THE CAPITAL STRATEGY 2026-36

The City of Edinburgh Council

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Contents

1. Introduction 2
2. Executive Summary 3
3. Purpose and Scope 4
4. Strategic Context 5
5. Key Strategies, Plans and Priorities 6
6. Capital Investment Principles 9
7. Capital Investment Programme 11
8. Capital Financing and Funding Strategy 13
9. Treasury Management Strategy 16
10. Commercial Investment 22
11. Risk Management 23
12. Governance 25
13. Knowledge and Skills 27
14. Conclusion 27

1. Introduction

1.1 Edinburgh stands as one of the United Kingdom's most vibrant and successful cities, a hub of culture, innovation education and economic activity that attracts talent, investment and visitors from around the world. The city's prosperity is evident in its thriving economy, high levels of employment and its reputation as a global destination for arts, business and learning.

1.2 Despite its success, Edinburgh faces pressure on city communities, housing, and the infrastructure on which we all rely. Having declared Housing, Climate and Nature Emergencies in recent years, the scale of the challenge is clearly evident.

1.3 Relative poverty rates have remained largely unchanged over the past five years and without bold action the city is not yet on track to meet the Edinburgh Poverty Commission's target of reducing poverty to fewer that one in ten people by 2030.

1.4 The growth in population will place further demands on a range of frontline services and as a result, the Council's budget framework continues to provide additional investment to support that growth and address the challenges that come with it.

1.5 This Capital Strategy sets out a positive, practical and inclusive way of honouring Edinburgh's strengths while confronting its challenges. By channelling investment into housing, community and infrastructure the Council with strengthen the foundations for a more resilient Edinburgh.

2. Executive Summary

2.1 This Capital Strategy sets out how the City of Edinburgh Council will prioritise, fund and deliver £5.5bn of capital investment over the period 2026/27 to 2035/36. It provides the strategic framework within which all capital investment decisions are taken and demonstrates that the capital plans are affordable, prudent and sustainable in accordance with the CIPFA Prudential Code.

2.2 The Strategy aligns capital investment with the Council Business Plan 2023-27, the Financial Strategy and wider statutory, risk management and policy obligations. It ensures that capital resources are directed to agreed priorities and that financial risk is properly managed.

2.3 The Council's three core priorities are to end poverty, become a net-zero city and to create good places to live and work. A Climate Emergency was declared in 2019, Nature Emergency in 2023 and a Housing Emergency in 2023 highlighting the challenge faced by the city and are the primary focus for investment.

2.4 All investment proposals are required to demonstrate alignment with Council priorities, best value principles, and compliance with governance and affordability requirements. They must be supported by robust business cases before they proceed, however in specific cases the programme provides budget to fund proposals that will deliver the desired outcomes. For example, budget is provided to facilitate the increase of temporary accommodation required to address the Housing Emergency, but business cases are required for specific proposals for investment.

2.5 The Capital Programme will be funded through a combination of Capital grants, capital receipts and other contributions, reserves and prudential borrowing. The level of borrowing has been assessed against the Council's prudential indicators to ensure it remains affordable and sustainable within the Medium-Term Financial Plan. It is phased to reflect deliverability and funding availability and does not rely on speculative income assumptions.

3. Purpose and Scope

3.1 The Capital Strategy sets out how the City of Edinburgh Council will prioritise, fund and deliver £5.5bn of capital investment over the period 2026/27 to 2035/36. It provides the strategic framework within which all capital investment decisions are taken and demonstrates that the capital plans are affordable, prudent and sustainable in accordance with the CIPFA Prudential Code.

3.2 Local authorities are required by regulation to have regard to the CIPFA Prudential Code for capital finance when carrying out their duties under Part 7 of the Local Government in Scotland Act 2003. The Prudential Code was revised by CIPFA in 2021 and a key element of the revised code is that local authorities should have a long-term capital strategy in place that sets out the long-term context in which capital and revenue decisions are made.

3.3 The Strategy provides transparency to elected members, citizens and stakeholders regarding the scale of the capital investment and how it will be financed, the impact of the capital decisions on the Council's revenue budget and long-term financial sustainability, and the governance and risk management arrangements supporting delivery. It applies to all capital expenditure and capital financing decisions regardless of funding source, including those funded through grants, developer contributions, capital receipts, reserves or borrowing.

3.4 As an integral part of the Council's wider strategic and financial framework, it aligns with and supports the Council Business Plan 2023-27, the Financial Strategy and wider statutory, risk management and policy obligations. Capital investment decisions must demonstrate a clear link to these strategic objectives.

3.5 The Strategy covers the approved ten-year capital programme for period 2026-27 to 2035-36. Whilst this includes approved multi-year projects, it also includes indicative budgets where requirements are prioritised, but specific proposals are to be developed.

3.6 It encompasses the Council's approach to capital financing, the associated prudential indicators and affordability metrics, commercial investment, governance, monitoring and risk management arrangements.

3.7 The Capital Strategy applies to the General Fund, Housing Revenue Account (HRA) and to any joint venture or arm's length organisation where the Council retains financial exposure.

3.8 Revenue expenditure is not directly governed by this Strategy; however, the ongoing revenue implications of capital investment are reflected within the Medium-Term Financial Plan (MTFP) to ensure affordability. This includes debt servicing costs, lifecycle costs, maintenance and operational impacts.

4. Strategic Context

4.1 The Capital Investment Programme is driven by the Council's Business Plan and its core priorities and statutory obligations. Capital funding and capacity to borrow is limited and must be directed towards projects that align with those priorities and add the most value to Council services.

4.2 The Council operates within a challenging financial climate with ongoing revenue funding pressures limiting the capacity to borrow, cost inflation and supply chain volatility due to geo-politics, local and regional economic factors, interest rate uncertainty, statutory and regulatory obligations and rising demand for key services such as housing, social care and education.

4.3 Therefore, the Council must balance investment in key priorities with the need to maintain existing assets, ensure statutory compliance and protect financial sustainability.

5. Key Strategies, Plans and Priorities

5.1 The Capital Strategy brings together a number of Council strategies, plans and policies forming a framework within which to deliver key priority outcomes.

- Council Business Plan 2023-27
- Financial Strategy (Appendix 5)
- Treasury Management Strategy
- Housing Emergency Action Plan
- Housing Revenue Account Budget Strategy 2026/27 to 2035/36
- Edinburgh Living (Limited Liability Partnerships)
- 2030 Climate Strategy
- The Corporate Property Strategy
- Digital and Smart City Strategy 2024-2027
- City Mobility Plan 2021-2030 (CMP)
- City Plan 2030
- Council Commercial Property Portfolio

Financial Strategy

5.2 The Financial Strategy, reported as an appendix to the Revenue Budget Framework, informs budget setting and medium-term financial planning for the next five years (i.e. 2026/27 -2030/31), and sets the Council's wider strategic direction.

5.3 The Accounts Commission's most recent local government overview report stated that Scottish local authorities have never faced such a challenging financial situation, and that radical change was needed to maintain services. The Council's organisational financial sustainability has been recognised as a key strategic risk as part of risk monitoring and management.

5.4 Every year, the Council incurs over £1.3 billion in revenue spend, and around £400 million in capital spend. While we have a strong track record of balancing our budget, the funding and income we receive has increasingly been insufficient to meet the rising cost and demand for services, such as homelessness and social care costs. As a result of this, in the last decade the Council has saved over £400 million from its annual running costs.

5.5 The Budget Strategy recognises the extent of the challenge faced, and the radical change required, to achieve organisational financial sustainability. It will fundamentally set the strategic direction of the Council for statutory and key strategic services to be protected.

5.6 A whole-organisation approach is required to secure the Council's financial sustainability through the transition to an organisation-wide prevention model, as well as focusing on the thematic priorities for change and transformation.

5.7 All councils have a duty to secure Best Value through continuous improvement in performance. Key to this is prioritising prevention and delivering transformation supported by a Zero-Based Budgeting approach.

5.8 The Council has completed year one of its Zero-Based Budgeting (ZBB) approach to budget setting with significant progress made in moving away from the traditional incremental method. ZBB will be established over a 3-5 year period and will encompass both revenue and capital investment.

5.9 The Capital Strategy sits within the Council's overall Financial Strategy. It is recognised that the Council's capital resources are limited. Borrowing carried out for investment must be repaid from increasingly limited revenue budgets. The Capital Budget Strategy can only be funded if the Council is able to balance its revenue budget over the medium to long term to comply with the terms of the Prudential Code.

5.10 The Council's Revenue Budget Framework and Medium-Term Financial Plan set out anticipated revenue costs and funding over the short-to medium-term and includes the costs of financing the general fund capital expenditure outlined in this strategy. While the framework is balanced for 2026-27, there are significant challenges in future years with the annual gap expected to increase to £66m for the Council and a further £60m for the Edinburgh Integrated Joint Board by 2029-30. Should this deficit not be closed, it may be necessary to make reductions to capital expenditure plans.

5.11 Similarly, the HRA Business Plan sets out how capital expenditure can be funded from rents over a 30 year period. Should rent not increase at the level set out in the plan, capital investment will need to be scaled back.

5.12 The Council undertakes an annual review of its risks and reserves in the context of setting the revenue and capital budgets. The most recent update, Revenue Budget 2026-27 – Risks and Reserves was reported to the Finance and Resources Committee on 3 February 2026 and set out a number of risks (and associated mitigating actions), including potential cost pressures around demographic-led demand, the continuing expenditure and income impacts of the cost of living crisis, pay awards and the financial implications of other legislative changes, as well as the level of future funding settlements and delivery of approved savings.

5.13 The report noted that the level of unallocated reserves, subject to approval, would be increased to 2% of planned annual expenditure which is considered reasonable given the Council's prudent approach to reserves management.

5.14 The report also outlined the maintenance of a series of ringfenced reserves for statutory or specific policy reasons or to reflect timing differences between the receipt of income and its subsequent application.

5.15 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and loans fund repayments are charged to revenue, offset by any investment income received.

5.16 On 5th February 2026, following a Loans Fund Review, Council approved changes to the Loans Fund Advances repayment policy based on a prudent financial management strategy. This extended the repayment term of advances for buildings and long-life assets to 50 years, and other assets to 20-45, using the asset life method and an annuity basis.

5.17 This revised profile better matches the period over which residents and tenants benefit from long life assets.

5.18 In addition, lower, steadier annual charges now, extending from 30 to 50 years on annuity, reduces the level of annual payments required, reducing pressures on general fund and HRA revenue budgets and providing headroom to support additional investment.

5.19 The policy change is applicable to advances made prior to 1st April 2023 (after which it is not permissible to vary advances) and those made following the approval of the policy change on 5th February 2026, including those made in 2025-26 which are determined at year-end. Changes to repayment terms are to be implemented in 2026-27 which will be the first year of impact.

5.20 In addition to financing costs, the Council makes provision for all running costs and lifecycle maintenance of assets in its revenue budget planning process. Before inclusion in the capital programme, a business case is created for every new project which sets out the revenue implications and how they will be funded.

5.21 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The implications of capital expenditure have been built into the Council's long-term financial planning assumptions to ensure that the proposed capital programme is prudent, affordable and sustainable.

6. Capital Investment Principles

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

6.2 The Council's policy on capitalisation complies with the accounting requirements for local authorities and is set out in its Audited Annual Accounts. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

6.3 The Council's capital investment decisions are guided by a clear set of principles designed to ensure that limited capital resources are directed to the highest priorities, ensuring long-term financial sustainability is maintained and risks are appropriately managed. These principles apply to all capital expenditure and investment activity, regardless of funding source.

6.4 A fundamental change in the Council's annual budget setting process is the shift towards a zero-based budgeting (ZBB) approach. The intention is to challenge the Council's historic spend profile and effectively align the Council's spend with its organisational priorities. For consistency and alignment with the Budget Strategy, zero-based budgeting is applied to capital budgets as well as revenue budgets.

6.5 All current and proposed investment plans are assessed to determine whether they deliver best value from their associated funding. To this end, prioritisation criteria has been established to rank projects in terms of value and alignment to the key principles. This is then applied to unfunded capital requirements to enable proposals for allocation of new or reallocation of existing budgets.

6.6 This also allows prioritisation as part of the annual budget process, with low scoring projects forming the focus for review.

6.7 In theory, many capital budgets are zero-based as they have fully costed business cases. There is, however, a continuing need to assess, based on best-available expenditure and income projections for the projects concerned, the adequacy of sums provided within the budget framework in respect of known commitments and emerging pressures. As a result, all projects are required to produce a detailed business case, setting out capital, revenue and lifecycle costs demonstrating how they will be funded prior to project commencement as part of the wider gateway process requirement.

6.8 As part of the Zero-Based budgeting workstream, the Capital Prioritisation review has given assurance that the current capital budget allocation is well aligned to Council priorities, Budget Strategy and risk. However, this will be kept under review and when higher scoring projects come forward, they will be considered against new funding opportunities and the current programme budget allocation.

6.9 Work has been undertaken to ensure a more effective link between the Council Business Plan and the revenue and capital budget planning process. The Capital Budget report presented to Finance and Resources Committee on 3 February 2026 highlighted a list of unfunded pressures (see Appendix 4 of that report) which was used to help inform political groups in the preparation of budget motions for the Council's 2026/27 budget.

7. Capital Investment Programme

7.1 The General Fund Capital Budget 2026-2036, as amended by the budget meeting of 26 February 2026, sets out priorities for £2.6bn of Council capital investment, in alignment with the Council Business Plan, over the medium to long-term. Of that investment:

- £1,349 (52%) has ringfenced funding with conditions attached to grants, capital receipts or developer's contributions, or relates to prudentially funded projects. This includes acquisition of housing for temporary accommodation prudential borrowing, transfer of affordable housing grant to housing projects, and On-lending to Edinburgh Living for the acquisition of mid-market rent homes from the HRA.
- £516m (20%) is contractually committed on the Learning Estate (£476m); with works underway on new schools and extensions; to works on Council Buildings (£20.3m); Roads and Transport Infrastructure including North Bridge Refurbishment (£14.3m), and Cultural Projects (£5m).
- £694m (27%) is uncommitted and currently allocated in the form of budgets to support capital works on the Learning Estate, Roads and Transport Infrastructure, Land and Building Improvements, Disability Adaptations in Private homes, Digital Investment and Edinburgh Leisure.

7.2 Significant General Fund capital projects through the 2026-36 programme include:

- Housing and Homelessness £1,355m, including grants for new affordable housing, On-lending to Edinburgh Living for the acquisition of mid-market rent housing and to acquire units to be retained by the Council for use as temporary accommodation.
- Learning Estate - £513m included for 6 new primary schools, 3 primary school extensions, 4 new secondary schools, 4 secondary school extensions and for significant investment in the learning estate and special schools as part of the Inclusive Learning Strategy.
- Building improvement programme - £223m to meet the objectives of the Corporate Property Strategy.
- Investment in Roads and Transport Infrastructure (including Tram Lifecycle renewals) - £347m

7.3 The Housing Revenue Account (HRA) Budget Strategy 2026/27 to 2035/36 sets out priorities for £2.9bn of HRA capital investment based on tenant priorities, service performance and statutory investment requirements. The programme is to be funded from HRA borrowing, Scottish Government grant funding for new affordable homes and capital receipts. Based on current financial assumptions; including an annual 7% rent increase to 2033-34, all existing Council homes could be brought up to the Energy Efficiency Standard for Social Housing (EESSH2) over the lifetime of the Business Plan and 4,602 new Council homes could be delivered.

7.4 The investment programmes include a significant intervention to address the Housing Emergency, creating 5,900 additional settled and temporary accommodation within the Edinburgh over the next five years, over and above the existing new homes development programme.

7.5 In total, for the period 2026-36, the Council is planning total capital expenditure across the General Fund, HRA and Leases of £5.5bn.

7.6 The investment is phased to reflect deliverability, funding availability and affordability within the Medium-Term Financial Plan. The Council does not rely on speculative income assumptions, so the Capital Programme is prudent, and any further funding will provide an opportunity for additional investment or to reduce borrowing.

7.7 The Capital Programme is fully funded over the 10-year period. However, if a funding gap in the strategy emerges through failure to deliver revenue savings, increased borrowing costs or project cost pressures increase, then further re-profiling of priorities, reduction in scope of projects or additional revenue savings to fund the borrowing costs to deliver the Capital Budget Strategy will be required ahead of future budget setting to comply with the terms of the Prudential Code. This could potentially mean that later phases of the programme could not be delivered within the ten-year strategy.

8. Capital Financing and Funding Strategy

8.1 The Council's capital programme is financed through a balanced and sustainable mix of funding sources. The funding strategy is designed to minimise the cost of borrowing and maximise the use of external funding and capital receipts to protect long-term financial sustainability and ensure compliance with the Prudential Code and statutory guidance.

8.2 The Council will seek to fund capital expenditure from the most appropriate and cost-effective source available when considering risk, affordability and inter-generational fairness.

8.3 The funding strategy is assessed annually to ensure the capital programme remains affordable within the Council's Medium-Term Financial Plan.

8.4 Over the period 2026/27 to 2035/36, the General Fund capital programme of £2.6bn, and HRA capital programme of £2.9bn, will be financed through the following indicative sources:

Funding Type	General Fund	HRA	Total
Capital Grants	£ 790.5m	£ 151.0m	£ 941.5m
General Asset Sales	£ 44.5m	£ 151.9m	£ 196.4m
Capital from Current Revenue / Reserves	£ 22.6m	£ 30.6m	£ 53.2m
Developers Contributions Applied	£ 164.2m	£ -	£ 164.2m
Other Capital Contributions	£ 1.6m	£ 33.4m	£ 34.9m
Drawdown from Capital Fund	£ 2.0m	£ -	£ 2.0m
Balance to be funded through Loans Fund Advance	£ 1,550.7m	£ 2,512.3m	£ 4,063.0m
Total	**£ 2,576.0m**	**£ 2,879.2m**	**£ 5,455.2m**

Capital Grants

8.5 The Council actively seeks external funding to reduce the requirement for borrowing and protect local resources. This includes Scottish Government capital grant, specific programme grants, developer contributions and partner and third-party funding.

8.6 Grant funded schemes are incorporated into the capital programme once funding conditions and delivery requirements are sufficiently certain. The Council will avoid committing expenditure in advance of confirmed funding unless explicitly approved and affordable within existing resources.

Asset Disposal

8.7 Capital receipts generated from the disposal of surplus or non-strategic assets form an important component of the funding strategy. Receipts will be applied in accordance with statutory requirements and used to support priority capital expenditure. They will be applied to reduce the need for borrowing where appropriate.

8.8 The Council operates an active and planned asset Disposal Strategy as part of the Corporate Property Strategy. This is to ensure that the property portfolio is aligned to service requirements and delivers best value.

8.9 Surplus, under-utilised or non-strategic assets are identified through Corporate Property workstreams and service reviews and are considered for disposal where they no longer support operational or policy objectives.

8.10 Disposal decisions take account of whole-life or upgrade costs, ongoing maintenance liabilities, market conditions and potential alternative uses.

8.11 Capital receipts generated from disposals are used in accordance with statutory requirements to support the capital programme and reduce the need for borrowing, while ensuring that disposals do not adversely impact service delivery or long-term strategic priorities.

8.12 A refreshed Corporate Property plan which aligns to an overarching Asset Management Strategy will be prepared before the end of 2026/27. In addition, individual place-based property improvement business cases will be presented to the Finance and Resources Committee.

Capital from Current Revenue / Reserves

8.13 Where financially viable, the Council may use revenue contributions or earmarked reserves to fund capital expenditure. The approach reduces long-term borrowing costs, improves Prudential Indicators and strengthens financial resilience. The use of revenue funding will be considered alongside other funding options and assessed against the Medium-Term Financial Plan.

Loans Fund Advances

8.14 Where capital expenditure cannot be funded from grants, receipts or revenue sources, the Council may undertake prudential borrowing. Borrowing will be undertaken only where it is affordable, prudent and sustainable. It will be consistent with the approved Prudential Indicators and aligned to the Treasury Management Strategy,

8.15 Borrowing for the Capital Programme is known as making a Loans Fund Advance. The Loans Fund is the Council's internal loan account used to manage timing differences between the need for capital funding and the management of external borrowing. Advances are made from the Loans Fund to pay for capital projects and repayments are made by the project's service in the form of a debt servicing cost. This will include the principal repayment and the cost of interest and financing expenses.

8.16 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 require the statutory Loans Fund to be administered in accordance with the 2016 Regulations, proper accounting practices and prudent financial management. The Council operates a consolidated loans fund under the terms of these Regulations.

8.17 On 5th February 2026, following a Loans Fund Review, Council approved changes to the Loans Fund Advances repayment policy based on a prudent financial management strategy. This is detailed in the Loans Fund Review paragraphs of the Key Strategies, Plans and Priorities section of this strategy.

8.18 For capital advances relating to loans to the Edinburgh Living LLPs advances from the loans fund in the current year have a repayment profile set out using Option 4 – the funding/income method and these capital advances will be repaid using an annuity structure with fixed interest rate and principal repayments.

8.19 The Council will not borrow speculatively or purely for commercial purposes and will take account of the Capital Financing Requirement (CFR), the ratio of financing costs to net revenue stream, the long-term revenue impact of debt repayment and interest costs.

8.20 The business cases brought forward for other projects involving major capital expenditure funded by borrowing will consider the appropriate repayment method depending on the structure of the business case.

Finance Leases

8.21 From the 2022-23 financial statements, the Council adopted the provisions of IFRS 16 Leases, as set out in the Code of Accounting Practice. The de minimis limit for IFRS 16 is set at £10,000, in line with the capital expenditure de minimis. The Council's balance sheet now includes £49m of right of use assets.

9. Treasury Management Strategy

9.1 Treasury management's role is to keep sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent and holds cash reserves, at least in the short-term. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

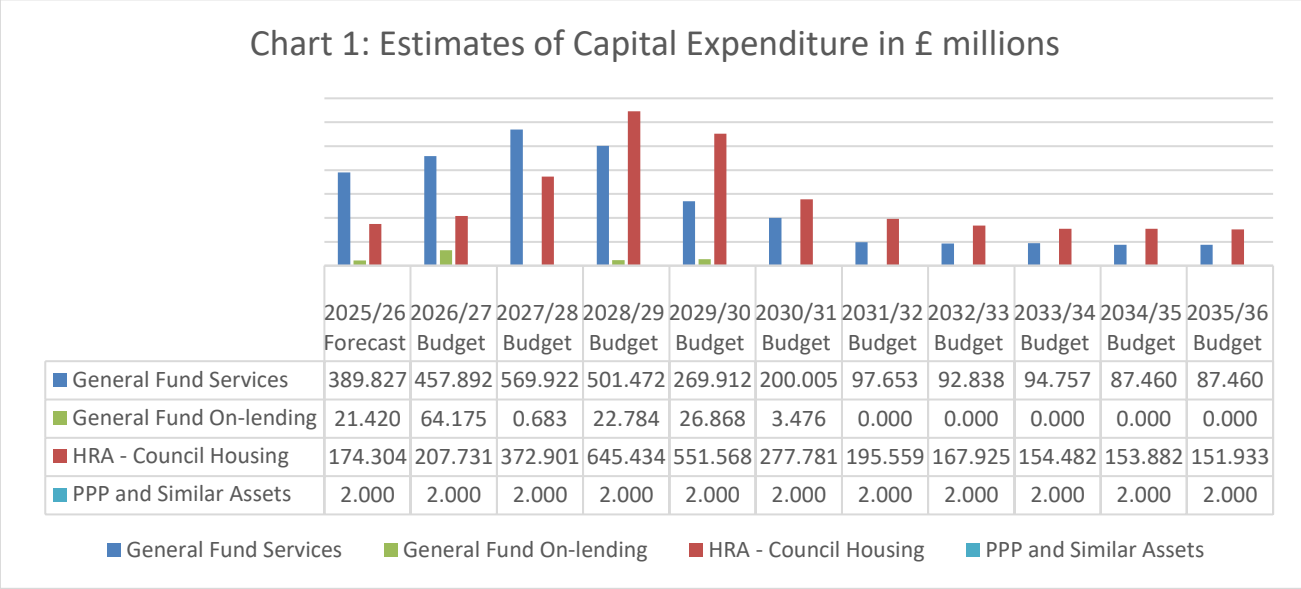
9.2 As anticipated, the Bank of England continued to gradually cut the UK Bank Rate during 2025. However, longer-term interest rates (shown by the interest rate on UK Gilts with a maturity of over 20 years) remained elevated.

9.3 The approved Capital Programme means that the Council has a substantial borrowing requirement over the next few years giving the Council significant interest rate risk. The volatility in Gilts during the year, due in part to changing geopolitical risk, allowed the Council to undertake PWLB borrowing to lock out some of that interest rate risk.

9.4 The Council borrowed £350m at an average interest rate of 4.60% within the first eleven months of 2025/26. While effectively managing the short-term interest rate risk it has increased the short to medium term re-financing risk for the Council. As previously reported, officers are continuing to explore options for diversifying the Council's interest rate exposure and other longer term financing options.

9.5 The Council uses a set of financial metrics called Prudential Indicators to demonstrate that the Council's capital investment plans are affordable, prudent and sustainable. The indicators are monitored throughout the year to ensure compliance with approved limits.

9.6 Prudential Indicator 1 is a summary of the Council's proposed capital expenditure plans. This investment will be funded from a number of sources including Capital Grant, Capital Receipts, Developers Contributions and borrowing known as Loans Fund Advances.



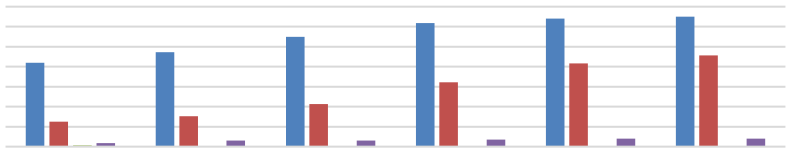
9.7 Prudential Indicator 2 shows the proportion of the Council's revenue that is expected to be used to fund Debt Servicing costs, i.e. the amount funded from Council Tax, business rates and general grants. The Housing Revenue Account (HRA) indicator shows the proportion of rental income from social tenancies that is used to fund then debt servicing associated with the Council's housing stock..

Proportion of financing costs to net revenue stream						
	2025/26 Forecast	**2026/27 Budget**	**2027/28 Budget**	**2028/29 Budget**	**2029/30 Budget**	**2030/31 Budget**
Financing costs (£m) – General Fund Services	123.519	106.639	134.783	158.225	173.476	179.534
Proportion of net General Fund revenue stream	8.33%	6.93%	8.71%	10.07%	10.87%	11.06%
Financing costs (£m) – Housing Revenue Account	49.435	54.349	62.434	88.807	120.702	143.669
Proportion of net HRA revenue stream	38.55%	38.58%	40.16%	51.28%	62.16%	67.10%

9.8 The ratio of financing costs to income is projected to increase, primarily as a result of a significant investment in acquiring Housing and Homelessness accommodation over the next 5 years. However, this position has been reviewed alongside the Council's reserves position and wider financial strategy and is considered to be affordable and prudent.

9.9 Indicator 3 shows the total outstanding capital advances that have not been repaid to the Loans Fund. Any capital expenditure that is not immediately funded will increase the Capital Financing Requirement (CFR). Advances are repaid to the Loans Fund, reducing the CFR, over a period of time and by the method set out in the policy.

Chart 2: Estimates of Capital Financing Requirement in £ millions



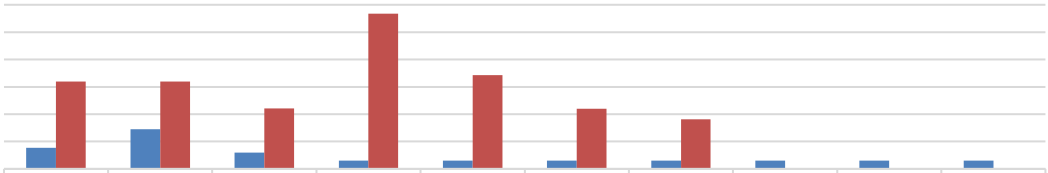
	2025/26 Forecast	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget	2030/31 Budget
General Fund Services (including Leases)	2,098	2,364	2,741	3,089	3,202	3,251
HRA - Council Housing	624	759	1,068	1,611	2,078	2,280
NHT LLPs	35	17	17	9	-0	-0
Edinburgh Living LLPs	92	155	153	174	198	199

General Fund Services (including Leases) HRA - Council Housing NHT LLPs Edinburgh Living LLPs

9.10 The ambitious capital programme, including the significant intervention to address the Housing Emergency, has resulted in progressive year on year increases in the Capital Financing Requirement, more than doubling the Council's debt over five years.

9.11 Expenditure may be immediately funded, and therefore not require an advance, if funded by grant, receipts or other contributions.

Chart 3: Capital receipts in £ millions



	2025/26 Forecast	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget	2030/31 Budget	2031/32 Budget	2032/33 Budget	2033/34 Budget	2034/35 Budget
General Fund	7.710	14.489	5.961	3.000	3.000	3.049	3.000	3.000	3.000	3.000
HRA	31.888	31.925	22.135	56.721	34.330	21.965	18.145	0.000	0.000	0.000

9.12 The Council expects to receive £44m of capital receipts in the General Fund in the years 2026-27 to 2035-36, with significantly more in the HRA through Edinburgh Living purchase of completed homes delivered through the Council's housebuilding programme.

9.13 Prudential Indicator 4 represents a limit on the maximum level of external borrowing, set by Council, and indicator 5 shows the limit which external debt is not normally expected to exceed. This would be in line with the Capital Financing Requirement but may vary should there be cash balances to support an under-borrowed position.

Authorised limit and operational boundary for external debt in £m						
	2025/26 Limit	**2026/27 Limit**	**2027/28 Limit**	**2028/29 Limit**	**2029/30 Limit**	**2030/31 Limit**
Authorised Limit – Borrowing	2,848	3,535	4,225	5,116	5,750	6,019
Authorised Limit – PFI, Leases & ROU Assets	481	461	444	430	419	403
Authorised Limit – Total External Debt	**3,330**	**3,996**	**4,669**	**5,546**	**6,169**	**6,423**
Operational Boundary – Borrowing	2,798	3,485	4,175	5,066	5,700	5,969
Operational Boundary – PFI, Leases & ROU Assets	481	461	444	430	419	403
Operational Boundary – Total External Debt	**3,280**	**3,946**	**4,619**	**5,496**	**6,119**	**6,373**

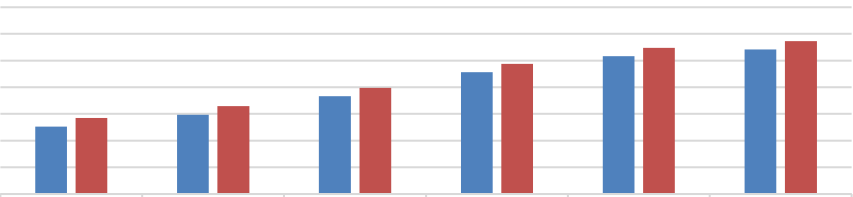
9.14 The Council sets an affordable borrowing limit (also termed the authorised limit for external debt) each year. A lower "operational boundary" is also set as a warning level should debt approach the limit.

9.15 Indicator 6 highlights the short-term debt servicing costs relating to planned capital advances. Interest is currently assumed at 5.25% across the next ten years.

Loans Charges Associated with net Capital Investment expenditure plans						
General Services (excluding On-Lending) - New Loans Fund Advances	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
Loans Fund Advances in year	£255.4m	£319.8m	£432.4m	£402.9m	£166.6m	£106.7m
Year 1 - Interest Only	£ 6.7m	£ 8.4m	£ 11.4m	£ 10.6m	£ 4.4m	£ 2.8m
Year 2 - Interest and Principal Repayment	£ 14.5m	£ 18.2m	£ 24.6m	£ 22.9m	£ 9.5m	£ 6.1m
Housing Revenue Account (HRA) - New Loans Fund Advances	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
Loans Fund Advances in year (excl. LLP programme)	£100.0m	£157.2m	£332.1m	£570.1m	£498.9m	£237.5m
Year 1 - Interest Only	£ 2.6m	£ 4.1m	£ 8.7m	£ 15.0m	£ 13.1m	£ 6.2m
Year 2 - Interest and Principal Repayment	£ 5.7m	£ 8.9m	£ 18.9m	£ 32.4m	£ 28.4m	£ 13.5m

9.16 Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the capital financing requirement. The ambitious capital programme, including the significant intervention to address the Housing Emergency, has resulted in progressive year on year increases in the Capital Financing Requirement, more than doubling the Council's debt over five years.

Chart 4: Gross Debt and the Capital Financing Requirement in £ millions



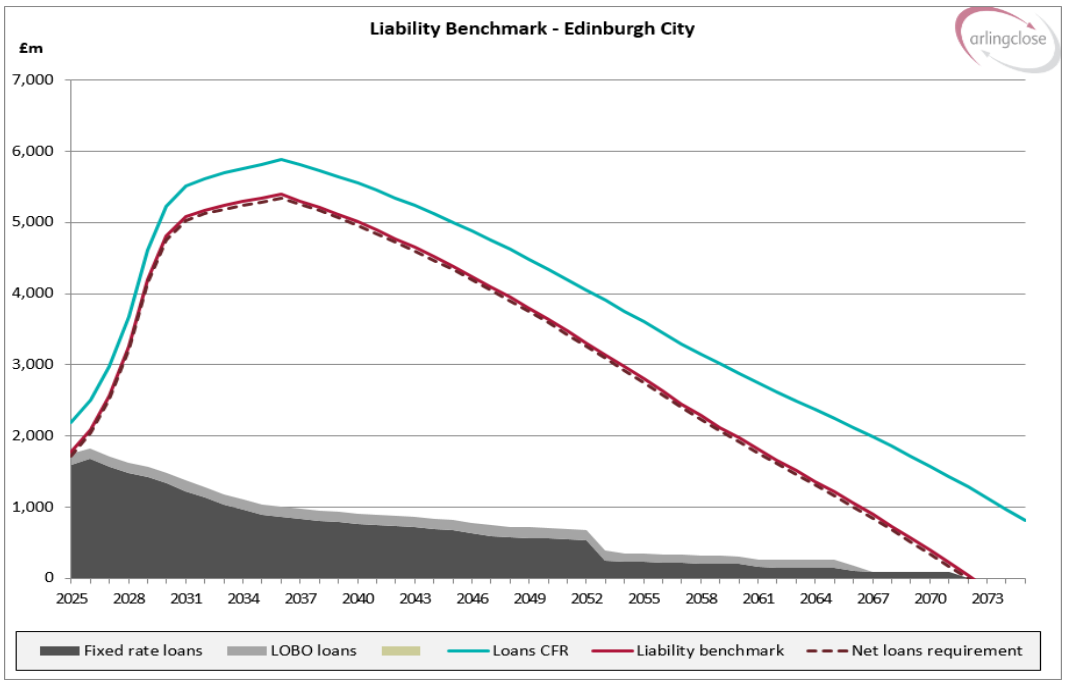
	2025/26 Forecast	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget	2030/31 Budget
Debt (inc. PPP & Leases)	2,528	2,974	3,661	4,561	5,161	5,413
Capital Financing Requirement	2,850	3,295	3,980	4,883	5,478	5,730

Debt (inc. PPP & Leases) Capital Financing Requirement

9.17 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from Chart 4, the Council expects to comply with this in the medium term.

9.18 Since 2022-23, the values for both the Debt and the Capital Financing Requirement have been higher than they would otherwise have been for technical accounting reasons due to the adoption of the IFRS16 accounting standard and the review of the accounting treatment of service provisions. Neither of these changes alter the Council's underlying need to borrow.

9.19 To compare the Council's actual borrowing against its predicted underlying need to borrow, a liability benchmark has been calculated using the Council's loans and Capital Financing Requirement less its core underlying cash investments.



9.20 The chart shows that the Council is projected to be significantly under its liability benchmark over the period. This shows that the Council will require to undertake substantial additional borrowing in the capital programme is delivered as anticipated.

9.21 Treasury investments arise from receiving cash before it is paid out again and through reserves and other fund balances.

9.22 The Council's cash investments are pooled with the sterling cash of Lothian Pension Fund and other associated organisations and invested together. The investment policy for treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Additional liquidity is provided using Money Market Funds. Investments made for service reasons are not generally considered to be part of normal treasury management activity.

9.23 Further details on treasury investments are in reported within the Annual Treasury Management Strategy report.

9.24 Decisions on treasury management investment and borrowing are made daily and are therefore delegated by the Council to the Service Director: Finance and Procurement and relevant staff, who must act in line with the Treasury Management Policy Statement approved by the Council on the recommendations of the Finance and Resources Committee. Semi-annual reports on treasury management activity are presented to Council. The Governance, Risk and Best Value Committee is responsible for scrutinising treasury management decisions.

10. Commercial Investment

10.1 The Council makes investments to assist local public services, including making loans to and buying shares in Council's subsidiaries that assist in the delivery of Council priorities. Examples include investments in the Edinburgh International Conference Centre, the EDI Group, Edinburgh Living LLPs and Energy for Edinburgh. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.

10.2 Decisions on service investments are made by the relevant Corporate Director or Service Director, in accordance with the scheme of delegation, in consultation with the Service Director - Finance and Procurement and are approved by the relevant executive committee of the Council. Most loans and share purchases are capital expenditure and purchases will therefore also be approved as part of the capital programme.

10.3 The Council retains a property investment portfolio to promote economic development and support cultural and community organisations but also derives financial gain from this activity. The investment portfolio consists of over 1,130 assets and is forecast to produce a rental income of c. £16m per annum. Demand for units which become available remains robust and overall vacancy rates extremely low for a portfolio of its size The portfolio is estimated to have a value of c. £250m.

10.4 In addition to rental income received from property, the advertising contract with JC Decaux brings in circa £2m per annum, as well as ensuring the city's bus shelters are clean and well-maintained.

10.5 With economic development being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include voids and falls in rental income. In order to minimise the liability to the Council the portfolio is actively managed on a quasi-commercial basis. The approach to managing the portfolio is set out in the Council Commercial Property Portfolio Report, 20 June 2023.

10.6 Decisions on property investments are made by the Corporate Director of Place in line with the criteria and limits set by the Council as part of the Scheme of Delegation and Financial Regulations, and directly through the Finance and Resources Committee, where appropriate. Property is also capital expenditure and purchases will therefore also be approved as part of the capital programme.

The Council also derives income from in Edinburgh International Conference Centre and the EDI group. The commercial activities in the EDI group are in the process of being wound down in accordance EDI transition strategy approved by Council on 31 May 2018.

11. Risk Management

11.1 Effective risk management is fundamental to the delivery of the Council's capital programme and the long-term sustainability of its finances. Capital investment decisions expose the Council to financial, operational, legal and strategic risks which must be identified, assessed and managed throughout the lifecycle of each project.

11.2 Risk management for capital investment is embedded within the Council's corporate risk framework and applies at both programme and individual project level. The approach is consistent with the principles of the Prudential Code and reflects lessons learned from failures both in local government and the wider public sector.

11.3 Risks are identified at the earlier stages of project development and are reassessed at key decision points, including business case approval and gateway reviews. Capital risks are considered in terms of both likelihood and impact and are managed in line with the Council's approved risk appetite.

11.4 Key capital programme risks include:

- 11.4.1 Affordability of borrowing and capital financing within the Medium-Term Financial Plan.
- 11.4.2 Interest rate changes affecting the cost of borrowing.
- 11.4.3 Escalation and inflation of construction and labour costs, market volatility and pressures affecting the supply chain.
- 11.4.4 Deliverability within capacity constraints, slippage and delays in project delivery.
- 11.4.5 Reliance on external grants or capital receipts which could be reduced or delayed.
- 11.4.6 Underperformance of income generating or cost saving schemes.
- 11.4.7 Asset obsolescence, condition deterioration or under utilisation.
- 11.4.8 Unforeseen site conditions (utilities / wall ties / etc) that may delay projects or result in cost escalation that becomes unaffordable.
- 11.4.9 Failure to meet regulatory, statutory, health and safety or accounting requirements.

11.5 The Council manages capital risk thorough a combination of governance, financial controls and active programme management. Key mitigation measures include:

- 11.5.1 Robust business case approval including sensitivity analysis and adverse outcome scenarios.
- 11.5.2 Clear prioritisation of statutory and health and safety investment.
- 11.5.3 Conservative assumptions in relation to income generation and savings.

11.5.4 Contingency allowances within project budgets where appropriate.

11.5.5 Phasing and re-profiling of the capital programme to manage affordability and capacity.

11.5.6 Strong contract management and project management.

11.5.7 Alignment of borrowing decisions with the Treasury Management Strategy.

11.6 The Council does not rely on speculative or optimistic income assumptions to support borrowing or capital investment decisions.

11.7 Financial risks associated with the capital programme are monitored through the Council's Prudential Indicators, including the Capital Financial Requirement (CFR), ratio of financing costs to net revenue stream and gross debt compared to CFR. These indicators provide early warning of affordability pressures and inform decisions on the scale and pace of capital investment.

11.8 Capital risks are monitored on an ongoing basis and reported through regular capital monitoring reports to members and through exception or update reports to executive committees. Significant risks or changes in risk profile are escalated in accordance with the Council's governance arrangements.

11.9 The Council undertakes post-implementation reviews of significant capital projects to assess whether objectives have been achieved and to capture lessons learned. This continuous improvement approach strengthens future project appraisal, risk management and governance.

11.10 Through disciplined risk management, the Council seeks to ensure that its capital programme remains deliverable, affordable and resilient in the face of financial and operational uncertainty.

12. Governance

12.1 Strong governance is essential to ensure that capital investment decisions are transparent, evidence-based and aligned to the Council's strategic and financial objectives. The Council's governance arrangements provide clear accountability, robust financial control and appropriate member oversight throughout the lifecycle of capital projects, from initial proposal through to delivery and post-implementation review.

12.2 All capital expenditure and capital financing decisions are taken within the framework set out in this Capital Strategy

12.3 **Full Council** is responsible for approving the Capital Strategy, the overall capital programme, the Treasury Management Strategy and the associated Prudential Indicators as part of the annual budget process.

12.4 The **Executive Committee** structure provides political oversight of capital investment decisions within delegated authority. Committees consider business cases, approve individual projects within the approved programme and monitor delivery and performance.

12.5 The **Section 95 Officer** has statutory responsibility for the proper administration of the Council's financial affairs. This includes ensuring capital plans are affordable, prudent and sustainable, and that borrowing and investment decisions comply with the Prudential Code.

12.6 The **Corporate Leadership Team** provides strategic oversight of the capital programme, ensures alignment with corporate priorities and manages risks that cut across multiple services or stakeholders.

12.7 The **Capital Investment Board** oversees the development, prioritisation and monitoring of the capital programme, providing challenge, assurance and coordination across services.

12.8 Strong governance arrangements underpin the capital programme. All projects must follow the Council's approved business case framework, demonstrate affordability and deliverability, be subject to financial scrutiny and undergo regular monitoring.

12.9 Proposals are subject to a structured decision-making process and will only be progressed following the approval of a business case where there is a clear strategic rationale, a deliverable plan and confirmed affordability.

12.10 New projects can be added to the Council's capital programme in the following ways:

- Allocation of additional resources at the Council's budget meeting in February each year.
- Reprioritisation of existing budgets approved by service committees and, where this represents a change in policy, by full Council.

- Approval of a prudentially funded business case approved by relevant service committee and full Council.
- Award of external funding.

12.11 Once approved, capital projects are managed in accordance with the Council's project management and financial control arrangements. This includes project ownership and accountability, regular monitoring of cost, timetable and risk, change control processes for scope and budget variations, and escalation of issues when appropriate.

12.12 Delivery of the capital programme is monitored throughout the year and reported regularly to members. Monitoring reports include:

12.12.1 Forecast outturn compared to approved budgets.

12.12.2 Explanation of significant variances, delays to expenditure and project timings (slippage), spending ahead of expectations (acceleration), and over and under spending of budget.

12.12.3 Updates on funding and financing position.

12.12.4 Key risks and mitigation actions if required.

12.13 The usual reporting cycle includes monitoring reports on the Month 3, Month 5 and month 7 or 8 positions respectively.

12.14 Scrutiny arrangements such as referral to Governance, Risk and Best Value Committee, provide independent assurance over capital decision-making and delivery. The capital programme is also subject to internal and external audit review.

12.15 Funding strategy is reviewed twice annually, as part of budget setting and after quarter 2, to ensure the capital programme remains affordable withing the Medium-Term Financial Plan. This is reported to elected members highlighting changes in market conditions, funding availability or delivery forecasts and may result in adjustments to the financing mix, subject to the appropriate governance approval.

12.16 Through this approach, the Council ensures that its capital investment ambitions are supported by a robust, flexible and prudent funding strategy that safeguards long-term financial resilience while enabling delivery of strategic priorities.

12.17 Significant capital projects are subject to post-implementation review to assess whether intended outcomes and benefits have been achieved, whether costs and timescales were met, and what lessons can be learned. Findings are used to strengthen future governance, appraisal and delivery processes.

12.18 The Council keeps its governance arrangements for capital investment under review to reflect changes in legislation, professional guidance and best practice. The governance framework ensures that capital investment decisions are robust, controlled and in the long-term interests of the city and its residents.

13. Knowledge and Skills

13.1 The council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

13.2 The Finance and Procurement function, within the Council's Customer and Corporate Services Directorate, has qualified accountants working throughout the Division. The accountancy function is an accredited employer with regard to Continuing Professional Development (CPD) with the CIPFA and ACCA accountancy bodies. These accreditations are assessed externally every three years. The CIPFA accreditation was renewed in 2023 and the ACCA accreditation was renewed in 2024.

13.3 As well as finance qualifications, the Treasury Team hold a range of Treasury, Investment and Banking qualifications including the CIPFA/ACT Certificate in International Treasury Management – Public Finance and the Investment Management Certificate. The team also has a wide range of knowledge and experience in investment instruments as well as debt and other funding structures.

13.4 The Estates team, within the Council's Place Directorate, through which the property investment portfolio is managed, has RICS qualified surveyors working across the Division, the majority of which are also members of the Registered Valuers scheme.

13.5 In addition, use is made of external advisers and consultants that are specialists in their field, when specialist technical advice is required. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

14. Conclusion

14.1 This Capital Strategy sets out a clear, prudent and robust framework for the planning, prioritisation, funding and delivery of capital investment by the City of Edinburgh Council over the period of 2026/27 to 2035/36.

14.2 The Strategy demonstrates that the Council's capital programme of £5.5bn is firmly aligned with corporate priorities and statutory responsibilities, while remaining affordable and sustainable within the parameters of the Medium-Term Financial Plan.

14.3 Capital investment is directed towards maintaining safe, compliant and fit-for-purpose assets, whilst supporting actions for tackling the Housing and Climate Emergencies and for supporting the transition to an organisation-wide prevention model.

14.4 Strong governance, disciplined decision-making and comprehensive risk management arrangements underpin the programme. The Council adopts a

prudent approach to borrowing and investment and does not rely on speculative income to support capital decisions. All projects are subject to robust appraisal, monitoring and scrutiny.

14.5 The Strategy recognises that capital investment decisions have long-term implications for the Council's financial sustainability and therefore takes account of whole of life costs, future demand pressures, environmental sustainability and intergenerational fairness.

14.6 The Capital Strategy is reviewed annually as part of the Council's budget setting process and updated as required to reflect changes in financial circumstances, policy priorities and statutory requirements and guidance. Through this approach, the Council is committed to ensuring that capital investment continues to deliver value for money, supports improved outcomes for residents and contributes to a sustainable and resilient future for Edinburgh.