Appendix B

HARLOW COUNCIL
CAPITAL STRATEGY REPORT 2025/26

Introduction

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.

2. Decisions made this year on capital and treasury management will have financial consequences for the Council 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.

Capital Expenditure and Financing

3. 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.

4. In 2025/26, the Council is planning capital expenditure of £114.9m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
General Fund services	64.6	27.0	39.7	6.7	5.8
Council housing (HRA)	26.1	52.9	75.2	32.3	29.8
TOTAL	**90.7**	**79.9**	**114.9**	**39.0**	**35.6**

5. The main General Fund capital projects for 2025/26 include various works associated with The Towns Fund £10.3 million, Levelling up Fund of £16.2 million, schemes re-profiled from 24/25 £3.6m, other schemes £2.6m and new capital schemes totalling £7.0 million.

6. The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes the building of 106 new homes over the forecast period.

7. The complete programme of capital expenditure is included within Appendix A of the Capital & Treasury Report.

Governance:

8. Service Managers commence a process annually in September to bid for projects in the Council's Non-Housing Capital Programme. Bids are collated by the Finance Service who calculate the financing costs (which can be nil if the project is fully externally financed) and formulate capital project appraisals. The Section 151 Officer presents capital proposals to the Executive Management Team (EMT) and Cabinet for review. The review is based on a comparison of corporate priorities and service priorities and considers projected capital costs, financing costs and any resulting ongoing service costs. Recommendations from EMT and Cabinet formalise the Capital Programme for approval by Cabinet and to Full Council in February each year.

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

Table 2: Capital financing in £ millions

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
External sources	5.3	13.7	27.8	1.8	1.3
Capital receipts	1.1	23.8	14.8	2.1	0.2
Revenue resources	13.3	13.8	14.8	14.3	14.8
Debt	71.0	28.6	57.5	20.8	19.3
TOTAL	**90.7**	**79.9**	**114.9**	**39.0**	**35.6**

10. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
Minimum revenue provision (MRP)	1.3	1.3	1.6	1.8	2.0

Capital receipts	Nil	48.5	Nil	Nil	Nil

11. The Council's full minimum revenue provision statement is available in Appendix D of the Capital & Treasury Report.

12. The Council'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 or if capital receipts are applied to reduce the CFR. The CFR is expected to decrease by £20.1m during 2024/25. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
General Fund services	155.4	118.1	127.0	130.7	133.7
Council housing (HRA)	216.9	234.1	282.0	298.0	312.8
TOTAL CFR	**372.3**	**352.2**	**409.0**	**428.7**	**446.5**

13. Asset management: To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place.

14. 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 Council plans to receive capital receipts in the coming financial year as follows:

Table 5: Capital receipts receivable

Table 5a - Movement in Other Housing Capital Receipts in £'000s

	2023/24 actual	2024/25 estimates	2024/25 revised	2025/26 estimates
Balance as at 1 April	(3,931)	(1,452)	(5,397)	(5,397)
Other Housing Capital Receipts Received	(1,477)	(1,919)	0	0
Other Housing Capital Receipts Used	11	1,764	0	0
Balance as at 31 March	(5,397)	(1,607)	(5,397)	(5,397

Table 5b - Movement in Non-Housing Capital Receipts in £'000s

	2023/24 actual	2024/25 estimates	2024/25 revised	2025/26 estimates
Capital Receipts B/Fwd	(3,786)	(5,786)	(7,823)	(10,057)
Capital Receipts Received	(4,131)	0	(4,240)	0
Capital Receipts Used	94	2,908	2,006	670
Flexible Use of Capital Receipts				2,000
Capital Receipts C/Fwd	(7,823)	(2,878)	(10,057)	(7,387)

Table 5c - Movement in Retained Right to Buy (RTB) Receipts in £'000s

	2023/24 actual	2024/25 estimates	2024/25 revised	2025/26 estimates
Balance as at 1 April	(18,678)	(22,518)	(19,894)	0
Receipts Retained from RTB	(2,238)	(4,433)	(1,869)	(13,212)
Receipts Used to Finance New Builds	1,022	11,060	21,763	13,212
Balance as at 31 March	(19,894)	(15,891)	0	0

Treasury Management

15. Treasury management is concerned with keeping 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, 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.

16. Due to decisions taken in the past, the Council had £297.8m of borrowing at 31st December 2024 comprising £211.8m long-term borrowing at an average interest

rate of 3.3% and £86m short-term borrowing at an average interest rate of 5.2%. The Council had £22.6m treasury investments at the same date earning at an average rate of 4.7%.

17. **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between short-term loans and long-term fixed rate loans.

18. Usually, short-term loans are cheaper than long-term loans. However due to the current economic environment interest rates for long term loans are typically lower than for loans with a duration of less than 12 months. However short term interest rates are expected to fall so if the Council fixes in long term rates it may not be able to take advantage of this fall in future.

19. The Council will look to meet future borrowing needs with an appropriate mix of short-term and long-term loans. The Council will give consideration to the risk and rewards of different options when borrowing, within the context of the economic environment.

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

21. Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Debt (incl. PFI & leases)	271.0	231.0	169.3	169.3	169.3
Capital Financing Requirement	372.3	352.2	409.0	428.7	446.5

22. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

23. **Liability benchmark:** To compare the Council'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 of £10m at each year-end. This benchmark is currently £271.5m and is forecast to rise to £346.4m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Existing borrowing	269.7	231.0	169.3	169.3	169.3
Forecast borrowing	269.7	251.4	308.5	328.4	346.4
Liability benchmark	271.8	251.4	308.5	328.4	346.4

24. The table shows that the Council aims to borrow at its liability benchmark in future years to follow the lowest risk course for debt. Existing borrowing shows loans borrowed at the present time, which will gradually be repaid in future years. Forecasted borrowing represent the expected total future borrowing the Council expects to undertake: this will be higher than the existing borrowing as more loans will be needed to be taken out in future.

25. **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2024/25 limit	2025/26 limit	2026/27 limit	2027/28 limit
Authorised limit – borrowing	380.0	410.0	410.0	410.0
Authorised limit – PFI and leases	62.0	62.0	62.0	62.0
Authorised limit – total external debt	442.0	472.0	472.0	472.0
Operational boundary – borrowing	370.0	400.0	400.0	400.0
Operational boundary – PFI and leases	61.8	61.8	61.8	61.8
Operational boundary – total external debt	431.8	461.8	461.8	461.8

26. Further details on borrowing are in pages 6 the treasury management strategy.

27. **Treasury investment strategy:** 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.

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

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

Table 9: Treasury management investments in £millions

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Near-term investments	5.1	6.0	6.0	6.0	6.0
Longer-term investments	3.1	4.0	4.0	4.0	4.0
TOTAL	**8.2**	**10.0**	**10.0**	**10.0**	**10.0**

29. Further details on treasury investments are in pages 8 to 13 of the treasury management strategy

30. **Risk management:** The effective management and control of risk are prime objectives of the Council'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.

31. The treasury management prudential indicators are on pages 13 to 14 of the treasury management strategy.

32. **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Assistant Director - Finance (Section 151 Officer), who must act in line with the treasury management strategy approved by Full Council. Half-yearly reports on treasury management activity are presented to Cabinet.

Investments for Service Purposes

33. The Council makes investments to assist local public services. The recent and most significant is the council purchased the Burnt Mills Development Site in March 2024. Although this is classified as a commercial investment it was not bought for commercial considerations. The council intends on leasing the site to an LLP vehicle and discussions are ongoing with private investors to finance the site long term, which are expected to be resolved by 2024/25. The council

continues to work with our treasury advisors with the final leasing arrangements, which may have an impact on the council financing requirements.

34. The Council has also purchased the Harvey Centre, a shopping centre in Harlow town centre. This was purchased in December 2022 for £21m. This purchase was made primarily to enable meaningful regeneration of Harlow Town Centre, of which the shopping centre is a significant part. The Centre is also expected to generate a net financial return.

35. Other investments for service purposes include shares in and loans to the Council's wholly owned companies within the HTS Group, which provides extensive building maintenance, grounds and environmental maintenance services to the Council. This promotes economic growth.

36. **Risk management:** In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for these investments to generate a return after costs.

37. **Governance**: All decisions to date have been made subject to formal reporting and approval by Cabinet and Full Council. Where appropriate, independent advice has been sought on the purchase and maintenance of service investments. For example, the Council employed property consultants, legal and financial advisors to assist them with the purchase of the Harvey Centre and Burnt Mills.

38. Further details on service investments are in pages 2 to 4 of the investment strategy.

Commercial Activities

39. With central government financial support for local public services declining, some councils have invested in commercial property purely or mainly for financial gain. Harlow Council has not followed this course of action.

40. Harlow Council only has three assets which could be described as being 'primarily' for commercial return. These are a golf course, a cottage and a former farmhouse. They generate an income of around £78,000. These were all purchased prior to changes in guidelines that now prohibit borrowing primarily for the purpose of commercial return.

41. These commercial assets have a modest value and the income generated from them forms only a tiny portion of the Council's overall income. The risks around these investments are thus regarded as minimal.

42. Further details on commercial investments and limits on their use are in pages 4 to 5 of the investment strategy.

43. Further details on the risk management of commercial investments are in the non-treasury management investment.

Table 10: Prudential indicator: Net income from commercial and service investments to net revenue stream in £millions

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
Total net income from service and commercial investments (£m)	0.9	1.0	1.5	1.5	1.7
Proportion of net revenue stream	4.4%	6.9%	9.1%	10.7%	11.3%

Other Liabilities

44. In addition to debt of £297.8m detailed above, the Council also covers the risk of having to pay for small-value insurance claims for which self-insurance is in place and managed through earmarked reserves.

45. **Governance:** Decisions on incurring new discretional liabilities are taken by EMT in consultation with the Section 151 Officer. It is the responsibility of Senior Managers to consult the Section 151 Officer on any matter liable to affect the Council's finances materially (for values above £50,000). In the event of any substantial liabilities arising during the financial year, these are highlighted in the finance and performance monitoring reports, presented quarterly to Cabinet and onwards to Full Council.

Revenue Budget Implications

46. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. 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
General Fund					

Financing costs (£m)	2.1	1.6	2.8	3.0	3.1
Proportion of net revenue stream	9.9%	11.9%	17.3%	21.2%	22.3%
HRA					
Financing costs (£m)	19.6	21.0	22.1	22.1	23.4
Proportion of net revenue stream	34.7%	35.1%	36.2%	34.9%	35.6%
Total					
Financing costs (£m)	21.7	22.6	24.9	25.1	26.5
Proportion of net revenue stream	28.0%	30.8%	32.2%	32.3%	33.2%

47. **Sustainability:** 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. Capital investment decision making is not only about ensuring the initial allocation of capital funds meets the corporate and service priorities but ensuring the asset is fully utilised, sustainable and affordable throughout its whole life, which also includes the affordability of its debt financing costs. In approving the inclusion of schemes and projects within the Capital Programme the Section 151 Officer will need to have been satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

48. The Council employs professionally qualified and experiences staff across a range of disciplines including finance, legal and property that follow Continuous Profession Development (CPD). The Council encourages apprenticeships and study programmes for staff with the ambition to achieve a professional qualification.

49. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and Wilks Head and Eve LLP as property valuation advisers as property consultants. 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.

50. Internal and external training is offered to elected Members to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions taken by the administration, the EMT and the Section 151 Officer.