



Title of report: 2026/27 Capital Investment Budget and Capital Strategy Update

Meeting: Cabinet

Meeting date: Tuesday 20 January 2026

Cabinet Member: Peter Stoddart, Finance and Corporate Services

Report by: Director of Finance

Report Author: Strategic Capital Finance Manager

Classification

Open

Decision type

Budget and policy framework

Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

Wards affected

(All Wards);

Purpose

To recommend to Council for approval the revised capital investment budget and capital strategy for 2026/27 onwards.

Recommendation(s)

That: Cabinet recommends the following to Council

- a) To approve the revised capital programme for 2026/27 attached at appendix C;
- b) Approve the capital strategy at appendix D; and
- c) Approve the Flexible Use of Capital Receipts of up to £1.0 million in 2026/27, to support transformation to generate ongoing revenue savings and reduce service delivery costs in future years.

Alternative options

1. It is open to Cabinet to recommend alternative capital investment options to Council. No alternative options have been brought forward to date and suggestions would require review and assessment, in line with those completed on the options presented in this report. In addition, as an amendment to proposals put forward by Cabinet, any amendment would either require the consent of the Leader of the Council or further consideration by Cabinet, and scrutiny, before a decision could be taken in accordance with budget and policy framework rules.
2. A capital strategy is required in accordance with the statutory guidance issued by Chartered Institute of Public Finance and Accountancy (CIPFA), there is discretion on content of the strategy but we have applied the guidelines within the draft.

Key considerations

3. The capital programme reflects capital investment generating benefit to the county for a period in excess of one year.
4. There was a Full Council meeting on 7 February 2025 and the current capital programme included in this report is the base capital programme approved at that meeting.
5. The approved capital programme is provided at appendix B as at the start of January 2026. The reprofiling of the capital spend was carried out in quarter 2 in line with external audit recommendations and reported separately to cabinet. Forecasting against budget is reported to Cabinet in the quarterly report, which includes an up to date forecast of the timing of capital spend, the Q3 forecast will be reported at the February meeting. The additional grants received are listed at the bottom of appendix B and have all been approved by the chief finance officer in year.
6. The proposed Capital Programme for 2026/27 presents an ambitious programme of capital investment aligned to the priorities of the Council Plan across People, Place, Growth and Transformation.
7. The proposed additions for 2026/27 represent projects which will:
 - a. deliver increased temporary and emergency accommodation to respond to homelessness and housing demand across the county;
 - b. mitigate key revenue budget pressures through alternative school provision and Pupil Referral Units;
 - c. improve the use of technology to deliver efficiencies and innovation in services to residents;
 - d. deliver new infrastructure to support growth opportunities for housing;
 - e. strengthen resilience of our school and property assets;
 - f. improve public rights of way access; and
 - g. provide continued investment in the county's road network.
8. All proposals are included in appendix A along with outline strategic business cases at appendix E. Appendix A provides details of the proposed additions to the existing capital programme that have been identified and the impact of approving these additions. Fourteen capital investment budget proposals totalling £44.0 million have been identified, to be funded by prudential borrowing, capital receipts reserve and revenue reserves.
9. Responding to social and affordable housing needs across the county remains a high priority for the council. A further provision of £10.0m has been added to the capital programme to bring forward schemes to deliver social housing to meet the county's urgent need for provision,

provide better homes for those in need, and reduce the high-cost dependence on temporary accommodation. The funding is based on borrowing which is repaid through the income from housing benefit and the reduced cost of temporary accommodation, along with applications for Homes England grants and some provision of corporate funded borrowing where required.

10. The council is committed to identifying solutions to develop affordable housing and work is underway to review best practice options through engagement with developers and registered providers.
11. An Historic Building Fund of £5.0m has been added to fund future works to preserve and restore historic buildings in Hereford including the Museum & Art Gallery, Shirehall and Town Hall. The approved Capital Programme includes an existing allocation of £0.75m to fund Town Hall improvements. This Historic Building Fund will be held centrally, and it is delegated to the S151 officer to allocate funds to specific project budgets once final contract prices have been received to carry out the work required.
12. An informal review of all prospective capital funding requests has been completed to ensure the financial impact of the funding requests is taken account of in the medium term financial strategy.
13. A review of the current capital programme took place at the same time and it was agreed to remove a number of projects that were no longer needed or alternative funding identified to release borrowing and capital receipts for utilisation with the new bids. The projects that have been removed from the proposed capital programme at appendix c are:
 - a. Employment land in Market Towns £4.0m capital receipts use has been removed as there has been no projects come forward at present to spend this budget and any need will be reviewed in the future if business cases come forward
 - b. City and Market Town Public Realm Investment of £1.2m has been removed but this work will still be carried out but funded from the Local Transport Grant allocation
 - c. Road Safety Schemes £3.0m has been removed but this work will still be carried out but funded from the Local Transport Grant allocation
 - d. Council school transport fleet £0.35m has been removed as a result of the review and any future likely delivery model being based on leased vehicle and not purchases.
 - e. Estates Programme of works, there has been a review of all the various budgets in the capital programme and where work is not deemed as required presently the budget has been removed or the asset has been transferred then there is no longer a requirement. A total of £2.65m has been removed across a number of projects.
14. As part of the 2016/17 Local Government Finance Settlement, the government announced new flexibilities allowing local authorities to use capital receipts to fund transformation expenditure. This guidance was extended and updated in 2024/25 to extend the freedom for local authorities to use eligible capital receipts up to 2029/30 to help fund the revenue costs of transformation and release savings.
15. The direction permits authorities to use the proceeds from asset sales to fund the revenue costs of projects that will deliver ongoing savings, reduce costs, increase revenue or support a more efficient provision of services. The council intends to take advantage of this flexibility to support the financing of qualifying expenditure to deliver transformation change programmes across the organisation. Therefore £1.0 million in 2026/27 revenue transformation works will be funded from the use of the capital receipts reserve subject to receipt of the expected capital receipts in year.
16. Inclusion in the capital programme is not approval to proceed. Each project will be subject to its own governance, a full business case will be presented for approval to Cabinet where required and compliance with the council's contract procedure rules as applicable.

17. The capital strategy has been developed in accordance with CIPFA guidelines. The purpose of the capital strategy is to tell a story that gives a clear and concise view of how the council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It should not duplicate other more detailed policies, procedures and plans but instead sit above these and reference these to allow those seeking more detail to know where to find it. That said it should provide sufficient detail so that it provides an accessible single source for the reader. The strategy is included at appendix D and in line with the guidelines requires Council approval.

Community impact

18. In accordance with the adopted code of corporate governance, Herefordshire Council achieves its intended outcomes by providing a mixture of legal, regulatory and practical interventions. Determining the right mix of these is an important strategic choice to make to ensure intended outcomes are achieved. The council needs robust decision making mechanisms to ensure our outcomes can be achieved in a way that provides the best use of resources while still enabling efficient and effective operations.
19. The capital investment proposals support the overall delivery plan and service delivery strategies in place. The overall aim of capital expenditure is to benefit the community through improved facilities and by promoting economic growth. A specific community impact assessment, including any health and safety implications or corporate parenting responsibilities, will be included in the decision report required for any new capital scheme commencing and incurring spend.

Environmental Impact

20. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
21. Whilst this overarching budget setting document will not detail specific environmental impacts, consideration is always made to minimising waste and resources use in line with the council's Environmental Policy. A specific environmental impact assessment for the service specific budget proposals will be considered as appropriate to seek to minimise any adverse environmental impact and actively seek opportunities to improve and enhance environmental performance. An environmental assessment will be developed and scoped for each project when they seek approval to spend through a separate governance decision.

Equality duty

22. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services. An equality impact screening checklist will be completed for each capital project before any capital expenditure is incurred and where necessary a full Equality Impact Assessment will be performed. Equalities will be considered during the delivery of the service to ensure that the Council has regard to any potential effects on those with protected characteristics.

Resource implications

23. The proposed additions at appendix A total £44.0 million over the next four years. This is to be financed from £36.3million prudential borrowing, of which £12.9 million is in addition to the

amount available through current levels of corporate funded borrowing and £8.2m is funded as a return on investment where income or savings benefits repay the cost of borrowing. £5 million is to be funded from the use of the capital receipts reserve and £2.7 million from capital grants to be applied for. Where projects are in the capital programme but they depend on grant, if the grant request is not successful, the full project including any match funding will be removed unless a revised project is approved within the revised allocations.

Scheme	Capital Grant funding £000	Redirected funding £000	Capital receipt funding £000	Funded by ROI £000	Corporate Funded PB £000	Total Request £000
Property Improvements in Care Homes – Phase 3	0.0	0.0	198.8	0.0	0.0	198.8
Residential overnight short breaks refurbishment	0.0	0.0	60.0	0.0	0.0	60.0
Hereford Western Bypass Phase 1	0.0	0.0	0.0	0.0	5,000.0	5,000.0
Strategic Housing Capital Projects	2,655.0	0.0	0.0	3,245.0	4,100.0	10,000.0
Relocate Herefordshire Pupil Referral Units	0.0	0.0	0.0	0.0	5,000.0	5,000.0
Establish a new alternative provision (AP) centre	0.0	0.0	0.0	0.0	5,000.0	5,000.0
Aylestone School Improvement Works	0.0	0.0	1,790.0	0.0	1,000.0	2,790.0
Schools Capital Maintenance	0.0	0.0	1,570.0	0.0	0.0	1,570.0
Resurfacing Herefordshire Highways 3	0.0	0.0	0.0	0.0	5,000.0	5,000.0
Managing Ash Dieback in Herefordshire	0.0	0.0	0.0	0.0	242.0	242.0
Estates Building Improvement Programme 2026-29	0.0	0.0	1,000.0	0.0	1,964.6	2,964.6
Essential system updates and upgrades	0.0	0.0	0.0	0.0	174.0	174.0
Public Rights of Way	0.0	0.0	381.2	0.0	618.8	1,000.0
Historic Building Fund	0.0	0.0	0.0	5,000.0	0.0	5,000.0
Total	2,655.0	0.0	5,000.0	8,245.0	28,099.4	43,999.4

24. The corporate revenue implications of securing this new borrowing are included in the current Medium Term Financial Strategy and Treasury Management Strategy which had always allowed for £6.7million new prudential borrowing per annum over the strategy period.

Funding Position	26/27	27/28	28/29	29/30	Total
Total Corporate Borrowing Required	11,593.6	10,521.3	5,984.5	-	28,099.4
Annual Funding Limit	6,700.0	6,700.0	6,700.0	6,700.0	26,800.0
Unspent 24/25 borrowing to reallocate	533.0				533.0
Unspent 25/26 borrowing estimated	804.0				804.0
Estates Projects Removed	2,652.1				2,652.1
Projects Removed	4,550.0				4,550.0
Allocated Previously	- 6,700.0	-6,700.0	- 6,700.0	-	- 20,100.0
Total Funding Available	8,539.1	0.0	0.0	6,700.0	15,239.1
Funding Variance	-3,054.6	-10,521.3	-5,984.5	6,700.0	-12,860.3

25. The additional borrowing requirement is reflected in an update to the Treasury Management Strategy as shown in the report appearing elsewhere on the Cabinet's agenda today [20 January 2026] with actual borrowing being secured, as cash funding is required at the optimal

interest rate available at that time. The above table reflects borrowing above the annual funding each year, this will have an impact on future revenue budgets when the repayments have to be made. These additional costs are reflected in the table below, this is calculated over a 40 year period and therefore £0.82 million repayments will continue until fully repaid.

Revenue Repayment Costs	27/28	28/29	29/30	30/31
	£000	£000	£000	£000
Annual amount	195.49	868.85	1,251.86	823.06

26. Individual capital scheme resourcing implications will be detailed in the approval to precede decision. Appendix E contains the outline strategic business cases for each of the new projects.

Legal implications

27. The council is under a legal duty to sensibly manage capital finance. The council is able to borrow subject to limits set by the council, any nationally imposed limits, and it must do so in accordance with the prudential code on borrowing.
28. The Local Government Act 2003 allows the council to borrow for any purpose relevant to its functions under any enactment and for the purposes of the prudent management of its financial affairs.
29. Full Council is responsible for adopting the capital investment budget (referred to above as the capital programme) for the next financial year. Local Authorities deliver a range of services some of which are required to be undertaken under statutory duties and others which are a discretionary use of statutory powers. Local Authorities' powers and duties are defined by legislation. The Localism Act 2011 provides a General Power of Competence under Section 1, which provides local authorities with the power to do anything that an individual may do, subject to limitations. Capital expenditure is defined under the Local Government Act 2003. It is therefore not only schemes that are necessary for the council to meet its statutory duties, which can be approved. Any scheme must be procured in accordance with the council's own contract procedure rules and appropriate contractual documentation put in place to protect the council's interests.
30. Section 106 of the Local Government Finance Act 1992 precludes a councillor from voting on the Council's budget if he or she has an outstanding council tax debt of over two months. If a councillor who is precluded from voting is present at any meeting at which relevant matters are discussed, he or she must disclose that section 106 applies and may not vote. Failure to comply is a criminal offence.
31. In accordance with the budget and policy framework, rules in the constitution the general scrutiny committee shall inform and support the process for making cabinet proposals to Council. Scrutiny Management Board will have considered the capital investment budget at appendix A at its meetings on 23 January 2026, to ensure the proposals included in appendix C and D have been developed in accordance with the constitution.
32. Cabinet shall have regard to scrutiny recommendations and the responses to the consultation as have been made to it in drawing up or amending draft proposals for submission to Council, and its report to Council shall reflect those recommendations, comments, and the cabinet's response to them.

Risk management

33. For all capital projects monthly budget control meetings give assurance on the robustness of budget control and monitoring, to highlight key risks and to identify any mitigation to reduce the impact of pressures on the council's overall position for example through phasing of spend, identifying and securing scheme changes or alternative funding sources.
34. Capital projects inherently give rise to risks in their delivery, both in time and budget. Individual scheme reporting and associated project boards exist to mitigate these risks. Furthermore slower delivery than forecast can mean the strategic ambitions are not being met as planned. All projects are expected to be managed through the programme management office once resources are in place, so further mitigating the risk of overspend or delays.
35. The proposed additions have been reviewed in relation to risks, both in deliverability, costs, impact and associated scheme interdependencies. The individual scheme detail of the risks will be provided as individual schemes progress to approval to deliver.

Consultees

36. The council's constitution states that budget consultees should include parish councils, health partners, the schools forum, business ratepayers, council taxpayers, the trade unions, political groups on the council, the scrutiny committees and such other organisations and persons as the leader shall determine.
37. An online public consultation is now closed and responses being analysed and the results of this will be published for the Council meeting in February 2026. The main focus of the consultation was on council tax setting and the savings that needed to be identified to enable a balanced revenue budget to be presented due to the current pressures but is also seeking views on areas to invest in.

Appendices

Appendix A - Proposed capital investment additions from 2026/27

Appendix B - Current status of approved capital programme

Appendix C - Total proposed capital programme

Appendix D - Proposed Capital Strategy

Appendix E – Outline Strategic Business cases for capital investment proposals.

Background papers

None

Glossary of Terms

Capital Grant Funding – External income from another organisation

Redirected Funding – Use of revenue reserves to fund capital

Capital Receipt Funding – Use of the capital receipts reserve generated from sale of land, buildings and other assets of the council

Funded by Return on Investment – this is where there is a return on investment to repay the borrowing costs, such as increased income or savings on the current budget by reducing on going costs

Corporate funding by Prudential Borrowing – this is where prudential borrowing is repaid from the corporate revenue budget