Appendix A

Capital Strategy

2025/26

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East Herts Council

1. Introduction

1.1. Purpose of this strategy

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

1.1.2. Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

2. Capital Expenditure and Financing

2.1. Capital Expenditure

2.1.1. Capital expenditure is where the Authority spends money on assets, such as property, plant, equipment or vehicles, that will be used for more than one year.

2.1.1.1. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

2.1.2. In 2025/26, the Authority is planning capital expenditure of £10.545m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2023/24 actual £(000)	2024/25 forecast £(000)	2025/26 budget £(000)	2026/27 budget £(000)	2027/28 budget £(000)
General Fund services	25,563	7,518	10,545	3,245	-*
Capital investments	-	-	-	-	-
TOTAL	**25,563**	**7,518**	**10,545**	**3,245**	**-***

*2027/28 Capital programme is yet to be confirmed.

2.1.3. The main General Fund capital budgets include capital expenditure on refuse vehicles and bins for the new waste contract, existing operational asset spend, rolling replacements and upgrades to our IT infrastructure and the remaining spend on the Old River Lane site in Bishops Stortford including a new public square.

3. Governance

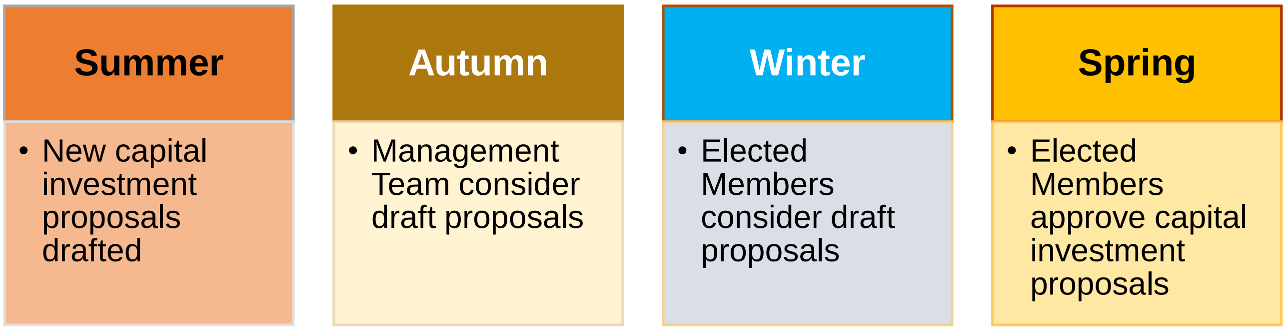
3.1. Governance

3.1.1. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Strategic Finance and staff, who must act in line with the treasury management strategy approved by Council. An annual and mid-year report on treasury management activity is presented to committee. The Audit & Governance Committee is responsible for scrutinising treasury management decisions.

3.2. Business planning process

3.2.1. The current business planning process for developing investment proposals to be included within the Council's future financial plans is summarised in the diagram below.

Figure 1 Business Planning Process



3.2.2. New proposals are developed by individual Project Managers, approved for consideration at service level by the Head of Service following which, the proposals will be considered by the Corporate Assets Group, then Leadership Team and successful proposals will progress for consideration and approval as part of the annual budget cycle.

3.3. Developing capital investment proposals

3.3.1. Project and Service Managers are encouraged to consider a range of options in developing individual proposals to determine an appropriate way forward, and to capture project details as a business case.

3.3.2. A standardised capital project bid form has been introduced and is required, to support Officers in recording and maintaining project information and inform decision making. The bid forms must include estimates of capital costs, revenue implications, funding and how the individual proposal aligns with Council plans and strategies and any partnership or external plans and strategies as relevant. Risks should also be documented as part of developing the proposal, along with mitigating actions and relevant timescales.

3.3.3. Capital project bid forms should then be maintained throughout the lifecycle of a project to maintain accurate information relating to delivery and lessons learned should be captured as part of project closure reports.

3.4. Prioritising capital investment

3.4.1. The intention for the standardised capital project bid forms referenced above is that they are subject to a standardised evaluation process, the outcome of which will be the prioritised capital investment programme. Local authorities continue to face financial challenges and as a result, the need to prioritise and target investment is ever present and the future capital programme will be greatly reduced compared with previous years.

3.4.2. The Council has identified that to effectively assess investment proposals against one another, a standardised evaluation process and scoring mechanism would be beneficial to help aid decision making and prioritise investment.

3.5. Financing

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

Table 2: Capital financing

	2023/24 actual £(000)	**2024/25 forecast £(000)**	**2025/26 budget £(000)**	**2026/27 budget £(000)**	**2027/28 budget £(000)**
External sources	3,458	1,021	1,247	-	-
Capital receipts	1,615	236	1,400	3,245	-
Revenue resources	33	3,000	-	-	-
Debt	20,457	3,261	7,898	-	-
TOTAL	**25,563**	**7,518**	**10,545**	**3,245**	*

*2027/28 Capital programme is yet to be confirmed.

3.5.2. Debt is only a temporary source of finance since loans and leases must be repaid. Charges to revenue over the life of the asset which is known as minimum revenue provision (MRP), are required to be made were borrowings have supported the creation or purchase of an asset.

3.5.2.1. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to repay debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance

	2023/24 actual £(000)	2024/25 forecast £(000)	2025/26 budget £(000)	2026/27 budget £(000)	2027/28 budget £(000)
Minimum revenue provision (MRP)	636	1,032	1,634	1,702	1,786
Capital receipts	-	-	-	4,230	2,000
TOTAL	**636**	**1,032**	**1,634**	**5,932**	**3,768**

3.5.3. The figures in table 3 and 4 are provisional and are subject to approval as part of the 2025/26 budget setting.

3.5.3.1. A review of the councils MRP Policy is currently under way, these figures may be updated following this review (in early 2025).

3.5.4. The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase during 2025/26. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Capital Financing Requirement (CFR)

	2023/24 actual £(000)	2024/25 forecast £(000)	2025/26 budget £(000)	2026/27 budget £(000)	2027/28 budget £(000)
Capital Financing Requirement (CFR)	60,522*	62,899*	69,163*	63,231*	59.445*

*CFR is currently under review.

3.6. Asset Management

3.6.1. To ensure that capital assets continue to be of long-term use, the Authority has an asset management strategy in place. The council's assets are being reviewed to identify assets for disposal to repay borrowing.

3.7. Asset Disposals

3.7.1. Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Authority expects to receive £2.4m of capital receipts from Asset sales in the coming financial year as shown in table 5.

3.7.2. The officer asset management group are reviewing the councils' assets to produce a list of potential asset disposals, options will be presented to members for approval. The figures shown in table 5 are provisional and subject to change.

Table 5: Capital receipts receivable

	2023/24 actual £(000)	2024/25 forecast £(000)	2025/26 budget £(000)	2026/27 budget £(000)	2027/28 budget £(000)
Asset sales	790	30	1,400	7,475	2,000
Preserved Right to Buy Receipts	825	206	200	200	200
Loans etc repaid	-	-	800*	1,700*	2,400*
TOTAL	**1,615**	**236**	**2,400**	**9,375**	**4,600**

*Millstream Disposals as per Exec recommended savings

3.7.3. A proportion of the Asset Sales (£200k) a year from 2025/26 to 2027/28 along with the receipts from the capital loans and Equity Investments have been set aside for utilisation as Flexible use of Capital resources.

Table 6: Flexible use of Capital Resources

	2023/24 actual £(000)	2024/25 forecast £(000)	2025/26 budget £(000)	2026/27 budget £(000)	2027/28 budget £(000)
Asset sales			200	200	200
Loans etc repaid	-	-	800*	1,700*	2,400*
TOTAL			**1,000**	**1,900**	**2,600**

*Millstream Disposals as per Exec recommended savings

4. Treasury Management

4.1. Introduction

4.1.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's liquidity requirements, while managing the risks involved.

4.1.2. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

4.1.3. Due to decisions taken in the past, as at 30th November 2024 the Authority had £45m in short term borrowing at an average interest rate of 5.06% , £14.8m invested in property funds (excluding an anticipated loss, not yet realised from one of the funds winding down) and £13.3m short term treasury investments (excluding Property Funds) at an average rate of 4.93%.

4.2. Borrowing Strategy

4.2.1. The Authority's main objectives when borrowing is to achieve as low a rate as possible for the set duration that it is needed for, whilst ensuring flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

4.2.2. The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

4.2.3. Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown in table 7, compared with the capital financing requirement (see in table 4):

Table 7: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.3.2024 actual £(000)	**31.3.2025 forecast £(000)**	**31.3.2026 budget £(000)**	**31.3.2027 budget £(000)**	**31.3.2028 budget £(000)**
Debt (incl. PFI & leases)	46,500	60,500	66,000	60,000	53,500
Capital Financing Requirement	60,522	62,751	68,015	60,183	53.797

4.2.4. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 7, the Authority expects to comply with this in the medium term.

4.3. Liability benchmark

4.3.1. To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level. While there was major project spend the minimum level was set at £10m. This has now reduced to £5m. This benchmark is currently under review.

Table 8: Borrowing and the Liability Benchmark

	31.3.2024 actual £(000)	31.3.2025 forecast £(000	31.3.2026 budget £(000	31.3.2027 budget £(000	31.3.2028 budget £(000
Forecast borrowing (External)	46,500	60,500	66,000	60,000	53,500
Liability benchmark	**49,378**	**49,695**	**55,195**	**59,000**	**52,500**

4.3.2. The table shows that the Authority expects to borrow above its liability benchmark. This is because of the long-term investment in property funds which we cannot exit until property is sold to cover the redemptions and therefore the long-term investments are skewing our figures against the liability benchmark. The council moves closer to the benchmark once the property funds have been redeemed.

4.4. Affordable Borrowing Limit

4.4.1. The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 9: Prudential Indicators: Authorised limit and operational boundary for external debt

	2024/25 limit £(000)	2025/26 limit £(000	2026/27 limit £(000	2027/28 limit £(000
Authorised limit – total external debt	100,000	100,000	100,000	100,000
Operational boundary – total external debt	75,000	75,000	75,000	75,000

4.5. Investment Strategy

4.5.1. Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

4.5.2. The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns.

4.5.2.1. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation.

4.5.2.2. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy, and the Authority may request its money back at short notice.

Table 10: Treasury management investments

	31.3.2024 actual £(000)	31.3.2024 forecast £(000)	31.3.2025 budget £(000)	31.3.2026 budget £(000)	31.3.2027 budget £(000)
Near-term investments	12,575	6,000	6,000	6,000	6,000
Longer-term investments	17,840	9,805	9,805*	-	-
TOTAL	**30,415**	**15,805**	**15,805**	**6,000**	**6,000**

*Being the Property Fund NAV value as at 31st December 2024. NAV is reset monthly.

4.6. Risk Management

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

5. Revenue Budget Implications

5.1. Implications

5.1.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. Note investment income has been removed from the definition of financing costs. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e., the amount funded from Council Tax, business rates and general government grants.

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

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
Financing costs (£m)	£1.6	£2.9	£3.3	£2.6	£2.5
Proportion of net revenue stream	8.3%	13.3%	16.2%	15.2%	14.2%

5.2. Sustainability

5.2.1. 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 Head of Strategic Finance is satisfied that the proposed capital programme is prudent, affordable, and sustainable because it has been reduced to a level where the borrowing remains affordable.

5.3. Knowledge and Skills

5.3.1. The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Authority pays for junior staff to study towards relevant professional qualifications including CIPFA, CIMA, AAT.

5.3.2. Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently engages Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.