Capital Financing Report Financial Year 2025/26 Quarter One

Committee considering report:	Executive
Date of Committee:	25 September 2025
Portfolio Member:	Councillor Iain Cottingham
Date Portfolio Member agreed report:	
Report Author:	Christopher Dagnall

1 Purpose of the Report

The capital financing performance provided to members reports on the underspends or overspends within the Council's approved capital programme and associated capital financing implications. This report presents the provisional outturn position for financial year 2025/26 as forecast at Quarter 1 against the approved capital programme and summarises the financing implications for financial year 2026/27.

2 Recommendation(s)

2.1 Members are asked:

(a) To approve the 2025/26 Quarter 1 reprofiling proposal of £12.65m. (Appendix A- summarises reprofiling requests)

(b) To note the Q1 Budget Reconciliation in Appendix B

(c) Members are informed of the following adjustments to the 2025/26 capital programme:

- £60,000 of external grant (UKSPF) for Community Garden at Shaw House
- To note that the allocation of £0.2 million of grant funding relates to the Kennet Physically Disabled Resource (PDR) expansion to ensure that associated expenditure for the planned project is managed appropriately.

(d) Members are asked to approve:

£678k of Council funding relating to Digital Infrastructure Group needs to be re-instated. This request (2025/26) is an outstanding ring-fenced amount (£1,354k) allocated to the DIG (over 25/26 and 26/27) but omitted in error to be carried forward into 2023/24.

This request is reinstatement of those already approved allocations in 2015. (West Berkshire Council - Agenda for Executive on Tuesday 9 June 2015, 5.30 pm) The DIG has existing spending commitments that need to be covered in 2025/26, returning Building Digital UK's (BDUK) portion of underspend for Superfast Broadband Phase 2 Giga clear West Berkshire, Giga clear Phase 3 East Berks and Openreach Phase 3.

3 Implications and Impact Assessment

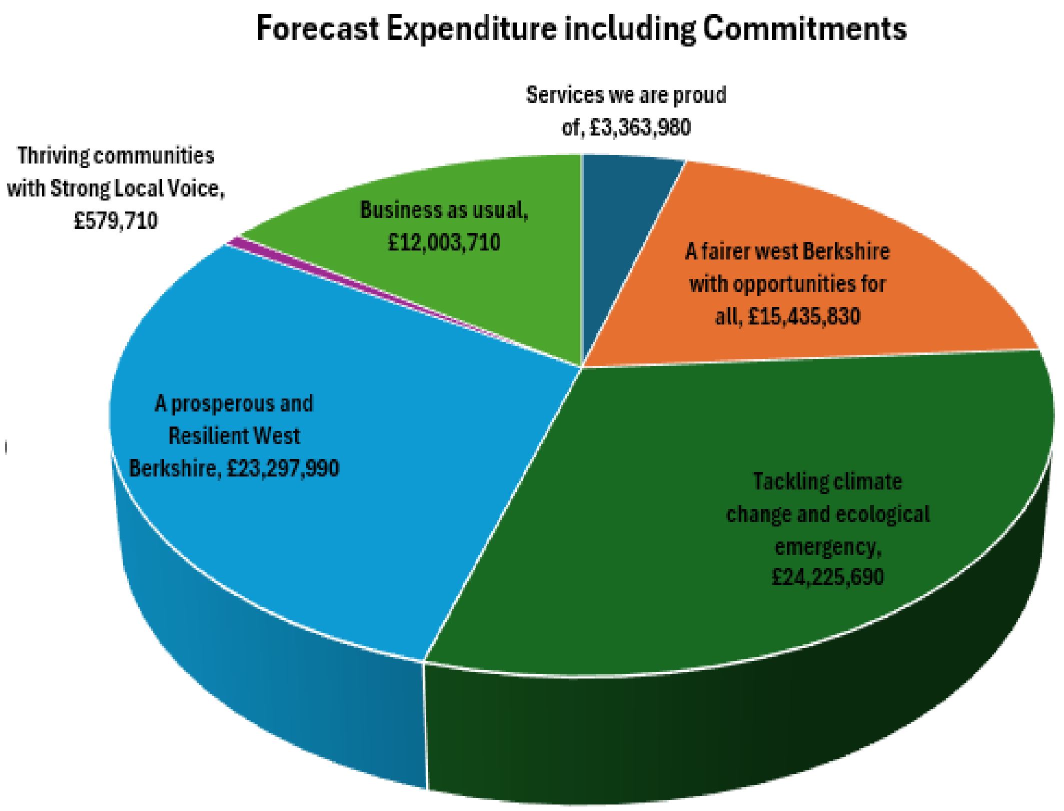
Implication	Commentary
Financial:	The forecast outturn position is expenditure of £78.9 million against a planned programme budget of £93.3 million, an overall forecast underspend of £14.4 million. Public Works Loan Board (PWLB) interest rate stands at 4.25% compared to a historic borrowing average of 3-4%. In a financial climate where interest rates remain high, the Council may need to address the potential risk of raised interest costs on any new external borrowing undertaken. The Council has sought to mitigate risk and retain interest costs at a low level via a strategy of internal borrowing (utilising its own resources and via an optimum combination of long-term and short-term borrowing). The Council's Investment and Borrowing Strategy for financial year 2025/26 supports the delivery of the capital programme and has been underscored with the same accounting principles. Consistent with the 2024/25 financial year, an in-depth Q1 reprofiling exercise has been undertaken in 2025/26. Reprofiling will be reassessed later in the financial year, within the review of the Council's year-end outturn position.
Human Resource:	Not applicable
Legal:	The CIPFA Prudential Code (the Code) requires the Council to consider capital and investment opportunities in the light of overall organisational strategy and be mindful of the need to ensure that decision-making is made having sufficient regard to the long-term financial implications and associated risks. To demonstrate that Local Authorities have satisfied these objectives, the Code specifies several indicators but does not define exact indicative limits or ratios. Local Authorities can set their own limits and ratios, subject to controls in Section 4 of the Local Government Act 2003. The capital programme is a key driver of the Council's treasury management activities.
Risk Management:	The Council is exposed to inflationary cost pressures within the capital programme. Furthermore, any rise in PWLB borrowing rates resulting from increases in bank rates will result in inflated interest costs on any new borrowing undertaken. Such external

	risks are largely outside of the Council's control. The Council continues to procure appropriate advice from its engaged external treasury specialist to determine the optimum time and structure for any new borrowing undertaken.			
Property:	Not applicable			
Policy:	Not applicable			
	Positive	**Neutral**	**Negative**	**Commentary**
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		

Council Strategy Priorities:		X		
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Shannon Coleman-Slaughter (Service Director for Finance, Property and Procurement) (s151 Officer) Asset and Capital Group (ACG)			

4 Executive Summary

4.1 The capital programme facilitates the delivery of key schemes focused on supporting the approved Council Strategy. At Q1 £78.9 million of expenditure has been forecast across capital schemes for financial year 2025/26:



4.2 In respect of financing the capital programme, the Council's total sum of long-term and short-term borrowings to fund capital spend was £267 million as at 31 March 2025. Whilst the Bank of England (BoE) Bank Rate is 4.25% following a period of three consecutive rate reductions (25 base points each) in 2024/25, and one reduction in the current financial year, the BoE indicated that a gradual approach to future interest rate cuts will remain in place due to heightened uncertainty in the UK economy. Fluctuations in Bank Rates have been driven by high levels of inflation, and this has been reflected in increases in Local Government borrowing costs through rises in PWLB borrowing rates. At the time of writing, inflation has significantly lowered but rates for a 25-year annuity loan are approximately 5.79%, compared to a historic borrowing average of 3%-4%.

4.3 The Council will need to address the risk of increased costs arising from any new external borrowing undertaken to support the delivery of intended capital works. The capital programme was formulated with the expectation that new external borrowing would be required to support such delivery. The Council has sought to mitigate the associated risks via a strategy of undertaking a combination of long-term borrowing from PWLB financing, short-term borrowing and utilising existing cash balances. The strategy of retaining borrowing and investments below their underlying levels, sometimes known as internal borrowing, has reduced overall risk and has been the main driver for interest costs remaining at a relatively low level. The Investment and Borrowing Strategy for financial year 2025/26 has reflected these same objectives. The Council's current weighted average cost of borrowing is approximately 3.94%, and this is considerably lower than current borrowing rates.

4.4 It should be noted that Capital financing costs is combination of interest charges and debt repayments in the form of Minimum Revenue Provision. MRP is incurred a year in arrears. In practical terms, this means that the debt repayments 2025/26 capital expenditure will transfer to financial year 2026/27.

5 Supporting Information:

Background

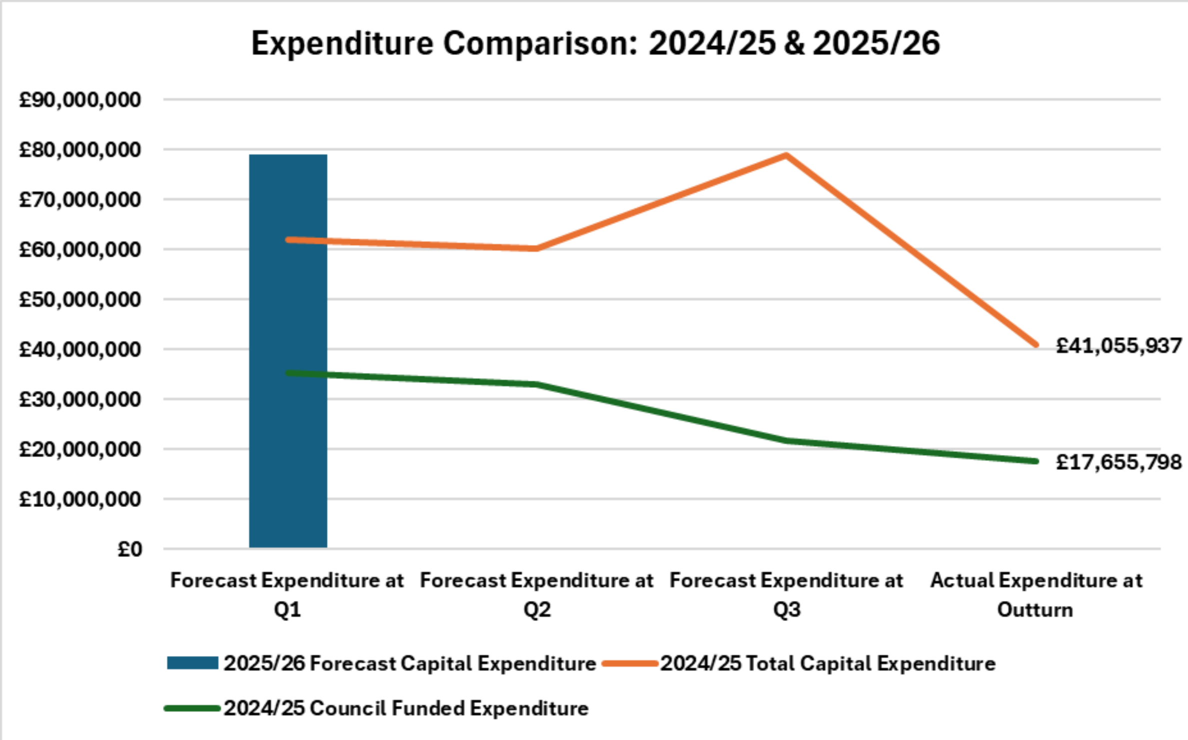
5.1 Capital expenditure and its supporting financing have long-term financial consequences for the Council. Expenditure approval is therefore subject to both national regulatory and local policy frameworks.

5.2 The 2025/26 capital programme was agreed by Council in March 2025 with a gross expenditure budget of £73 million divided between externally funded expenditure of £37.9 million and £35.1 million of Council-funded spend. Repayments of principal (capital) sums and interest on loans used to fund capital expenditure are met from the revenue budget for capital financing and risk management.

5.3 A sum of £16.7 million was included in the capital programme for 2025/26. This amount is carried forward from the 2024/25 capital programme. During financial year 2025/26, other additions/adjustments of £3.5 million are in respect of additional grant sums received, Section 106 amounts and Community Infrastructure Levy (CIL) allocations received in-year or new bids received during the year. Within the budget monitoring process, the forecast year-end positions of capital projects and proposals for unutilised budgets to be reprofiled are reviewed by ACG (Asset and Capital Group). At Q1 the revised capital programme budget proposed a reprofiling total of £12.65 million, this amount rolled forward to financial year 2026/27.

5.4 The capital programme is planned and mapped against the approved Council Strategy. At Q1 expenditure of £78.9 million has been forecast against the revised capital programme of £93.3 million, resulting in a forecast favourable variance of £14.3 million.

5.5 The graphic below summarises the in-year forecasting by quarter against the original and revised budget position:



Q1 Forecast

5.6 The Council invests heavily to ensure that West Berkshire remains an affluent area that is prosperous, resilient, and supportive of the most vulnerable residents. Key projects to be undertaken in-year include: - investment within the Education estate including the Basic Needs expansion project at Castle School (£2.3 million), Falkland Primary School (£2.2m), additional Special Educational Needs (SEN), mental health provision improvements at primary school level and various other projects (£3.8 million) and enhancements to educational buildings across the district (£3.8 million). Investment within Communities includes £2.7 million to complete the dry side provision at Northcroft Leisure Centre and £2.5 million to undertake the expansion of the Berkshire Records Office. Capital enhancement within Place includes £16 million towards the Council's renewable energy provision for a solar farm. £10.6 million of intended expenditure has been set aside for bridges, highways and public infrastructure enhancements across the district with an additional £2.2 million in respect of ongoing improvements to train stations (Newbury at £1.7 million and Theale being £0.5 million).

5.7 Substantial investment is also required to maintain and enhance business as usual activities, primarily in respect of planned improvements to critical business systems. £3.7 million of expenditure has been budgeted for in the financial year with £3.3 million estimated to be incurred by year-end. Key projects are: - the implementation of a new social care management system (£1.2 million), procurement of a new finance system

(£1 million), replacement of IT hardware (£0.4 million) and enhancements to the corporate estate (£0.7 million).

5.8 Q1 forecast expenditure is indicative of an overall delivery of planned expenditure of 84.6%.

From a directorate and service level perspective the forecast position is as follows:

Service	Budget	Forecast	Actual	Variance	Reprofile
	£m	£m	£m	£m	£m
Adult Social Care	2.99	2.33	0.13	0.66	0.00
Children's Social Care	0.00	0.00	0.00	0.00	0.00
Education & SEND	15.65	13.00	1.09	2.64	2.26
Development & Housing	4.29	3.26	0.88	1.03	0.09
Community Services	8.72	7.40	1.39	1.33	1.25
Environment	55.18	46.54	5.29	8.64	8.92
Finance, Property & Procurement	3.24	3.04	0.32	0.20	0.00
Transformation, Customer & ICT	3.19	3.33	0.79	(0.15)	0.13
	93.26	**78.91**	**9.88**	**14.35**	**12.65**

Conclusion

5.9 The capital programme is subject to several critical financial risks. Construction inflation potentially results in contracts being subject to a reduction in scope to deliver completion within agreed financial terms, and tenders for new individual projects present significant increases within their risk profiles. The scale of the capital programme is directly impacted by the availability of sufficient financial and people resourcing, both internally and externally.

5.10 The Code directs the Council to continually assess capital and investment plans considering overall organisational strategy and resource levels to ensure that operational decisions taken incorporate assessment of long-term financing implications and wider risks to the Council. A key indicator is the authorised limit for external debt, which was approved in March 2025. This is at £402.9 million for 2025/26. In addition to the borrowing levels required to fund capital expenditure, the limit also allows for debt embedded in the Waste PFI contract, the capital accounting implications following the Council's adoption of IFRS 16 leases (effective 1 April 2024) and any temporary borrowing required to complement cashflow requirements during the financial year.

5.11 As at 31 March 2025, the Council's total level of long-term borrowing to fund capital spend was £202.7 million. During financial year 2024/25, a management strategy to avoid increasing long-term borrowing in respect of PWLB financing was adopted and expenditure needs were reprofiled accordingly. The Council focussed on supporting delivery of the capital programme through short-term borrowings and utilising existing cash balances. The strategy of retaining borrowings and investments below their underlying levels to manage risk and minimise interest costs has reduced the adverse financial impacts that would otherwise have been noted due to increased PWLB rates. This strategy has continued during the first quarter in 2025/26.

5.12 Capital financing costs are £1.5m lower than anticipated at the end of Q1, this owing to the embedded strategy of prioritising short-term borrowing, operating within the confines of the treasury maturity framework. The Council retained an average weighted cost of capital of 3.94%. During Q1, officers have secured long-term borrowing and short-term borrowing to facilitate delivery of the Council's capital programme. Careful monitoring has been undertaken given the wider uncertainty of the current financial climate, and a regular review of cashflow balances has assisted in supporting an optimum utilisation of internal cash balances to limit the exposure to undertaking any unnecessary borrowing later in this financial year. As at 30 June 2025, the proportion of total borrowing that matures within 12 months is 26.78%, and the weighted average interest rate for borrowing (excluding PFI and lease liabilities) is 3.86%.

5.13 The duration of loan spread enables the Council to manage cashflows and continue to monitor interest rate risk. The expectation is that borrowing costs will increase in future. By sourcing shorter-term loans, the Council will have the flexibility to refinance at a lower rate in the future and subsequently reduce exit penalties from existing financing. The Council remains mindful of the need to strike a balance between short-term borrowing and long-term borrowing, and there is a continuing need to ensure that the limits of short-term borrowing (30%) remain consistent, to avoid the risk of overreliance on short-term finance, forsaking the benefits of longer-term financing. As at 31 March 2025, the Council held £247 million of PWLB loans whereas Local Authority loans (short-term debt) are at £20 million at the Balance Sheet date. Short-term loans equate to 24.1% of the Council's total borrowings (£202.7 million long-term balance and £64.5 million short-term amount).

5.14 In August 2021 HM Treasury (HMT) reflected significant content changes within their revised guidance for the PWLB lending facility, and CIPFA published its new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice (the Treasury Management Code) on 20 December 2021. The guidance stated that it is not prudent for Local Authorities to take investment or spending decisions that will increase their Capital Financing Requirement (CFR) unless the decisions taken directly enhance service delivery. The 2025/26 capital programme is expected to inflate the Council's CFR to £346 million (2026 in the graphic immediately below). This estimate does not include an additional £10 million that the Council is required to maintain as a continual safety net to ensure that liquidity conditions are not breached:

	2024	2025	2026	2027	2028
	Actual	Actual	Projection	Projection	Projection
	£'000	£'000	£'000	£'000	£'000
Capital Financing requirement	292,869.92	319,711.33	354,454.47	372,791.09	387,099.67
Less other debt liabilities (PFI)	(9,807)	(8,892)	(7,920)	(6,890)	(5,796)
Less other debt liabilities (Other leases)	-	(549)	(549)	(549)	(549)
Loans Capital Financing Req.	283,062.92	310,270.36	345,985.16	365,352.29	380,754.26
Less: Existing External Borrowing	(248,973)	(267,242)	(202,732)	(168,511)	(164,227)
Internal (Over) Borrowing	**34,089.71**	**43,028.74**	**143,252.82**	**196,841.05**	**216,527.70**
Less: Balance Sheet Resources	(51,363)	(60,334)	(48,466)	(37,766)	(18,351)
Investments / (New Borrowing)	**17,273.63**	**17,305.69**	**(94,786)**	**(159,075)**	**(198,176)**

5.15 Capital financing costs are incurred a year in arrears and therefore the cost of financing 2025/26 capital expenditure will roll into financial year 2026/27. Based upon the outturn position, the Council's Balance Sheet forecast indicates that additional borrowing may be required later in financial year 2025/26. It should be noted that the Balance Sheet resources assumption is based upon the Council's Draft 2024/25 Statement of Accounts, taking into consideration usable reserves of £41.7 million.

5.16 Comparing the Council's actual borrowing profile with an alternative strategy, a liability benchmark has been calculated disclosing the lowest risk level attached to borrowing. This assumes the application of the forecasts in the table immediately above, but that cash and investment balances are retained at a minimum level of £10 million at each year-end to maintain sufficient liquidity. The liability benchmark is an important tool to assist in establishing whether the Council is likely to be a long-term borrower or long-term investor in the future, and this data will complement strategic decision-making. The liability benchmark represents an estimate of the cumulative amount of external borrowing that the Council must hold to fund its current capital and revenue commitments whist retaining treasury investments at the minimum level required to manage daily cashflow needs. Councils are required to publish their individual liability benchmark:

	2024	2025	2026	2027	2028
	Actual	Projection	Projection	Projection	Projection
	£'000	£'000	£'000	£'000	£'000
Loans Capital Financing Req.	283,062.92	310,270.36	345,985.16	365,352.29	380,754.26
Less: Balance Sheet Resources	(51,363)	(60,334)	(48,466)	(37,766)	(18,351)
Net Loans Requirement	231,699.58	249,935.93	297,518.73	327,585.86	362,402.87
Preferred Year-end Position	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
Liability Benchmark	**241,699.58**	**259,935.93**	**307,518.73**	**337,585.86**	**372,402.87**

Please refer to *Appendix C Quarter One Liability Benchmarks* for further details

5.17 Based on the Council's CFR and the liability benchmark, and as illustrated in the table above, the Council is expected to be a long-term borrower. The Council must ensure that capital financing is reasonable and affordable in the long-term. CIPFA recommends that the optimum position for external borrowing is at the level of the liability benchmark, in that all Balance Sheet resources should be used to maximise internal borrowing. If the outputs identify future periods where external loans are below the liability benchmark, this is indicative of a borrowing requirement, thus identifying the points at which the Council is most exposed to interest rate, liquidity and refinancing fluctuations.

5.18 Conversely, where external loans exceed the liability benchmark, this highlights an over-borrowed position which will result in excess cash requiring investment, thus exposing the Council to potential credit and reinvestment risks. The liability benchmark is a projection of the amount of loan debt outstanding that the Council requires on an annual basis to service existing debt liabilities, intended prudential borrowing and other planned and unplanned cost commitments. The benchmark in the graphic details the gap between the Council's outstanding loans at future points in time and the need to undertake additional borrowing (the benchmark). The indicator can be used to identify the debt maturities needed for new borrowing, matched to future liabilities.

5.19 Based upon the outturn position, the Council is currently under-borrowed. The Council is currently utilising cashflows to maintain an optimum internal borrowing position, resulting in external borrowing levels reducing against the liability benchmark. On the basis that this current borrowing pattern remains below the Council's CFR, there is confidence that capital expenditure is affordable into 2027.

6 Appendices

Appendix A - Reprofiling Requests

Appendix B - Budget Reconciliation

Appendix C - Liability Benchmark

Background Papers:

None

Subject to Call-In:

Yes: ☐ No: ☒

The item is due to be referred to Council for final approval	☐
Delays in implementation could have serious financial implications for the Council	☐
Delays in implementation could compromise the Council's position	☐
Considered or reviewed by a Scrutiny Committee or Scrutiny Task Group within preceding six months	☒
Item is Urgent Key Decision	☐
Report is to note only	☐

Wards affected: All

Officer details:

Name: Christopher Dagnall
Job Title: Senior Financial Controller (Interim)
E-mail: chris.dagnall2@westberks.gov.uk

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Author:			
Owning Service			

Change History

Version	Date	Description	Change ID
1			
2			

Capital Financing Report 2025/26 Quarter One

Appendix A

Quarter One: Reprofiling Requests

Project Title	Service	Council Funded	External Funded	Total	Reasoning
Four Houses Corner	Development & Hous	88,000	0	88,000	£88K to be re-profiled to 26/27 to cover contractual obligation retention for building defects
Electric Vehicle Charge Points	Environment	0	750,000	750,000	About to award a contract in summer 2025 and therefore the costs are forecasted to incur in next financial year
Theale Station Improvements	Environment	0	3,369,560	3,369,560	Potential to spend more but this may depend on GWR purchasing land, currently being considered.
Nutrient Neutrality	Environment	0	1,800,000	1,800,000	£2.4m is expected to run over 2 years through to March 2027. Profile will depend on opportunities to buy land.
Brookfields School - Accessability	Education & SEND	0	616,190	616,190	Trust has only just confirmed for WBC to deliver project. Based on project development, Summer holiday has now been missed so anticipate that construction will commence Easter 2026.
Brookfields Expansion – Early Years and Key Stage 3	Education & SEND	0	863,870	863,870	Expectation to go into construction this financial year.
Special Education Needs & Disabilities Infrastructure Delivery	Education & SEND	0	472,250	472,250	Development of SEND projects not sufficiently advanced to accurately predict spend at this point.
Renewable energy provision (solar farm)	Environment	3,000,000	0	3,000,000	Best estimate based on current programme but yet to have contractor on board which could influence programme further.
Thatcham Library - New Build	Community Services	0	1,200,000	1,200,000	Delays in identifying and purchasing land for build
Education Capital Enhancement Programme	Education & SEND	0	247,410	247,410	Problems with obtaining insurance and Property Staffing are impacting on delivering the programme. Property team has forecasted a a total £3.5m spend against approximately £3.8m
	Total	**3,088,000**	**9,319,280**	**12,407,280**	

Appendix B

Quarter One: Budget Reconciliation

Service	Budget	Forecast	Actual	Variance	Reprofile
	£m	£m	£m	£m	£m
Adult Social Care	2.99	2.33	0.13	0.66	0.00
Children's Social Care	0.00	0.00	0.00	0.00	0.00
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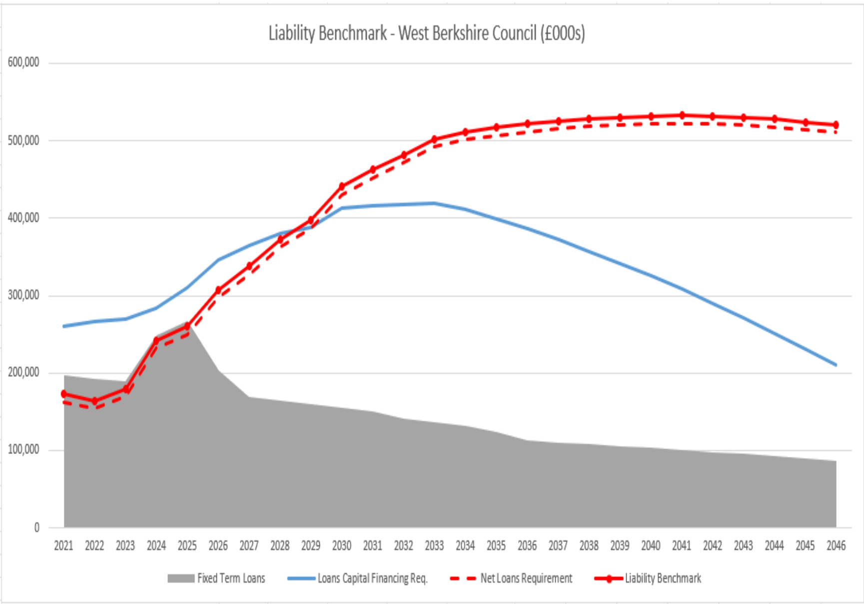
Finance, Property & Procurement	3.24	3.04	0.32	0.20	0.00
Transformation, Customer & ICT	3.19	3.33	0.79	(0.15)	0.13
	93.26	**78.91**	**9.88**	**14.35**	**12.65**

Appendix C

Quarter One: Liability Benchmarks

Including DSG



Excluding DSG