

East Herts Council Report Executive

Date: 11th February 2025

Report by: Councillor Carl Brittain, Executive Member for Financial Sustainability

Report title: Capital Strategy, Minimum Revenue Provision Statement and Treasury Management Strategy 2025/26

Ward(s) affected: All

Summary

The report contains the Capital Strategy, Minimum Revenue Provision (MRP) statement and Treasury Management Strategy for 2025/26.

RECOMMENDATIONS FOR EXECUTIVE:

(a) Recommend to Council to approve the Capital Strategy, Minimum Revenue Provision Statement and the Treasury Management Strategy 2025/26 including the Prudential Indicators contained within the reports.

1.0 Proposal(s)

1.1 This report presents the Executive's recommended Capital Strategy, the Minimum Revenue Provision statement, and Treasury Management Strategy 2025/26 for Full Council to approve.

2.0 Background

2.1 The East Herts Council Capital Strategy provides a valuable opportunity for engagement with Full Council to ensure that overall strategy, investment ambition, risk appetite and governance procedures are fully understood by all elected Members and other Council stakeholders.

2.2 The East Herts Council Capital Strategy is intended to be a strategic corporate document which will both be influenced by and in turn influence policy and decision making in respect of capital investment.

- 2.3 The Strategy will continue to develop and evolve as external influences do and will be updated as required in order that this Strategy is responsive to the challenges, opportunities, priorities, and objectives that the Council must consider.
- 2.5 As the council continues to deliver, review, and update the capital programme, it will do so within the context of the council's Climate Change commitments, most notably the commitment to the council itself becoming carbon neutral by 2030. To that end, the council has devised a carbon assessment tool which it is now beginning to use to assess its existing major projects. As new proposals for capital funding come forward, a carbon assessment will be included as an integral part of the business case to inform decision-making.
- 2.6 The 2025-2035 Capital programme reflects the Councils Capital strategy and the statutory guidance that debt should remain below the Capital Financing Requirement. The Council is compliant with this guidance, however there is no scope for further borrowing above the levels proposed in the current capital programme.
- 2.7 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested with low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing security and adequate liquidity always before considering investment return.
- 2.8 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or

short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

2.9 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

2.10 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

2.11 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.12 This activity is currently supported by the council's appointed independent advisors – Arlingclose Limited.

3.0 Reason(s)

3.1 Revised reporting was required from the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction

of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011.

3.2 Following consultation with the sector and other stakeholders new MRP regulations were published in April 2024 most of which take effect from 1 April 2025. The amendments to the regulations seek to ensure that local authorities are not applying practices which result in an underpayment of MRP. The councils' advisors Arlingclose have reviewed the new MRP regulations and do not expect these to have a significant impact on the Council.

4.0 Options

4.1 Endorse the updated strategy or suggest amendments because of the scrutiny process.

5.0 Risks

5.1 Risks are discussed in detail, within the Capital Strategy, including the uncertainty around future funding.

5.2 The tighter regulations for MRP mean that the Council needs to calculate the capital financing requirement to ensure that there is no underpayment of MRP, and that borrowing is affordable. Noncompliance with the Local Authorities (Capital Finance and Accounting) (England) Regulations as amended 2024 will be treated as unlawful.

5.3 A review of the councils MRP position and Capital Financing Requirement has been undertaken in December 2024 by Arlingclose. The implications from this review are currently being reviewed by officers. Updates to the MRP position will be presented to members as part of updates to the 2024/25 financial reporting and 2025/26 budget setting.

5.4 Treasury risk management at the council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the council to approve a treasury management strategy before the start of each financial year. This report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

6.0 Implications/Consultations

6.1

Community Safety

Building and refurbishment schemes design out crime and safety issues and public realm works are required to ensure that the community feel safe.

Data Protection

All investment in IT systems is required to check where data is held and that systems comply with data protection legislation.

Equalities

All capital schemes meet the necessary legislation and are subject to access audits. Design also considers dementia friendly design elements particularly around colour.

Environmental Sustainability

The council has established a carbon assessment tool that it is beginning to apply to existing capital projects. In the future, a carbon assessment of proposed capital projects will be included within the overall business case so as to inform decision-making. To date, individual schemes have sustainability features designed into them and may include, for example: meeting BREEAM ratings for buildings and refurbishments; flood resilience and sustainable underground drainage systems; opportunities for renewable energy generation; and carbon reduction such as replacement of the council's internal combustion engine vehicles with battery electric vehicles.

Financial

The strategy guides the capital programme and detailed financial implications are included with that in the budget report

Health and Safety

All contractors are required to have compliant health and safety policies. Where a health and safety issue require capital expenditure it will be fast tracked to deal with the issue

Human Resources

None

Human Rights

None

Legal

A Capital Strategy is a requirement of the Prudential Code which the council is required to follow under the Local Government Act 2003.

Specific Wards

None

7.0 Background papers, appendices, and other relevant material

7.1 Appendix A - East Herts District Council Draft Capital Strategy and Minimum Revenue Statement 2025/26 Onwards

7.2 Appendix B - Minimum Revenue Statement 2025/26 Onwards

7.3 Appendix C – Treasury Management Strategy 2025/26

Contact Member

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