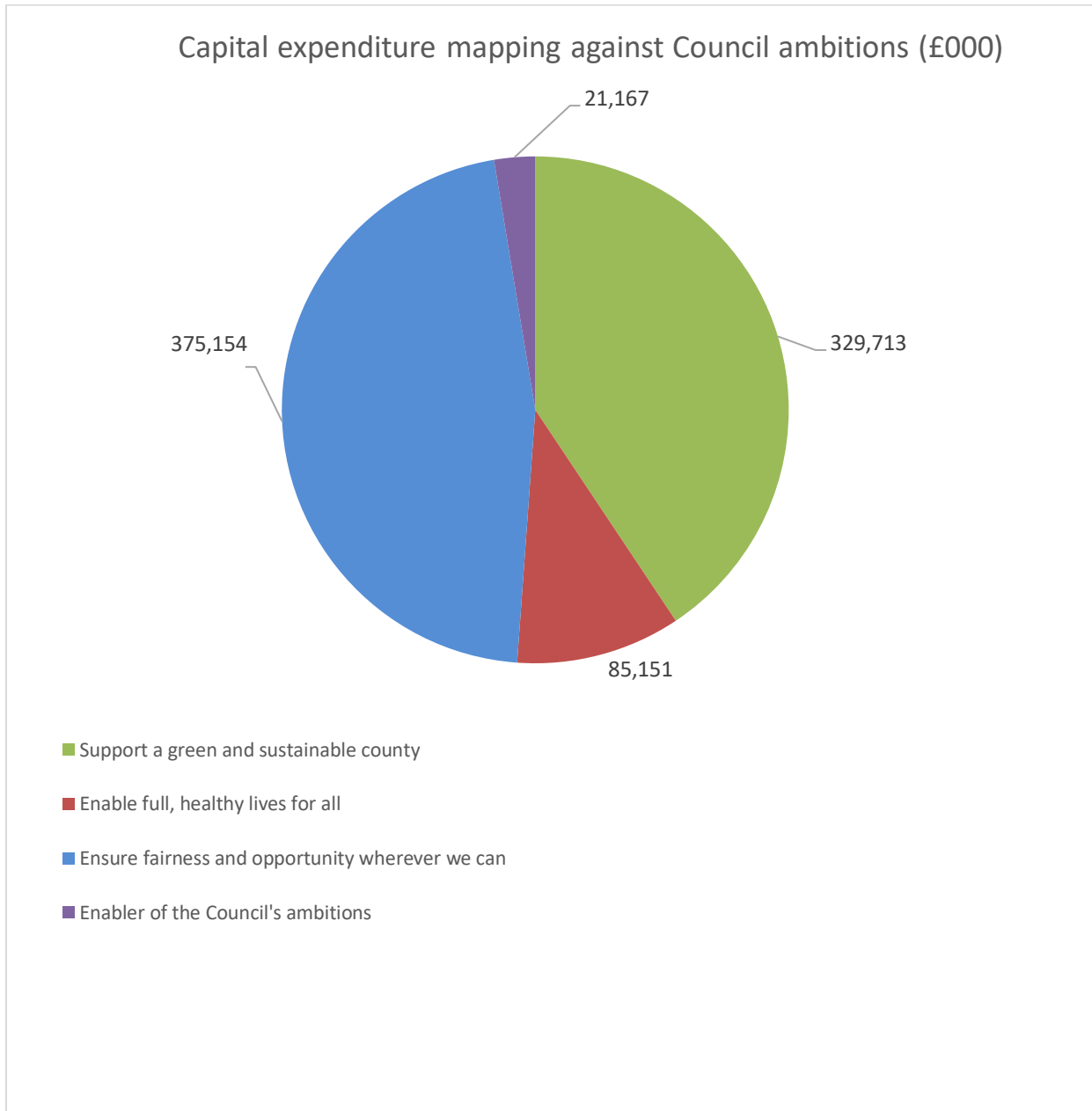
Cambridgeshire is a fast-growing place. In 2021, approximately 679,000 people lived in Cambridgeshire, one of the fastest growing populations over the last decade. Cambridge City was the second highest growing local authority in the East of England, mainly concentrated in younger adults, while our rural districts are seeing higher growth in over 65s. We expect population growth to continue through the next decade, particularly for our older age groups. Cambridgeshire also has areas of deprivation, including 16 neighbourhoods in the 20% most relatively deprived nationally. Around 8,300 adults receive long-term social care, either partially or fully funded by the council, and there has been a 71% increase since January 2020 in the number of children supported with Education, Health and Care Plans, taking the number to over 8,000 children.

The council's change strategy (Our Future Council) was agreed by the council in October 2024, and sets out the council's high-level vision and an approach to transforming the way it operates, explaining how the council understands the context in which it operates, expected future developments, and the way it intends to adapt and innovate to mitigate risks and exploit opportunities. Parts of the work through this strategy will involve capital expenditure, particularly the portfolio that will cover the council's assets.

The Climate Change and Environment Strategy sets out the council's ambition for tackling the climate and biodiversity emergencies. The carbon footprint for Cambridgeshire in 2022 was 6.45m tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) emissions; for this council in 2023-24 it was 103,255 tonnes, including indirect ("scope 3") emissions. These figures are decreasing, especially for the council's emissions, however we must work over the coming years to reduce both the council's and the country's carbon footprint further, with targets for these to be net zero by 2030 (for the council's scopes 1 and 2 emissions) and by 2045 (for the county).

### 3. Capital Prioritisation Mapping

The council’s prioritisation of its capital programme can be mapped to the council’s key ambitions as follows:



A more detailed review of the capital programme is provided in part 5d.

## 4. Future Years Strategy Development

The Capital Strategy undergoes continuous development as part of a process of continuous improvement to support members in their decision making.

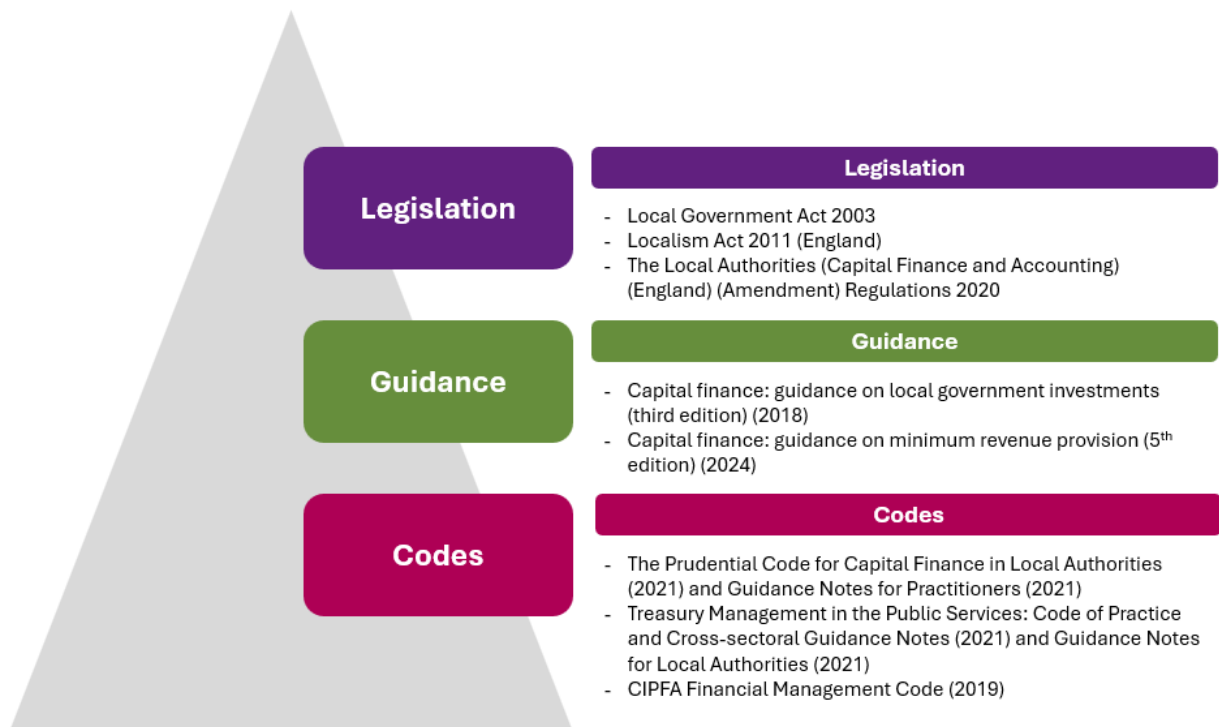
Future identified activity includes:

- Further development of the medium to long-term (2 years+) approach to the Capital Strategy, aligned to the outcomes of Local Government Reorganisation.
- Assessment of asset management planning to inform decision making and risk, in particular to climate change impacts, as part of the development of the new Land and Property Strategy 2024-29.
- Further alignment to the council's Asset Change Programme.
- Consideration of Cambridgeshire's growth strategy to meet the national industrial strategy.
- Any upcoming changes to statutory guidance, including potential changes to the Prudential Code and Treasury Management Code.
- Continuing development of the use of carbon emissions modelling and assessment within investment decisions across all schemes.

# 5. Detailed Strategy

## 5a. Statutory Framework

Local government capital finance is governed and operates under the Prudential Framework in England, Wales, and Scotland. The Prudential Framework is an umbrella term for several statutory provisions and professional requirements that allow authorities largely to determine their own plans for capital investment, subject to an authority following due process in agreeing these plans and being able to provide assurance that they are prudent and affordable. The relevant legislation, guidance and codes are set out as follows:



## 5b. Working with partners

The council is committed to developing strong and positive partnerships that not only enhance the investment potential of the council through opportunities for support and contributions from third parties but enable delivery of the council’s Corporate Priorities. Partnership working enables the council to leverage a larger package of investment that extends beyond our investment potential as an individual organisation.

There are a range of capital schemes currently being delivered in conjunction with partners and our commitment to social and environmental values further demonstrate our aspiration to work with the public and private sector to deliver better outcomes for people, the environment, and communities. The following narrative summarises some of the council’s key partnerships.

## *Cambridgeshire and Peterborough Combined Authority (CPCA)*

The CPCA, led by the Mayor and representatives from the seven constituent councils, was created in 2017 to deliver the region's devolution deal. The CPCA works with the Business Board and other local partners to deliver strategic projects. Key ambitions for the Combined Authority include:

- doubling the size of the local economy
- delivering outstanding and much needed connectivity in terms of transport and digital links
- providing the UK's most technically skilled workforce
- growing international recognition for our knowledge-based economy
- improving the quality of life by tackling areas suffering from deprivation.

The Mayor and Combined Authority has a role to play in enabling carbon reduction and adaptation to climate change; therefore, the CPCA's activities and policies are informed by an ambition to tackle climate change.

As the Strategic Transport Authority for the region, the CPCA receives funding and powers from central government, which the Mayor and the Combined Authority Board oversee, and it sets out strategies and plans for delivering its ambitions. As the Local Highway Authority, it is expected that CCC will deliver much of the capital work commissioned by the CPCA within Cambridgeshire, and several schemes form part of our capital programme.

## *Greater Cambridge Partnership*

The Greater Cambridge Partnership is the local delivery body for a City Deal with central government, bringing powers and investment, worth up to £500 million over 15 years, to vital improvements in infrastructure, supporting and accelerating the creation of 44,000 new jobs, 33,500 new homes and 420 additional apprenticeships.

It is the largest of several City Deal programmes agreed by central government in 2014 and brings key partners together to work with communities, businesses, and industry leaders to support the continued growth of one of the world's leading tourism and business destinations. The five partners are:

- Cambridge City Council
- Cambridgeshire County Council
- South Cambridgeshire District Council
- University of Cambridge
- The business community – nomination via the CPCA Business Board

The Executive Board is made up of members from the five partners.

In 2015, £100m of government funding was made available for transport improvements until 2020. Following successful completion of the Gateway Review in May 2020, an extra £200 million funding was made available up to 2025. The second Gateway Review process was successfully completed in Spring 2025 with the final £200m tranche of funding unlocked over the period to 2030.

It is important to ensure that the strategic infrastructure scoped and delivered through the City Deal reduces carbon emissions through designing out carbon emissions where it can from the construction and operation of any new assets as well as a strategic goal of the infrastructure itself.

As Accountable Body for the City Deal, the Council is working across the Partnership to review the approach to bridge funding where developer contributions will take several years to be received.

### *Connecting Cambridgeshire*

The Connecting Cambridgeshire programme is improving Cambridgeshire and Peterborough's digital connectivity to drive economic growth, help our businesses and communities to thrive and improve access to public services. The project is hosted by the council and led by the CPCA, working with government bodies, local councils, and external organisations, including telecoms suppliers and mobile operators.

The total funding from the council, Peterborough City Council and the Combined Authority of £23m since 2011 has been used to leverage over £248m of government funding and inward investment, including £5m of gainshare clawback from the original superfast broadband contract. The broadband rollout programme and commercial investment have brought Gigabit broadband access to over 92% of premises, exceeding the government target of 85% by 2025 a year early.

The Connecting Cambridgeshire [Digital Connectivity Strategy 2025-2029](#) gives an overview of work underway to significantly improve broadband, mobile and public access Wi-Fi coverage across the region as well as addressing digital exclusion to ensure residents and businesses can access vital public services and take full advantage of opportunities offered by being online. The strategy builds on the foundations of the existing programme, incorporating multiple workstreams, targeting the different aspects of digital connectivity, 'Smart' technology, and public access Wi-Fi to support economic growth and ensure that Cambridgeshire and Peterborough are well positioned to take full advantage of current and emerging technological advances.

### *This Land*

This Land Limited was established as a wholly owned company of the council in 2016 in order to enable development of land for housing. The company aims to develop the land it has acquired, predominantly from the council, to provide individual, high-quality homes and new communities that are in much demand across Cambridgeshire and the surrounding counties in the East of England. As of October 2025, the council had issued capital grants of £58.850m, long-term loans of £59.901m, for which it receives a revenue return by way of interest payments, and equity of £5.851m to This Land. During 2025, the council undertook longer-term financial restructuring of the company. As part of that, the council agreed to the deferral of interest payable in 2024-25, however all of these interest amounts are still expected to be paid in a future financial period (re-commencing in 2025-26). The restructure reflects a reduction in risk appetite and exposure, recognition of an increased long-term capital financing requirement for the council, as well as providing certainty to This Land to progress with

its existing projects successfully with a realistic reset of the financial obligations from the company towards the council.

### *Light Blue Fibre*

Light Blue Fibre Limited, one of the first of its kind in the UK, is a joint venture between the University of Cambridge and Cambridgeshire County Council, making both organisations' existing extensive duct and fibre networks, together with any developed in the future, commercially available. Since its formal establishment in late 2019 to support the council's work to expand the county's fibre network, Light Blue Fibre has now completed its sixth year of trading. The company is performing both operationally and commercially ahead of its business plan. A strategic partnership agreement has been formally agreed with EU Networks, an international hyperscaler, maximising the assets and financial return to the Council and University.

The joint venture assets, plus the council's "dig-once" policy of installing fibre ducts in new transport schemes and then making them available to telecom providers via Light Blue Fibre, allows operators to avoid costly retrofitting and minimises disruption to highways users, together with reducing carbon emissions. To date, over 46km of additional ducting has been installed or is in plan to be installed as part of Council Infrastructure schemes and approximately 40 tonnes CO<sub>2</sub> emissions have been avoided to date.

### *One Public Estate (OPE)*

OPE is an established national programme delivered in partnership by the Office of Government Property (OGP) within the Cabinet Office and the Local Government Association (LGA). It provides practical and technical support and funding to councils to deliver ambitious property-focused programmes in collaboration with central government and other public sector partners.

Cambridgeshire's OPE group allows partners, including the district councils, health partners and the emergency services, to effectively collaborate on strategic asset management and rationalise the combined operational property estate within the county. The programme has secured up to £4.3m in funding so far to bring forward major projects for joint asset rationalisation and land release. OPE projects that have/are being delivered in conjunction with OPE partners include:

- Huntingdonshire District Council - Oaktree Health Centre, Oxmoor Estate
- Huntingdonshire District Council and Department of Work and Pensions - Pathfinder House, Jobcentre Plus
- Cambridgeshire Community Services - Ely Princess of Wales Hospital redevelopment, Wisbech North Cambridge Hospital redevelopment
- Cambridgeshire Community / Cambridgeshire County Council - Ely Care Home (at Ely Princess of Wales)
- Cambridgeshire Community Services / Cambridge City Council - Brookfields / Seymour St
- Fenland District Council / Cambridgeshire and Peterborough NHS Foundation Trust - NHS Neighbourhood Hubs Alconbury
- Cambridge City Council - Aylesborough Close Phase 2, Cambridge, East Barnwell Site 2 Regeneration

### *Community Infrastructure Levy (CIL)*

The council also works closely with the city and district councils on the creation of new infrastructure needed as a result of development. Currently, CIL is operating in Huntingdonshire District Council and East Cambridgeshire District Council only. CIL is at the discretion of the Local Planning Authority i.e., the city and district councils, who are responsible for setting the levy and have the final decision on how the funds are spent. However, as the county council has responsibility for the provision of much of the infrastructure resulting from development, it is imperative that it is involved in the CIL governance arrangements of the city and district councils, and that it works closely with these authorities to ensure that it is able to influence investment decisions that affect the council's services.

### *Large Energy Projects*

To support Cambridgeshire to get to net zero by 2045, the council has invested in building its capabilities and learning through developing and constructing energy projects. A number of large energy projects are now constructed and operational including solar farms, smart energy grids at Park and Ride sites and the Swaffham Prior Heat Network. As the council's Land and Property Strategy and the Local Area Energy Plan come forward, a new programme of energy projects will be scoped to explore potential delivery models, building on the learning to date and the ambitions to achieve net zero.

## **5c. Internal Influences**

As well as the council's Corporate Strategy, the Capital Strategy has clear links to many other strategies, policies, and plans. The most significant of those strategies and their influence are detailed below.

<b>Strategy</b>	<b>Influence</b>
Strategic Framework	Ensures the council's plans are driven by the shared vision to create a greener, fairer, and more caring Cambridgeshire and focuses on achieving a number of outcomes for the people of Cambridgeshire.
Medium Term Financial Strategy	Sets out the financial picture facing the council over the next five years, the resources available to the council, and the council's strategy for managing its resources effectively.
Our Future Council – Change Strategy	Sets out the council's approach to transforming the way the council operates, expected future developments and the way in which it intends to adapt and innovate to mitigate risks and exploit opportunities.

Strategy	Influence
Flexible Use of Capital Receipts Strategy	Sets out how the council will use the Flexible Use of Capital Receipts direction on transformational activity that reduces costs or demand for services. This is section 5fii of this document.
Treasury Management Strategy	Establishes the framework for the effective and efficient management of the council's treasury management activity, including the council's borrowing and investment portfolio, within legislative, regulatory, and best practice regimes. The Strategy balances risk against reward in the best interests of stewardship of the public purse.
Investment Strategy	In addition to a high-level, long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, it provides an overview of how the associated risk of financial and non-financial investments is managed and the implications for future financial sustainability.
Land and Property Strategy	Provides a framework to enable the safe, effective, efficient, and environmentally sustainable management of a portfolio of assets. The strategy and its associated delivery policies provide us with a structured approach to respond to service needs and priorities.
People Strategy	The four People Strategy themes describe how it will look and feel working for the council in 2028. The themes develop a series of people outcomes and commitments that will help us to achieve our corporate ambitions.
All Age Accommodation Needs - Adult Social Care Demand Profiles and Childrens Sufficiency Statement	Sets out Cambridgeshire's long-term demand for accommodation for all care types on an all-age basis. This evidence is used to ensure sufficient, affordable, and quality accommodation is available to meet demand both now and in the future. .
Education Organisation Plan	Sets out the strategic direction on education based on the council's statutory duties regarding the sufficiency, diversity, and planning of places for early years, school- aged children (including special schools) and post-16 education and training provision.

Strategy	Influence
SEND Transformation Programme	The programme seeks to review all aspects of services funded from the High Needs Block (HNB) of the dedicated schools grant, the element of funding allocated to support special needs, ensuring we deliver the same or better outcomes using the resources we have available. Capital investment in alternative provision is a key component of this programme.
Transport Project Proposals Database	Sets out the transport infrastructure, services and initiatives that are required to support the growth of Cambridgeshire.
Transport Delivery Plan	Provides forward visibility of all the planned highway and transport capital schemes on the local network that are in all probability going to be delivered within the 3-year timeframe.
Planning Obligations Strategy	Sets out the council's approach to securing developer contributions. Forms the principles for the advice which officers provide, including details about the service areas for which we may seek planning obligations.
Climate Change and Environment Strategy 2026-2028	Sets out the council's ambition to delivering net zero 2045 while supporting our communities and nature to adapt and thrive as the climate changes. It outlines our strategic plan to reduce our own carbon footprint, ensure our services are resilient to climate impacts, and enhance nature on our assets.
Commercial, Commissioning and Procurement Framework	Sets out how procurement activity will be undertaken, supporting the delivery of the council's ambitions and the national priority outcomes in a way which is sustainable – our actions today will only have positive effects for those generations living in the Cambridgeshire of the future. Category Strategies, the Social Value Policy and other procurement related plans and policies take their lead from this Strategy.
IT and Digital Strategy	Articulates how staff can work effectively with colleagues across the council to deliver more effective services to our citizens. Staff need access to secure, accessible, and modern IT systems that support this vision. These systems should enable easy and robust sharing with collaboration tools, delivered on a cost-effective basis, minimising duplicate costs for equipment and licenses. This approach aligns with our strategic vision of creating a sustainable 21st century council through secure, accessible, and customer-focused digital services

## *Commercial Commissioning and Procurement Framework*

Procurement activity at the council is subject to the council's Commercial Commissioning and Procurement Framework which provides detailed guidance on managing priorities to improve its commercial, commissioning, procurement and contract management practices. There is a focus on sustainability, recognising the risk that inaction on climate and biodiversity will create to our economy and social fabric; it will have the most positive environmental, social, and economic impacts on a whole life basis.

The council's procurement activity will be based on the following commercial themes:

- Skills, Knowledge and Development
- Risks Management and Controls
- Strategic Commissioning and Sourcing
- Stakeholder Relationship Management
- Strategic & Sustainable Procurement
- Contract Management
- Working in Partnership

There is a golden thread that runs through procurement activity at the council. The thread links together:

- Regulation
- Contract Procedure Rules
- Procurement Guidance and standard documentation
- Delivery of operational procurement activity

The key priorities of the Strategy are:

- The council will support the growth of local businesses and the third sector by making procurement spend more accessible.
- The council will increase the levels of social value delivered by our suppliers.
- The council will contribute to the council's net zero targets.
- The council will deliver best value outcomes through procurement activity.
- The council will ensure that our procurement processes are robust, transparent, non-discriminatory, and compliant.

## *Land and Property Strategy*

The council's Capital Strategy inevitably has strong links to the council's Land and Property Strategy 2024-2029, which provides detail on the framework for operational asset management, based on the following guiding principles:

- Suitable and effective, ensuring our assets are fit for purpose, right sized, safe and complaint and efficiently used.
- Place shaping, utilising our land and built assets to drive regeneration and development within our communities.
- Sustainable and greener, shaping our county for present and future generations and ensuring our land and built assets provide long-term support for the benefit to the natural environment.
- Working closer with communities and partners, ensuring our land and built

assets are retained to create and enable strong and resilient communities and thriving partnerships.

### *Investment Strategy (Non-financial)*

Part of the council's approach of dealing with the twinned pressures of reduced central government funding and growing demand for services has been to deliver better financial returns from property and asset holdings.

CIPFA's Prudential and Treasury Management Codes 2021 require all local authorities to prepare an investment strategy, covering both financial and non-financial assets. The Investment Strategy for financial assets is included within the Treasury Management Strategy; for non-financial assets, it is included here and should provide (in addition to a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services):

- An overview of how the associated risk of non-financial investments is managed.
- The implications for future financial sustainability.

Any commercial acquisition carries with it a degree of risk and as this involves the investment of public funds, the rationale for engaging in such activity should be clear. As with the rest of the Capital Strategy, all investment activity has been undertaken in line with the council's vision of 'creating a greener, fairer and more caring Cambridgeshire'.

However, changes to the Public Works Loan Board (PWLB) rules and CIPFA's Prudential Code mean that the council is not looking to invest further in new commercial property acquisitions beyond the current portfolio over the medium-term. The council complies with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement to not borrow to invest primarily for financial return.

Whilst no further investment is anticipated, the council does now hold a commercial property portfolio, and as such, still needs to consider the long-term sustainability risk implicit in becoming too dependent on commercial income, or in taking out too much debt relative to net service expenditure. There are inherent risks associated with commercial activity (for further detail see part 5h) and as such the council has taken a measured risk approach towards supporting a proportion of its core activity with commercial income. The council reports bi-annually to Assets and Procurement Committee on the investment property portfolio, summarising the objectives and operating principles of the portfolio, key performance indicators and the risk management strategy.

The table below shows the forecast levels of commercial and service income as a percentage of net service expenditure, demonstrating that the council could manage to absorb any plausible losses within budget or reserves, without unmanageable detriment to local services.

	2026-27 Estimate	2027-28 Estimate	2028-29 Estimate	2029-30 Estimate	2030-31 Estimate
Net Income from commercial and services investments to net service expenditure*	4.4%	4.2%	3.7%	3.3%	3.2%

*\* Income here includes both financial and non-financial income, but excludes income from investments held for Treasury Management purposes*

As part of this Capital Strategy, the council sets a debt charges limit during the business planning process as a mechanism to ensure that the council does not overcommit its revenue resources to servicing debt. This can also be reviewed in terms of debt as a proportion of net service expenditure; for details on this see part 5f. However, it should be noted that the majority of these financing costs do not relate to borrowing incurred for commercial investment, but rather to necessary borrowing required to support the council's service capital programme.

There may be a need in the future to dispose of property investments. This could occur because of the need to return the investment to cash for other purposes, poor financial performance of a particular property, or poor environmental and energy performance, for example. Whilst it is expected that the majority of investments will be held for the medium to long-term in order to achieve the required return and to justify the cost of the acquisition, it is important to understand the opportunities to dispose of any investment.

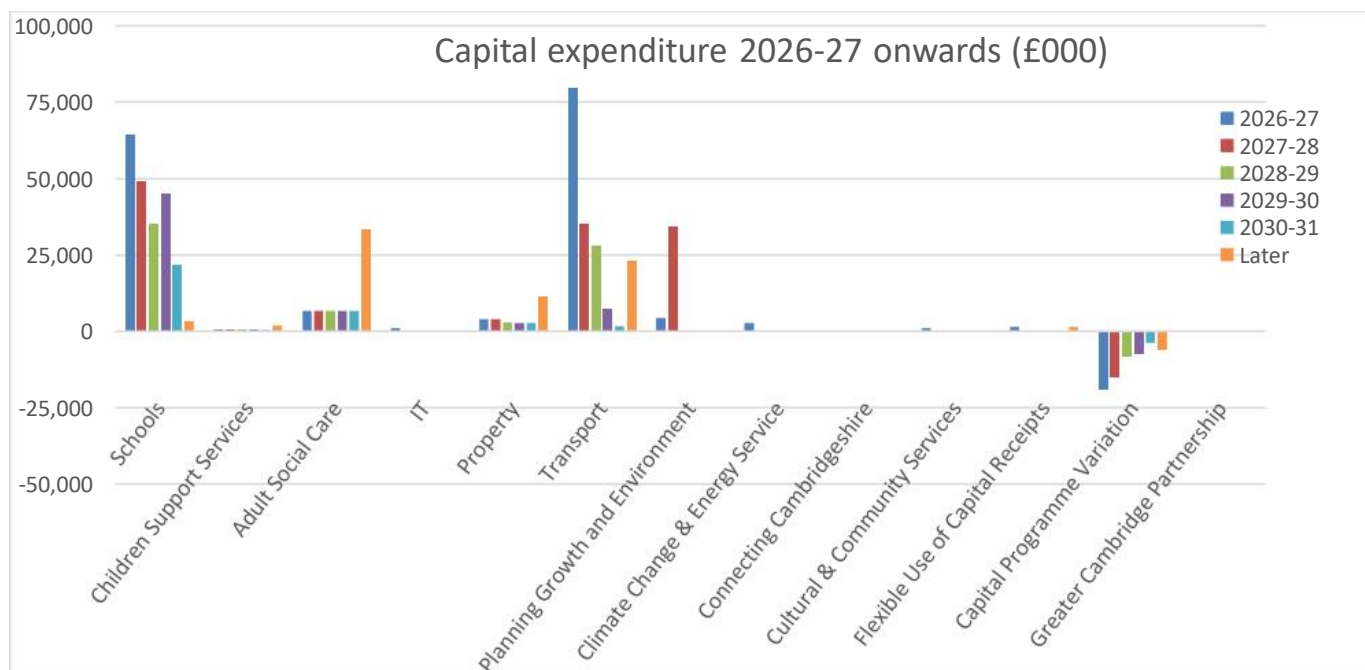
Therefore, as part of the investment decision and ongoing management of the portfolio, consideration has been given to the potential ways in which the council could "exit" from the investment, such as sale to another investor, sale for redevelopment, etc. These exit strategies are detailed in the current investment portfolio summary in Appendix 1 of this Strategy.

Active monitoring of the performance of individual properties within the portfolio is undertaken jointly across the property and finance teams. If any underperformance is identified, the teams develop action plans to determine how to mitigate any increase in risk or threat to ongoing security, liquidity, and yield. The council also reports bi-annually to Assets and Procurement Committee, summarising the objectives and operating principles of the portfolio, key performance indicators and the risk management strategy.

Whilst all capital schemes are expected to contribute to delivery of the council's ambitions, there are some schemes that are also expected to reliably demonstrate revenue income / savings at least equal to the debt charges generated by the scheme's borrowing requirement. These schemes are called Invest to Save or Invest to Earn schemes and will be self-funded in the medium-term.

## 5d. Capital Investment Plan

Including an estimated previous spend of £271.3m on active schemes, the total value of the 2026-27 capital programme is £750.8m. The following chart and tables provide the areas of spend from 2026-27 onwards; the categories of most significant capital expenditure for the council are schools and transport.



### Schools

Capital Scheme Category	£m	Description
Basic Need	188.1	The population of Cambridgeshire is growing; therefore, additional school places are required. This covers early years, primary and secondary education for both maintained and academy schools, as the council retains the statutory duty to provide school places.
Adaptations	0.8	Covers rebuilds after major incidents such as fire or flooding, adaptations to bring older buildings up to date in line with the Department for Education Building Bulletin guidance, and work to address long-standing suitability and condition issues.

Capital Scheme Category	£m	Description
Condition & Maintenance	15.0	Addresses significant condition and statutory compliance issues identified in maintained schools' asset management plans, ensuring places are sustainable and safe. This funding is used alongside government grants and loans to fund low-carbon heating solutions in some schools where oil or gas boilers require replacement.
Schools' Managed Capital	5.5	This funding is allocated directly to maintained schools to enable them to undertake low-level refurbishments, minor condition and maintenance works, and purchase equipment such as IT.
Specialist Provision	7.6	Covers both basic need provision for Special Educational Need and Disability (SEND) places, as well as adaptations to facilitate placement of children with SEND in mainstream schools in line with decisions taken by the County Resourcing Panel.
Temporary Classrooms and Premises	1.8	Enables the council to increase the number of school places provided using mobile accommodation. This could be related to temporary increases in pupil numbers that do not require long-term resolution or could be a short-term solution whilst a longer-term resolution is identified and developed.  There may also be a need to provide mobiles for shorter periods to cover loss of accommodation in the event of an emergency e.g., flooding incidents, storm damage, etc.

### *Transport*

Capital Scheme Category	£m	Description
Integrated Transport	34.9	Covers local infrastructure improvements regarding accessibility, road safety engineering work, new cycle route provision and the council's contribution to the National Highways A14 upgrade scheme.

Operating the Network	35.0	Carriageway and footway maintenance, improvements to the Rights of Way network, bridge strengthening and traffic signal replacement. It also supports provision of the Traffic Management Centre which provides real-time travel information.
Highways & Transport	104.7	One-off schemes to provide resolutions to specific highways and transport issues. Examples include delivery of traffic signals at Wheatsheaf crossroads in Bluntisham and replacement of the streetlighting bulbs with LEDs. Also includes additional funding for footpaths and pavements (£13.5m) and potholes (£17.0m).

### *Capital Programme Variation*

The nature of capital planning is such that it can be difficult to accurately forecast timing of capital expenditure for each individual scheme, as it is difficult to pinpoint exactly which schemes will experience unforeseen delays. In order to ensure that this does not unduly impact on the revenue position (see part 5f below for further detail on the impact capital has on revenue), the council employs the use of centrally calculated and allocated Capital Programme Variation budgets in order to reduce the overall level of anticipated borrowing each year to a more accurate level. These budgets are calculated by applying a percentage reduction at service level to the programme, based on several factors such as historical slippage, the nature of the current schemes in the programme, etc. This explains why the expenditure for this area in the chart above is negative. As slippage forecasts are reported throughout the year, they are offset against the variation budgets for each service, leading to a balanced outturn overall up until the point when rephasing exceeds this budget.

Further detail on all schemes can be found within the individual service finance tables (section 3 of the Business Plan).

### **5e. Funding the Strategy**

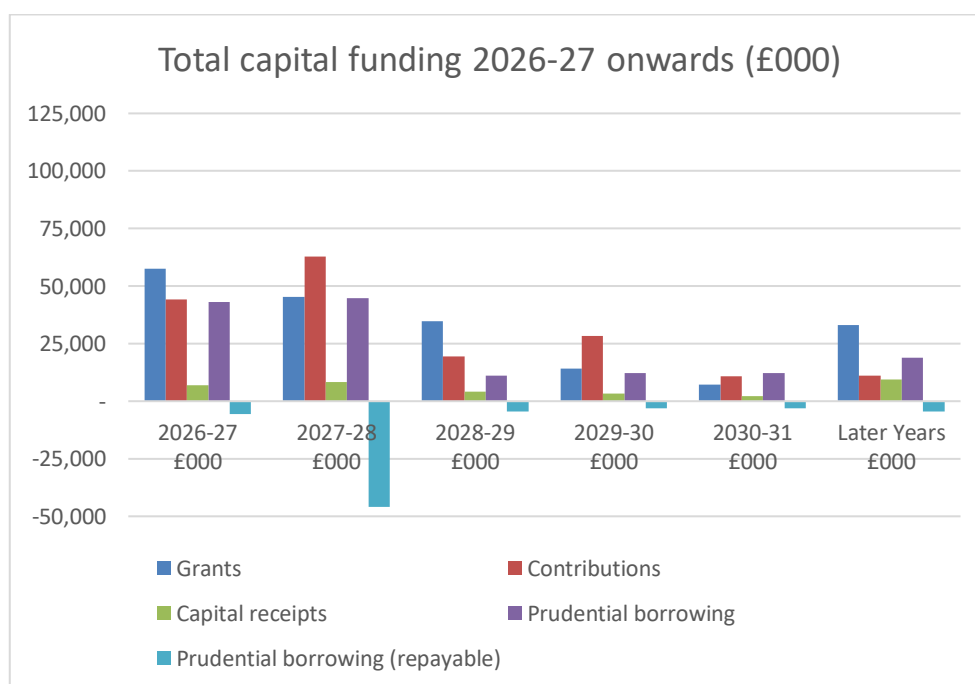
Capital expenditure is financed using a combination of the following funding sources:

Earmarked Funding	Central government and external grants
	Developer contributions (Section 106), Community Infrastructure Levy (CIL) and external contributions
	Private Finance Initiative (PFI) / Public Private Partnerships (PPP) <sup>1</sup>
Discretionary Funding	Central government and external grants
	Prudential Borrowing
	Capital Receipts
	Revenue funding

<sup>1</sup> This source of funding is no longer available for new schemes.

A more detailed explanation of these funding sources is provided in Appendix 2 of this Strategy.

The 2026-27 ten-year programme, worth £479.5m, is budgeted to be funded through £369.4m of external grants and contributions, £34.5m of capital receipts and £75.6m of borrowing.



Prudential borrowing (repayable) normally arises through timing differences between expenditure and receipt of income. This is common in relation to schemes funded, or part-funded, by developer contributions where the timing of the contribution is

determined by the pace of development and meeting certain triggers, whereas the infrastructure may be required at an earlier point. For example, a new school may be required early on in a development, even though it will not reach capacity (and therefore will not trigger all the funding milestones usually linked to the number of housing completions) for several years. Prudential borrowing (repayable) will also be used to fund capital loans to other organisations; these loans will eventually be repaid, therefore over the life of the programme the borrowing required is zero. This explains the negative prudential borrowing (repayable) in some years in the above chart.

### *Government Grants*

Councils have received one-year funding envelopes in recent years which has hampered the council's ability to make efficient and effective decisions over long-term financial planning. The lack of certainty has been further exacerbated by the number of financial reforms which have been put on hold, particularly during the pandemic as well as during various changes in political leadership. Despite multi-year spending reviews in recent years (excluding 2025-26), the Local Government Finance Settlements have continued to be announced annually. This is not conducive to robust financial planning, particularly in relation to capital. In June 2025, the government announced the Spending Review 2025, covering the period to 2029-30 for capital investment. We await to see if this develops into a multi-year settlement later this year.

### *Government Grants - Highways*

In addition to the Pothole funding, Local Transport Grant (formerly the Integrated Transport Block) funding and Highways Maintenance formula allocation, the Department for Transport (DfT) provide a Highways Maintenance Incentive Fund. This fund is to help reward local highway authorities who can demonstrate they are delivering value for money in carrying out asset management to deliver cost effective improvements. The government has stated that 25% of the £500 million additional funding announced in the Autumn Budget 2024 for 2025-26 would be contingent on local highway authorities demonstrating to government that they are complying with certain criteria aimed at driving best practice and continual improvement in highways maintenance.

This required each authority to publish a transparency report in June 2025 and a further report in October 2025, demonstrating the authority drives best practice and continual improvement in its highways maintenance activities and can evidence a risk-based asset management approach. It also required authorities to publish what it has delivered during 2024-25 and what it would be delivering during 2025-26 for the funding provided. These reports were provided to the DfT and are published on the council's website. For 2025-26, if the incentive is met, this will provide an additional £10m of funding for the Cambridgeshire and Peterborough Combined Authority Area.

As part of the Spending Review 2025, the government announced it would be investing £2.3 billion in the Local Transport Grant over Phase 2 for local transport improvements including bus lanes, cycleways and congestion improvement measures in places outside of those areas receiving Transport for City Region settlements. This will deliver a fourfold increase in funding in 2029-30 compared to 2024-25 and replaces Integrated Transport Block funding. £4.97m has been allocated to

Cambridgeshire and Peterborough Combined Authority area for 2026-27.

In addition, the government is funding various capital transport projects around the country, including the East West Rail between Oxford, Milton Keynes and Cambridge; the Spending Review 2025 confirmed a further £2.5bn of additional funding for this major infrastructure project, supporting housing developments and unlocking the potential of the Oxford to Cambridge Growth Corridor.

As the CPCA is now the local transport authority, it therefore receives the above DfT local transport authority designated funding on behalf of the County; however, the CPCA continues to commission the council to carry out the required works on the transport network.

### *Government Grants – Environment*

A new discounted interest rate was introduced in 2018, accessible to authorities for 3 years to support up to £1bn of infrastructure projects that are 'high value for money'. The council submitted two bids to access this discounted interest rate; in November 2019 it was notified that the bids had been successful, and the council can now secure eligible borrowing at a discount of 0.4% below standard PWLB borrowing rates. This has supported a variety of energy investment and community energy schemes. The first tranche was accessed in March 2020 when the council applied for £8m at the discounted rate, followed by a second tranche of £6m in August 2021 and a third tranche of £9m in December 2021.

Following on from this, the National Wealth Fund (NWF), formerly the UK Infrastructure Bank (UKIB), opened for business in June 2021 and was initially expected to unlock more than £40bn of infrastructure investment. The Autumn Statement 2022 announced that the government was placing the Bank on a statutory footing, cementing its status as a key institution that will facilitate long-term investment in infrastructure to tackle climate change and support regional and local growth. The National Wealth Fund has a broader mandate than the UKIB, supporting delivery of the wider UK national industrial strategy. The council does not currently use this source of investment but remains open to the option for any relevant schemes.

The government has set up several grant schemes to support the retrofit of existing buildings across public and private assets, including the Public Sector Decarbonisation Scheme, Community Heat Fund, Home Upgrade Grants, a 'Prospering from the Energy revolution' fund and a whole stream of other pump prime funding. The Environment Act 2021 and Agriculture Act 2020 were passed; bringing inward investment to change the way we do things and value public goods.

The council has secured over £6.5m of funding from the Public Sector Decarbonisation Scheme to help decarbonise heating and improve energy efficiency in Council buildings and schools. The Public Sector Decarbonisation Scheme is continuing until 2027-28.

The council is part of the Cambridgeshire Energy Retrofit Partnership (CERP); this covers all Cambridgeshire local authorities as well as the CPCA and Peterborough

City Council and together submits funding bids to support energy efficiency in domestic properties. Previous successful applications include the Sustainable Warmth, Home Upgrade Grants and Warm Homes Local Grant. To date, just over £21m has been secured for domestic retrofits across the different funding schemes.

### *Government Grants - Education*

The government allocates Basic Need capital funding over a two-to-three-year time frame to enable authorities to provide sufficient school places for every child who needs one and to aid the forward planning of school places. Unfortunately, the current methodology used to distribute funding for additional school places does not always reflect the council's need, requiring additional borrowing on top of grants received. Almost all of this need relates to infrastructure that the council has a statutory responsibility to provide, therefore, there is limited flexibility for the council in deciding whether to proceed with these schemes and allowing for their costs within the capital programme.

The council seeks to maximise its Basic Need funding by establishing how the funding allocation model works and providing the School Capacity (SCAP) data to the Department of Education (DfE) in such a way as to maximise the council's allocation. The council has been allocated £10.95m of Basic Need funding for 2026-27 and £6.9m for 2027-28, based on the council's SCAP return submitted for May 2024. The allocations for the 2026-27 and 2027-28 financial years are based upon the projected need for new places by September 2028 (the start of academic year 2028/29)

The revised methodology used to distribute condition allocations to target areas of highest condition need now consists of a weighted pupil element, banded condition scores, and a location factor to represent increased costs as determined by the Building Cost Information Service. The Council has received £4.8m in School Condition Allocation for 2025-26. As part of the Spending Review 2025, the government announced that annual maintenance investment will increase in line with inflation, rising to £2.3 billion in 2029-30 to improve the condition of the school estate, an increase of over £400 million per year by 2029-30, compared with 2024-25. However, the council's 2026-27 allocation will not be announced until March 2026.

To date, there are currently eleven Free Schools open in Cambridgeshire. There are an additional eight Free Schools currently approved to pre-opening stage, including three primary schools, four secondary schools (including a special school), and one all through special school. The majority of these schools in pre-opening are in areas where the council has identified a basic need requirement for places. It is not known when, or if, Wave 16 will open.

Following invitation from the DfE, the council made an application to participate in the 2022-23 Safety Valve Programme. The programme is designed to assist local authorities in reducing overspends in their High Needs Block expenditure for Special Educational Needs and Disabilities (SEND). As part of its DfE safety valve application, the council requested capital funding for a number of additional SEND capital schemes. This forms part of the overall strategy to increase capacity and reduce the reliance on more costly external placements. The council entered into a Safety Valve

Agreement in March 2023. The Agreement is based on the following arrangements:

- Revenue contribution of £49m from the DfE to support the repayment of the deficit, supported by a contribution of £9m from the council's reserves.
- A further £11.3m for capital funding to support new SEND provision on mainstream school sites.
- Two new special free schools for Cambridgeshire are to be established, in March and Gamlingay.

The Council is also awarded a High Needs Capital Allocation on an annual basis to support the provision of new places and improve existing provision for children with special educational needs and disabilities or requiring alternative provision. For 2025-26 Cambridgeshire has been allocated £7,109,869. Funding for further years has not yet been announced.

### *Developer Contributions and Capital Receipts*

2024 was a challenging year for real estate due to persistent inflation and 15-year high interest rates. A downward shift in interest rates during 2025, with further potential cuts, is expected to support economic activity and the property market moving forward. Homebuyers have started to return to the market following a lull after April's stamp duty changes, but the outlook remains mixed as we approach the Autumn Budget. The budget may pose challenges for the housing market with speculation that property taxes may rise, with the potential to impact investor sentiment, however the government has not confirmed this. Despite their being an abundance of properties on the market in some regions, it is anticipated that house price growth could improve during 2026 and beyond. Savills is currently forecasting 1% growth in 2025, 4% growth in 2026 and 6% in both 2027 and 2028.

In the commercial sector mixed performance is expected with industrial and prime office spaces showing positive rental growth due to limited supply, while secondary retail and office space face challenges and potential declines. Occupier and investor sentiment is improving but remains cautious, factors such as rising National Insurance and global trade creates caution to occupiers and investors, although interest rate reductions provide some support to the market. Trend for tenants favouring quality and location in their selection criteria also influence the market. Investment in niche sectors like healthcare is likely to rise, with investors seeking stability and growth.

Cambridge is expected to continue to perform well due to the life sciences and tech sector, university demand, and limited supply due to planning constraints of conservation areas and greenbelt. The council's ability to fund capital investment through the sale of surplus land and buildings, or from contributions by developers is therefore not anticipated to be severely impacted moving forward. Savills have reported additional office/lab space planned which could nearly double current levels of stock. As there is currently a shortage of Grade A office and lab space, forecasts suggest prime office rents could reach £65/sq ft by the end of 2025. Funding for transport infrastructure projects has also been secured which will improve accessibility in the area.

However, delivering the changes required for the net-zero target will require investment into energy infrastructure, building retrofits, circular economy, active travel, and mobility that changes our dependency on fossil fuels for heating and powering homes and businesses. The changes will be significant and will include regulatory improvements to building standards, land use, transport planning, and waste management to ensure clean and sustainable growth. Whilst the development industry reacts to these changes, some impact may be felt on developer contributions as our national and local systems shift focus to tackle climate and biodiversity emergencies.

In line with capital regulations, the council re-invests 100% of all capital receipts received (after funding costs of disposal up to the allowable limit of 4% of receipt) back into the capital programme, focusing these on schemes that either generate an ongoing revenue return, remove carbon emissions or are short-life assets.

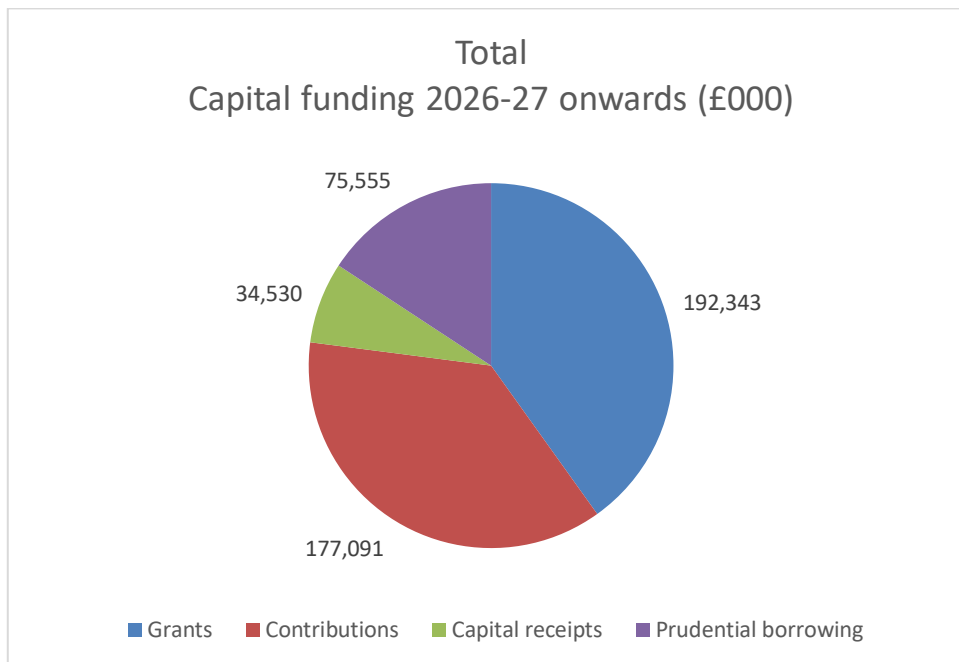
### *Community Infrastructure Levy (CIL)*

CIL works by levying a charge per net additional floor space created on all small-scale developments, instead of requiring developers to pay specific contributions towards individual projects as per the current developer contribution process (Section 106, which is still in place for large developments). Although this is designed to create a more consistent charging mechanism, it also complicates the ability of the council to fund the necessary infrastructure requirements created by new development due to the changes in process and the involvement of the city and district councils who have exclusive legal responsibility for determining expenditure. The council therefore generally receives a much lower proportion of the cost of infrastructure requirements through CIL contributions.

Huntingdonshire and East Cambridgeshire District Councils are currently the only districts within Cambridgeshire to have adopted CIL. Greater Cambridge (Cambridge City Council and South Cambridgeshire District Council) are currently assessing whether to adopt the CIL contributions structure and a decision is expected during 2026. Fenland District Council currently have no plans to implement CIL.

### *Borrowing*

The council will only look to borrow money to fund a scheme either to allow for schemes that will generate payback and/or reduce future carbon liabilities (via either financial/carbon savings or through income generation), or if all other sources of funding have been exhausted but a scheme is required. Despite this, the council has an affordability gap of £75.6m over the ten-year programme, which is due to be funded by borrowing:



### 5fi. Revenue Implications and Affordability

All capital schemes have a potential two-fold impact on the revenue position, due to:

- the cost of borrowing through interest payments and repayment of principal (called Minimum Revenue Provision), or through the loss of investment income; and
- the ongoing revenue impact of the scheme (such as staff salaries, utility bills, maintenance, administrative costs etc.), or revenue benefits (such as savings or additional income).

To ensure that available resources are allocated optimally, capital programme planning is determined in parallel with the revenue budget planning process.

Both the borrowing costs and ongoing revenue costs/savings of a scheme are considered as part of a scheme’s appraisal, and therefore, the process for prioritising schemes against their ability to deliver outcomes.

In addition, the council is required by CIPFA’s Prudential Code for Capital Finance in Local Authorities 2021 to ensure that it undertakes borrowing in an affordable and sustainable manner. In order to guide this process, the council sets an advisory limit on the value of the revenue budget that can be spent on capital financing costs over the coming business planning period. This is based on an assessment of affordability of financing borrowing costs over the medium-term.

In order to afford a degree of flexibility from year to year, changes to the phasing of the debt charges are allowed within any three-year block, so long as the advisory

aggregate limit remains unchanged. Blocks refer to specific three-year periods, starting from 2015-16, rather than rolling three-year periods. The advisory limit on capital financing costs is reviewed annually by the Section 151 Officer and considered by Committee.

Due to the council's strategic role in stimulating economic growth across the county through infrastructure investment, any capital proposals that can reliably demonstrate revenue income / savings at least equal to the debt charges generated by the scheme's borrowing requirement are excluded from contributing towards the advisory borrowing limit. These schemes are called Invest to Save or Invest to Earn schemes and will be self-funded in the medium-term. Whilst the financing costs for commercial activity schemes have already been removed from the budget and recharged to the Investment Activity budget within Finance and Resources, there are several other Invest to Save / Earn schemes that have not been recharged e.g., third party loans. The following table therefore compares revised net financing costs excluding these costs. Following the change in the Minimum Revenue Provision policy, agreed by Full Council in February 2016, the limits in recent years have been increased by 2% each year:

<b>Financing Costs</b>	<b>2024-25 £m</b>	<b>2025-26 £m</b>	<b>2026-27 £m</b>	<b>2027-28 £m</b>	<b>2028-29 £m</b>	<b>2029-30 £m</b>
2026-27 BP (net figures excluding Invest to Save / Earn schemes)	43.7	46.3	46.3	46.5	50.5	48.6
Adjustment for impact of DSG deficit	-2.3	-3.2	-4.7	-5.7	-6.7	-7.4
Recommend limit	42.2	43.0	43.9	44.7	45.6	46.5
<b>HEADROOM (-)</b>	<b>-0.8</b>	<b>0.1</b>	<b>-2.2</b>	<b>-3.9</b>	<b>-1.8</b>	<b>-5.3</b>

Recommend limit (3 years)	129.1	136.8
<b>HEADROOM (-) (3 years)</b>	<b>-2.9</b>	<b>-11.0</b>

In addition, the impact of the Council's Dedicated School's Grant deficit has been excluded from contributing towards the advisory borrowing limit. The deficit represents a real cash deficit that the council is required to borrow for in order to finance it, and so the capital programme cost has been adjusted to reduce its impact.

Once the service programmes have been refined, if the amalgamated level of borrowing and thus debt charges breach the advisory limit, schemes will either be re-prioritised in order to reduce borrowing levels, or the number of schemes included will be limited.

Invest to Save and Invest to Earn schemes for all services are expected to fund any revenue pressures, including borrowing costs, over the life of the asset. However, any

additional savings or income generated in addition to this repayment will be retained by the respective Service and will contribute towards their revenue savings targets.

However, there will still be a short-term revenue cost for these schemes, as with all other schemes funded by borrowing. Therefore, SR&P Committee still needs to review the timing of the repayments, in conjunction with the overall total level of debt charges to determine affordability of the capital programme, before recommending the Business Plan to Full Council. The debt charges budget required to fund capital borrowing for the ten-year programme is forecast to spend £43.8m in 2026-27, increasing over the subsequent years to £48.4m by 2029-30, before dropping back again to £44.3m in 2030-31. The following table shows the proportion of net budget (excluding schools) that is forecast to be spent on debt charges, resulting from the estimated increase in borrowing levels over the period of the 2026-27 plan.

	2026-27	2027-28	2028-29	2029-30	2030-31
Debt charges (including Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	10.0%	10.1%	10.1%	9.5%	9.1%
Debt charges (excluding Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	7.2%	7.8%	8.5%	8.1%	7.8%

The council also includes the capitalisation of the cost of borrowing within all schemes; this has helped the council to better reflect the cost of assets when they actually become operational. Although the capitalised interest cost budgets are initially held on an overall service basis within the capital programme, the funding is ultimately moved to the appropriate schemes each year once exact figures have been calculated.

### **5fii. Flexible Use of Capital Receipts**

Since 2015, local authorities have been given flexibility to spend certain capital receipts on transformation and efficiency work to deliver more efficient and sustainable services. That flexibility has been extended several times and has most recently been extended to 2030.

This flexibility applies as long as the council complies with the following:

- The expenditure is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years; and
- The expenditure is properly incurred for the financial years that begin on 1 April

2016 to 1 April 2029 and can only be met from capital receipts which have been received in the years to which this direction applies.

- We set out in advance the expected use of the flexibility (using the language in the regulations) on a project-by-project basis and stating the costs and expected savings and/or service transformation to be delivered.

The council will use this direction for 2026-27 for two main purposes – to meet the eligible cost of any organisational redesign work to deliver planned savings for 2026-27 set out in the business plan, and to fund posts primarily in the Change Team to deliver our change programme.

This will be used to fund up to £1.5m for 2026-27. The council funded £2.9m of expenditure in 2017-18 using this direction, £3.9m in 2018-19, £2.6m in 2019-20, £1.5m in 2020-21, £1.7m in 2021-22, £1.0m in 2022-23, £0.4m in 2023-24, £1.3m in 2024-25 and is forecasting to spend £1.9m in 2025-26.

For 2026-27 we expect the flexibility to be used on the following work, to delivery savings or service transformation:

<b>Project line</b>	<b>Expected use of capital receipts flexibility £000</b>	<b>Expected savings £000</b>	<b>Service transformation</b>
Service redesign	750	TBC	Delivers on the target operating model portfolio of our change strategy
Wider change programme	750	TBC	Delivery of the other portfolios of the council's change strategy will unlock savings, efficiencies and improved services. This will be reviewed and allocated, primarily on project/programme management resource or specialist work, through the council's Change Board
<b>Total</b>	<b>1,500</b>	<b>TBC</b>	

As a result of using capital receipts in this way rather than applying all capital receipts to the capital programme, prudential borrowing undertaken by the council for 2026-27 is expected to be £1.5m higher, which impacts on our prudential indicators in this way:

<b>Prudential Indicator</b>	<b>2026-27 £m</b>
Capital Financing Requirement	+1.5m
Operational Boundary (Total Borrowing)	+1.5m
Authorised Limit (Total Borrowing)	+1.5m

This is expected to create additional financing costs in the revenue budget of up to £122k per annum (decreasing) once all expenditure has been incurred.

## 5g. Managing the Borrowing Requirement

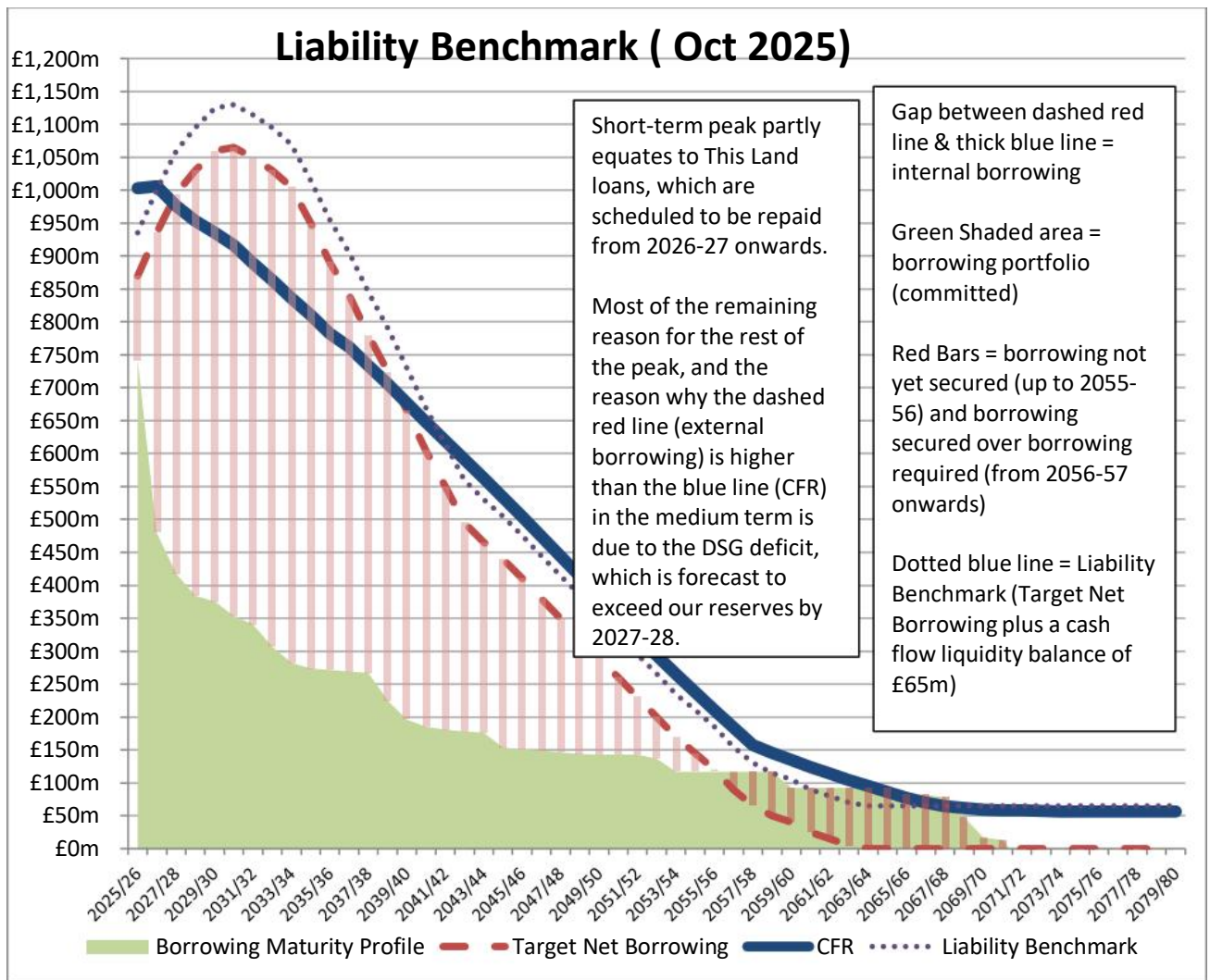
The council's Treasury Management Strategy (section 6 of the Business Plan) considers how the cash requirements arising from the council's Capital Strategy and detailed investment programme are managed by external borrowing, and the timing of any such borrowing. Where capital expenditure has been incurred without a resource to pay for it, i.e., when it is proposed to be funded by borrowing, this will increase the council's Capital Financing Requirement (CFR). The CFR therefore effectively represents the council's underlying need to borrow. The council reduces the CFR by making a prudent provision for the repayment of historic capital expenditure from its revenue budget in line with its agreed policy – this is called Minimum Revenue Provision (MRP). Calculation of the CFR is summarised in the table below and results in the need to borrow money.

	<b>Opening Capital Financing Requirement</b>
<b>+</b>	Capital expenditure incurred in year
<b>-</b>	Grants, contributions, capital receipts and revenue funding used to fund capital expenditure
<b>-</b>	Prudent Minimum Revenue Provision (MRP)
<b>=</b>	<b>Closing Capital Financing Requirement</b>

Future projections of the CFR based on the capital programme and resources deemed available to fund it are shown in the table below. Forecasts are subject to the timing of capital expenditure and receipt of funding sources.

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m
Total CFR	1,121.3	1,084.9	1,055.0	1,030.1	1,001.8

The following chart shows the council's projected CFR (underlying borrowing need) against the maturity profile of all active loans. The shaded red bars therefore represent the amount of borrowing required to be secured in future in order to meet the council's projected borrowing requirement, based on the forecast capital programme.



The council's main objective 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 cheap short-term loans and long-term fixed rate loans where the future cost is known but higher. In the current higher-interest rate environment, the balance is far more skewed towards taking out short-term loans; however, this has been made possible in the short-term due to the council taking advantage of historically low interest rates during 2021 to extend the maturity profile of some of the council's debt by taking out longer-term loans at cheaper rates. For further detail regarding the council's long-term borrowing strategy, please see the Treasury Management Strategy (section 6 of the Business Plan).

## 5h. Risk

There are a range of future risks beyond the control of the council that have the potential to impact upon the council's ability to deliver its capital ambition. Retaining a focus on future risk through a risk management approach that identifies, assesses, and manages (as far as is possible) risk is a critical part of the Capital Strategy,

approach, and programme. The council does not have the resources to mitigate all risks faced, so instead manages risk proportionately, utilising the expertise of senior officers.

The council's planning and governance processes have been developed in such a way as to mitigate these risks. All capital Business Cases are required to complete a section on risk to identify the main drivers and potential mitigations. The following table sets out some of these:

Risk	Mitigation
Legislative	Changes in statute and regulation will impact upon capital projects, as they must comply with current legislation. The council ensures that it keeps abreast of these developments, responding to consultations where appropriate and taking any required adjustments to strategies or processes through the appropriate governance channels.
Property Markets	Various aspects of the programme, such as rental income, income generated by capital receipts and funding through developer contributions are affected by the health of property markets. The council ensures it has a sound property asset strategy, suitable diversification, adequate resourcing (including use of external experts where required), and a long-term approach.
Environmental	The impacts of a changing climate are being felt globally. Cambridgeshire is low lying and has a long record of water related challenges, making it vulnerable to sea level rise, increasing flood risk, drought, and overheating, as well as future resource constraints resulting from loss of nature and global competition for resources. Capital Business cases now include a section on carbon in order to identify whether a scheme is increasing or decreasing the council and the county's carbon footprint.
Interest Rate	A considerable proportion of the council's programme is funded by borrowing and is therefore exposed to fluctuations in interest rates. The council uses prudent forecasts for future interest rates and constantly reviews its long-term borrowing strategy to mitigate against any interest rate rise risk. Further detail can be found in the Treasury Management Strategy.
Inflation	Given the size of the portfolio, a small rise in inflation can have a significant impact upon project costs. The council builds in inflation estimates where appropriate to mitigate against this risk, plus schemes include contingency budgets in order to further

Risk	Mitigation
	mitigate against unanticipated rises. Contracts are also negotiated using fixed terms where possible. In a high-inflation environment where tender quotes are only held for a short period, appropriate short-term delegations are put in place to enable rapid response in a short timeframe. Close monitoring of the programme supports early identification and therefore appropriate response.
Capacity	A significant challenge in the current environment is the capacity within the supply chain to deliver projects on time and to budget. In addition, the council needs to ensure it has sufficient project delivery expertise in order to deliver schemes efficiently and effectively. For significant programmes, dedicated project delivery resource is allocated to ensure capacity and expertise. Supply chain capacity is managed at the project and programme level, with residual risks escalated through the council's governance process as necessary.

It is important to integrate climate risk into financial risk management to enable decision-makers to understand the climate related issues facing both the council in how it runs its budget, investments, and services, as well as enabling Cambridgeshire's residents and businesses to thrive. Identifying and diagnosing the challenges and impacts will help us to develop strategies to inform and solve them. For example, the hot summer of 2022 has increased the maintenance costs for highways as a result of roads overheating, and the ground under the highway contracting and then expanding. This type of cost could become more prevalent and needs proactive management.

The council is still developing its climate risk approach. It will look to ensure climate change is addressed through the council's governance process; how it impacts on strategy; how climate-related risks and opportunities are assessed and managed; and look to apply performance measures and targets to manage these issues.

### *Investment Strategy Risk*

The structure of the property portfolio has a significant bearing on the portfolio's inherent risk and return profile. Therefore, a key objective of the non-financial investment strategy was to create diversification within the portfolio in order to manage exposure to the risks of concentrating too much activity in any particular sector. Key risks in the portfolio can be categorised as follows:

Risk	Mitigation
Income	<p>The main risk in a commercial portfolio is tenant vacancies and the resultant loss of income. The costs of holding a vacant property include non-domestic rates, insurance, utilities, security, inspections, and management. In addition, there are costs of marketing the property, the agent's disposal fees and legal fees for completing the lease documentation for re-letting the premises. The council holds a sinking fund reserve, which is topped up each year in order to provide cover for both ad hoc additional expenditure, as well as both expected and unexpected loss of income through vacant property and/or lease breaks.</p>
Yield	<p>The main aim of the majority of investments is to provide a secure return on income. The council manages its commercial property as a single portfolio, ensuring that the collective returns achieved on the investments meet the overall financial target that is set.</p>
Concentration	<p>Sector Concentration – the main property sectors are retail, office, industrial and leisure/healthcare. The council has spread its portfolio of investment across the different sectors in order to limit exposure to any volatility in a particular area. Like geographic diversification, industry diversification is sensitive to the diversification requirements of the overall portfolio.</p> <p>Geographical Concentration – it is important for the council to understand the future economic viability of localities, which will be influenced by a number of local and national economic factors. For example, future major transport infrastructure investment could significantly influence the economic viability of an area and therefore the future value of investments in that locality.</p>

Risk	Mitigation
	<p>Property Concentration – diversifying a real estate portfolio by property type is similar to diversifying a securities portfolio by industry. Different property types cater to different sectors of the economy. For example, office property generally responds to the needs of the financial and services-producing sectors; industrial property to the goods-producing sectors; retail property to the retail sector; and hotels to the travel and tourism sectors, employment growth, and the business cycle. Understanding the return and risk factors attendant to different property types requires understanding the factors affecting each property type’s user groups.</p> <p>Tenure Concentration – the portfolio is managed to ensure that it contains a broad spread of tenants. This analysis can be driven by credit ratings, nature of business, lease length, and the value of the leaseholds. It is important to evaluate tenant credit ratings according to the senior corporate debt of the lessees. Leases are compared regarding their length (including renewal options), which may vary considerably, typically from ten to twenty years.</p>

The Investment Strategy requires continual evaluation of the investment portfolio against the council’s ambitions to ensure that it is fit for purpose. A larger and more balanced portfolio would have helped to achieve the council’s aim of increasing income to support the delivery of services throughout the county, however, balancing this with risk means that a core portfolio of property assets has been sought, diversified by sector (industrial, offices and retail), location and risk.

## 5i. Capital Planning and Governance

This Capital Strategy supports, and is aligned to, the decision-making framework which has been developed by the council. When making long-term investment decisions, clear and informed information is vital to understanding the short- and long-term impact on key social, financial, and environmental indicators. Any investment proposal will therefore be considered in line with the impact it has on supporting the council’s ambitions and enablers.

The council operates a five-year rolling revenue budget, and a ten-year rolling capital programme. The very nature of capital planning necessitates alteration and refinement to proposals and funding during the planning period; therefore, whilst the early years of the Business Plan provide robust, detailed estimates of schemes, the later years only provide indicative forecasts of the likely infrastructure needs and funding streams for the council.

New schemes for inclusion in the programme are developed by services in conjunction with the finance team in line with the council ambitions outlined in the Strategic Framework. Any new capital scheme costing more than £10,000 is appraised as to its financial, human resources, property, carbon, environment, and economic consequences. The justification and impacts, as well as the expenditure and funding details of these schemes are initially specified in an outline capital Business Case, which becomes more detailed as the proposal develops; all schemes are required to have a pre-defined funding method. At the same time, all schemes from previous planning periods are reviewed and updated as required. All schemes, whether existing or new, are scrutinised and challenged where appropriate by officers to verify the underlying costs and/or establish whether alternative methods of delivery have been investigated in order to meet the relevant needs and outcomes of the council.

An investment appraisal of each capital scheme is undertaken as part of the business case development, which allows the scheme to be assessed against social, financial, and environmental factors. This allows schemes within and across all services to be prioritised, considering the finite resources available to fund the overall programme and in order to ensure the schemes included within the programme are aligned to assist the council with achieving its ambitions.

Capital Programme Board (CPB) is an officer board and provides support and challenge with respect to both the creation of an initial budget for a capital scheme, as well as the deliverability and ongoing monitoring of a scheme. The terms of reference require CPB to ensure that the following outcomes are delivered:

- Improved estimates for cost and time of capital projects;
- Improved project and programme management and governance;
- Improved post project evaluation; and
- Improved prioritisation process across the programme as a whole.

The council has also recently established an Assets Theme Programme Board as part of the council's Change Strategy. The purpose of this officer board is to develop, manage, and optimise the use of the council's assets across the county. This involves having an overview of strategic planning and infrastructure development, management of capital assets, and the alignment of these activities within broader corporate council, community and growth objectives. The Assets Board will also serve as the organisation's Gateway review, providing a council-wide perspective on all asset and land related projects and programmes. The Assets Board will:

- Review proposals from a land, property planning and deliverability perspective
- Ensure there is a strategic fit of any proposal
- Ensure that clear risk management arrangements are in place
- Ensure that there is a plan in relation to revenue implications including any savings and costs.

The Assets Board will oversee the work of CPB and provide a strategic steer based on the criteria set out above.

Service committees review the draft service programmes, and the overarching capital programme is approved by Full Council each year as part of the business plan.

The capital programme is monitored in year through quarterly reporting to service committees via Finance Monitoring Reports.

These feed into the Integrated Finance Monitoring Report, which is scrutinised by CPB and also reviewed by SR&P Committee. The report identifies changes required to the capital programme and seeks approval for:

- new / updated resource allocations
- slippage or brought forward programme delivery
- increase / reduction in overall scheme costs
- virements between schemes to maximise delivery against the ambitions of the council.

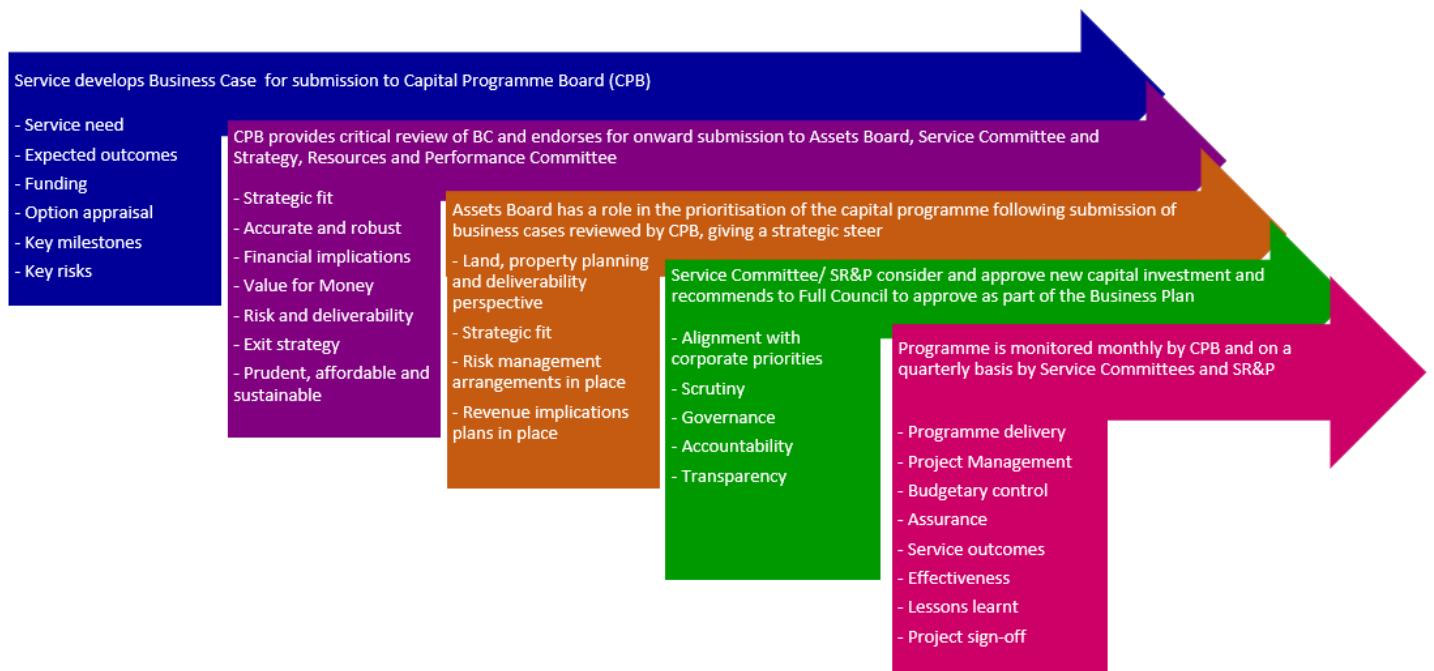
It is inevitable that new demands and pressures will be identified by the council on an ongoing basis, however, as far as possible, addressing these requirements is undertaken as part of the next business planning process, in line with Regulation 6.4 of the Scheme of Financial Management. Therefore, all new capital schemes should be approved via the Business Plan unless there is an urgent need to seek approval that cannot wait until the next planning process. In these situations, any supplementary capital request will be prepared in consultation with, and with the agreement of, the Section 151 Officer. Where possible, the report will be reviewed by CPB before being taken to the Corporate Leadership Team by the relevant Executive Director and the Section 151 Officer, before any request for a supplementary estimate is put to SR&P Committee.

New demands and pressures and changes to estimated costs and funding for ongoing schemes will also potentially result in the need for virements between schemes. All virements should be carried out in line with the limits set out in Appendix G of the Scheme of Financial Management, up to the upper limit of £250,000 by the Section 151 Officer. Anything above this limit will be dealt with in line with the process for new schemes and will be taken to SR&P Committee for approval as part of the monthly Integrated Finance Monitoring Report. Any overspends, whether in year or in relation to the whole scheme, once approved will be funded using applicable external sources and internal, non-borrowing sources first, before using borrowing as a last resort.

Once a project is complete, CPB follows a post-implementation review process for any significant schemes (schemes over £1m, or for schemes between £0.5m and £1m where the variance is more than 20%) in order to ensure that the council learns from any issues encountered, and highlights and follows best practice where possible. In addition, the board can request for a review to be completed on any scheme where it is thought helpful to have one.

The following diagram summarises the relevant responsibilities regarding the Capital

Strategy to ensure decisions are made legitimately, transparently and deliver against the council's ambitions:



The council's Scheme of Financial Management and Capital Guidance Notes provide more operational detail of the operational financial rules and the required governance of the council's capital programme.

In order to support prioritisation and to avoid slippage and potentially unanticipated additional costs, the council needs to ensure it has access to sufficient skills and capacity both within the council and externally in order to deliver the capital programme. Such capacity could be project management and development skills, technical and design skills, knowledge, availability of contractors as well as wider market factors.

# Appendix 1: Non-Financial Investment Portfolio

Appendix 1 to follow (January)

## **Appendix 2: Sources of capital funding**

### **Central government and external grants**

Grant funding is one of the largest sources of financing for the capital programme. The majority of grants are awarded by central government departments including the Department for Education (DfE) and the Department for Transport (DfT). In addition, the council receives grants from various external bodies, including lottery funded organisations. Grants can be specific to a scheme or have conditions attached, including time and criteria restrictions.

### **Capital receipts**

The sale of surplus or poor-quality capital assets as determined by the Land & Property Strategy generates capital receipts, which are reinvested in full in order to assist with financing the capital programme.

### **Section 106 (S106), Community Infrastructure Levy (CIL) and external contributions**

S106 contributions are provided by developers towards the provision of public infrastructure (such as highways, education, waste management centres and libraries) required as a result of development. Capital schemes undertaken in new development areas are often funded wholly or in part by the S106 contribution negotiated with developers. The Community Infrastructure Levy (CIL) is a levy that local authorities can choose to charge on new developments in their area and replaces a substantial proportion of S106 agreements. Other external contributions are made by a variety of organisations such as district councils and central government, often contributing towards jointly funded schemes.

### **Private Finance Initiative (PFI) / Public Private Partnerships (PPP)**

The council has previously made use of additional government support through PFI and PPP and has dedicated resource to manage schemes that are funded via this source. Previous schemes that have been funded this way include Waste, Street Lighting and Schools. However, due to increasing criticism around some high-profile, large-scale PFI projects failing to deliver Value for Money, the government announced the abolishment of this form of capital finance in October 2018.

### **Borrowing (known as prudential borrowing)**

The council can determine the level of its borrowing for capital financing purposes, based upon its own views regarding the affordability, prudence, and sustainability of that borrowing, in line with the CIPFA Prudential Code for Capital Finance in Local Authorities 2021. Borrowing levels for the capital programme are therefore constrained by this assessment and by the availability of the revenue budget to meet the cost of this borrowing, considered in the context of the overall revenue budget deliberations. Further information is contained within the Treasury Management Strategy (section 6 of the Business Plan).

### **Revenue Funding**

The council can use revenue resources to fund capital projects on a direct basis. However, given the existing pressures on the revenue budget, it is unlikely that the council will often choose to undertake this method of funding.