Appendix E: Capital Strategy

1. Introduction

The Capital Strategy provides a high level overview of the council's plan to achieve its goals, set out in the Corporate Strategy, via capital investment through the use of capital expenditure, capital financing and treasury management.

Decisions made this year on Capital and Treasury Management will have financial consequences for the Council for a number of years into the future. Such decisions are therefore subject to both a national regulatory framework and to a local policy framework, summarised in this report.

The council's four priorities are:

- **Protecting and enhancing our environment**
- **Encouraging economic growth**
- **Building strong communities**
- **Putting residents first**

Uttlesford has successfully invested in commercial properties to offset funding cuts in a difficult environment to protect frontline services. It has also invested in Chesterford Research Park and will consider other opportunities in the future to generate business rate growth and employment opportunities for residents. More details can be found in the Commercial Strategy.

Where cost efficient it will invest in new technologies and the existing operational estate to increase operational efficiencies, maintain the existing buildings in a fit state or generate returns from renting out council assets.

The council has green ambitions. The council is ahead of the curve on reducing food waste and will continue to invest in new vehicles. Also, it has targeted decarbonisation funds to reduce the council's carbon footprint.

The council is committed to building new homes and regenerating existing estates and the new Housing Revenue Account (HRA) 30 Year Business Plan details the resources available for the future. As detailed options become available they will be added to the Capital Programme.

2. Council Priorities

1.1. Protecting and enhancing our environment

We will protect and improve our environment by reducing our carbon footprint, promoting biodiversity, managing waste and recycling, and supporting green initiatives.

There are a number of current workstreams that UDC are currently trying to deliver as part of the ongoing work on Climate Action:

- Decarbonising council operations including buildings, fleet and housing which is partly funded by the Social Housing Decarbonisation Fund. The council is currently retrofitting of 267 properties to increase energy efficiency and reduce energy costs to residents. This includes insulating homes, upgrading windows, installing air source heat pumps and solar PV where possible.

- There is a similar project taking place to improve the council's general fund operational assets.

- UDC received a grant of over £500k in 2022 from DEFRA to fund the continuation of localised environmental projects such as the Saffron Walden Clean Air Project.

1.2. Encouraging economic growth

We will support and promote a vibrant and diverse economy by attracting investment, facilitating business growth, enhancing skills and employability, and improving connectivity and infrastructure.

It has recently produced its Draft Local Plan that is being reviewed by the Planning Inspectorate. The council will be producing an Infrastructure Funding Statement (IFS) that details how it spends section 106 monies on improving the local infrastructure. The council will also be consulting in 2025 on introducing Community Infrastructure Levy (CIL) locally. This will provide more resources for funding infrastructure improvements.

Chesterford Research Park, which is 50% owned by the Council's wholly owned compare, Aspire (CRP) has driven high value economic growth in the district and has a focus on natural sciences, which is a UK economic strength.

1.3. Building strong communities

We will build strong and resilient communities by engaging with our residents, delivering new housing and tackling social isolation.

The Council will be looking to produce its first 30 Year HRA Business Plan in 2025/26. This will provide the financial justification for borrowing to deliver new housing assets and identify the resources required to fund the improvement of existing council properties.

1.4. Putting residents first

We will deliver excellent services for the benefit of our residents by ensuring budgetary stability and value for money, embracing new technology and developing our workforce

The council's capital programme invests in the council's general fund portfolio, both for health and safety and greening the estate but will once the decision over the merger partners, identify resources for Artificial Intelligence investment. In the meanwhile, it continues to invest in its digital services.

There is a new financial system being implemented with the clear intent of automating all activity and providing better management information to budget holders.

3. Council's Approach to Funding Investment

Council analyses all investments in terms of whether the investment stacks up financially assuming if the council would borrow for said asset. Only then does it consider funding sources. However, it always seeks grant funding sources wherever possible to reduce the impact on borrowing:

- Investment Properties are financed exclusively by borrowing. Similarly, the wholly owned company, Aspire (CRP) is treated as a commercial investment.
- Asset Management evaluation depends on whether it is health and safety, which would need to be funded regardless or whether it is an investment to improve the commercial value of the asset, which should be evaluated by an investment appraisal.
- Housing Revenue Account investments are evaluated by whether they affordable within the 30 Year HRA business plan and whether the investment can be paid back within an appropriate time horizon.
- All other assets unless they are health and safety, grant funded or necessary for the ongoing business, are assumed to be funded by borrowing.

4. Regulatory Framework

This Capital Strategy sets out how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, together with how associated risks are managed and the implications for the future financial sustainability of the Council.

Decisions made in respect of capital and treasury management can have financial consequences for the Council for many years into the future. As such, there are strict legislative requirements governing how capital expenditure is accounted for and financed, which are explained in further detail throughout this report.

In setting this Capital Strategy, the Council is required to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (2021 Edition) (the 'Prudential Code'). This requires a number of prudential indicators to be set before the start of each financial year, and to be monitored throughout the year. These are highlighted within this Capital Strategy.

As set out in the Medium Term Financial Strategy (Appendix C), the Council is currently investigating opportunities to divest of a proportion of its commercial investment portfolio, as part of its medium term deficit management plan. However, no decisions have yet been taken around which (if any) investments to sell. As such, this Capital Strategy has been prepared on the basis of the Council's existing commercial property portfolio. Should one or more asset sales be realised, this will result in a reduction in the Council's long term need to borrow, along with a requirement to invest any excess cash received in the short term (while the Council waits for fixed term borrowing to mature).

5. Capital Expenditure and Financing

Capital expenditure is any expenditure on the purchase or improvement of assets, such as property or vehicles, which will be used for more than one year. This includes spending on assets owned by other bodies, and loans and grants to other bodies or individuals enabling them to buy or improve their own assets (for example Disabled Facilities Grants). With the exception of external grant funded expenditure, a de minimis level of £10,000 is applied, with any assets costing less than this charged to a revenue account in the year the spend is incurred.

Before any capital expenditure can be incurred, a budget must be agreed within the Council's Capital Programme. This sets out the Council's planned capital expenditure over the next five years, and is reviewed and approved by Council on a rolling annual basis.

The full Capital Programme setting out each individual project can be seen in detail at Appendix F. Note that, since the figures in this Capital Strategy are rounded to the nearest £0.1 million, small rounding differences may occur.

Table 1: Estimates of Capital Expenditure

Estimates of Capital Expenditure	2024/25 Forecast Outturn	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000
General Fund	5,420	4,867	1,123	1,148	833	803
Commercial Investments	13,795	0	0	0	0	0
Housing Revenue Account	5,578	9,489	18,134	7,645	7,757	7,750
Total	**24,793**	**14,356**	**19,257**	**8,793**	**8,590**	**8,553**

All capital expenditure in turn must be either funded or borrowed.

Table 2: Capital Financing Sources

Capital Financing	2024/25 Forecast Outturn	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000
External Funding	3,477	4,869	2,335	235	235	235
Internal Resources	5,606	5,957	16,384	7,995	8,107	8,100
Debt	15,710	3,530	538	563	248	218
Total	**24,793**	**14,356**	**19,257**	**8,793**	**8,590**	**8,553**

Debt is only considered a temporary source of finance, since loans and leases must be repaid in time. This is therefore replaced by other financing sources over time, usually by way of a charge to revenue resources known as the minimum revenue provision (MRP). This is calculated in line with the Council's Minimum Revenue Provision Statement which is set out at Appendix M. Alternatively, eligible capital resources (such as capital receipts) can be used to reduce the Council's debt and the need to make future MRP charges.

Statutory requirements relating to MRP do not apply to HRA assets. However, there is still a requirement to ensure that borrowing is at an affordable level to support future financial sustainability, and this is covered by the production of a 30 Year Business Plan. Further information is set out in the HRA budget at Appendix G.

Over the next three years, it is planned that debt financing will be replaced by the following amounts:-

Table 3: Annual Minimum Revenue Provision Charge

	2024/25 Forecast Outturn	2025/26 Budget	2026/2 7 Budget	2027/28 Budget	2028/2 9 Budget	2029/3 0 Budget
	£'000s	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000**
Annual Charge	3,859	4,330	4,601	4,605	4,794	4,945

The Council's total level of outstanding debt finance is measured by the capital financing requirement (CFR). This increases with new debt financed capital expenditure and reduces as debt is replaced with other financing sources as above. Based on the above figures for capital expenditure and financing, the Council's estimated CFR for the next 3 years will be as follows:-

Table 4: Capital Financing Requirement Estimates

	2024/25 Forecas t Outturn	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget
	£'000s	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000**
General Fund	17.9	17.9	17.2	16.7	16.0	15.2
Commercial Investments	261.0	264.3	261.4	258.3	255.2	252.1
HRA	79.3	79.3	79.3	79.3	79.3	79.3
Total	**358.2**	**361.5**	**357.9**	**354.3**	**350.5**	**346.6**

6. Asset Management

The Council has an asset management strategy in place to ensure that it can maximise the value of its capital assets.

When an asset is no longer required, it may be sold so that the proceeds (capital receipts) can be used to finance new assets or repay debt. Where capital loans are repaid to the Council, these also constitute capital receipts.

Previously, the council would have a list of planned capital receipt forecasts. However, due to the restrictions on Right to Buy, there are no expected planned asset sales from 2025/26 onwards. However, there may still be some individuals increasing their share of the Right to Buy Properties. The main item that would be appear here is the sale of the council's share of Chesterford Research Park or any equivalent investment property sale. However, they are currently not assumed in the budget.

7. Treasury Management

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.

This section includes a summary of the Council's approach to treasury management, and sets the prudential indicators required by the Prudential Code. More detailed information is set out in the Treasury Management Strategy (Appendix D).

Borrowing Strategy

As explained under 'Capital Financing' above, the Council has a long term need to borrow in respect of capital expenditure which has not yet been financed. However, in terms of revenue accounts, income is often received in advance of expenditure. Any surplus revenue cash is offset against capital cash shortfalls to reduce the Council's need to borrow externally – this is known as internal borrowing.

As at 31 December 2024, the Council had £289.3 million of external borrowing at an average rate of 4.42%.

The Council's main objectives when borrowing are to achieve a low but certain cost of finance, and to retain flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between short term loans which are usually cheaper, and long term fixed rate loans where the future cost is known but higher.

Prudential Indicators – Authorised Limit and Operational Boundary

The Council is required to set an authorised limit for external debt, which represents the maximum amount it is permitted to hold at any given time. In addition, a lower operational boundary should be set based upon current spending and financing plans, which acts as an early warning should it be breached. The limits set for the next three years are as follows:-

Table 5 – Authorised and Operational Limits

	2024/25	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£'000s	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000**
Authorised Limit - borrowing	415.0	420.0	420.0	420.0	420.0	420.0
Authorised Limit - PFI and leases	5.0	5.0	5.0	5.0	5.0	5.0
Authorised Limit - total external debt	**43.0**	**43.0**	**13.0**	**13.0**	**13.0**	**13.0**
Operational boundary – borrowing	395.0	400.0	400.0	400.0	400.0	400.0
Operational boundary – PFI and leases	5.0	5.0	5.0	5.0	5.0	5.0
Operational boundary – total external debt	**400.0**	**405.0**	**405.0**	**405.0**	**405.0**	**405.0**

From 1 April 2024, local authorities are required to adopt International Financial Reporting Standard (IFRS) 16, which will change the way in which councils account for certain leases. The main effect will be that councils may be required to recognise leased assets on their balance sheet, even where these have previously been classified as operating leases. There will be a corresponding lease liability in respect of the value of minimum payments to be made under the lease.

Work is ongoing to fully assess the impact of IFRS 16 on this Council's assets, although it should be noted that this is a technical accounting change and is not anticipated to have a significant net impact on the Council's finances.

Prudential Indicator – Gross Debt and the Capital Financing Requirement

The Prudential Code requires that the Council's gross debt remains below its CFR, except in the short term. This provides assurance that the Council is not borrowing in excess of its needs. The table below demonstrates that the Council expects to comply with this requirement for at least the next three years:

Table 6: - Debt and CFR

	2024/25	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Debt incl. (PFI and leases)*	314	313.2	318.5	310.9	309.3	305.5	301.6
CFR	348.6	358.2	361.5	357.9	354.3	350.5	346.6

* Includes Private Finance Initiative (PRFI) and lease liabilities

Treasury Investment Strategy

Treasury investments are those which arise from receiving cash before it needs to be paid out again. Investments made for service reasons, or primarily for financial return (such as commercial properties), are not considered to form part of the Council's treasury management activities.

In making treasury investments, the Council is required to have regard to CIPFA's Treasury Management in the Public Services: Code of Practice (the 'TM Code'). This requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The Council also aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

As at 31 December 2024, the Council held £11.7 million of treasury investments at an average rate of 4.69%. Planned investment balances for the next three years are as follows:-

Table 7: - Investments

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Near-term investments	10	10	10	10	10	10
Longer-term investments	0	0	0	0	0	0

Risk and Governance

1. The effective management and control of risk are prime objectives of the Council's treasury management activities. The Treasury Management Strategy (Appendix D) 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.

Decisions on treasury management investment and borrowing are made on a daily basis and are therefore delegated to the Strategic Director of Finance, Commercialisation and Corporate Services (Section 151 Officer) and Financial Services officers, who must act in line with the Treasury Management Strategy and the Council's Treasury Management Practices. Reports on actual treasury management activity are presented to Cabinet, in line with the requirements of the TM Code.

8. Commercial Investments

The Council holds a number of investments primarily for the purpose of generating income to support wider Council services. These have been acquired and are managed in accordance with the Council's Commercial Strategy (Appendix B), which is approved by Council on an annual basis.

In line with the Commercial Strategy, a total allocation of approximately £268 million has been made for building up this portfolio, which consists of the following:-

- Investment properties owned directly by the Council (seven in total, including commercial space at the Council depot site in Little Canfield)
- Loans to a Council subsidiary, Aspire (CRP) Ltd, which enabled it to acquire a 50% stake in Chesterford Research Park

Risks and Governance

Since the main objective of commercial investments is financial return, the Council is prepared to accept a higher level of risk than with treasury investments. The principal risks to which the Council is exposed are tenant defaults and unanticipated voids. This risk is managed through the use of a commercial asset reserve, where amounts are set aside to cover any temporary shortfall in income. Further details of the risks and mitigations in relation to the commercial investment portfolio are set out in the Commercial Strategy (Appendix B).

Decisions on commercial investments are made by the Strategic Director of Finance, Commercialisation and Corporate Services (Section 151 Officer) in line with the criteria and limits approved by Council in the Commercial Strategy (Appendix B).

Other Liabilities

Decisions on incurring new discretional liabilities are taken by service managers in consultation with the Strategic Director of Finance, Commercialisation and Corporate Services (Section 151 Officer). The risk of liabilities crystallising and requiring payment is monitored by Financial Services and reported quarterly to Cabinet where these are significant.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income received. These factors have been taken into account in setting the Council's Medium Term Financial Strategy (Appendix C).

Prudential Indicator – Financing Costs to Net Revenue Stream

The Prudential Code requires the Council to estimate the proportion of its General Fund financing costs to its net revenue stream (taxation and non-specific government grant income) over the next three years, as an indicator of the affordability of borrowing and the Council's exposure to risk. This is set out in the following table:

Table 8: - Financing to Net Revenue Stream

	2024/25 Forecast Outturn	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000
Proportion of financing cost to net revenue stream	82%	92%	106%	111%	117%	123%

There has been a significant increase to this indicator in 2024/25, as a result of rising interest rates and a resultant increased cost of borrowing.

There is another large increase in the indicator forecast in 2026/27. This reflects local government reform. This is related not to any planned significant change in the Council's Capital Strategy, but rather due to a significant drop in the forecast net revenue stream following local government funding reform. Further information on this is set out in the Medium Term Financial Strategy (Appendix C). The timing and effect of any funding reform remains highly uncertain, and the impact on the prudential indicators will be closely monitored as and when announcements are made, so that any required action can be taken.

Prudential Indicator – Net Income from Commercial Investments to Net Revenue Stream

The Prudential Code also requires the Council to estimate the proportion of its commercial investment income to its net revenue stream, as an indicator of the Council's exposure to risk in relation to the potential loss of commercial investment income. This is set out in the table on the following page:

	2024/25 Forecast	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget

	Outtur n					
	£'000s	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000**
Proportion of net income from commercial investments to net revenue stream	66%	72%	93%	103%	109%	114%

Table 9: - Net commercial income to net revenue stream

Again, the increase forecast for 2026/27 is related to anticipated local government funding reform, rather than a change to the Council's Commercial Strategy.

Risk and Sustainability

The two prudential indicators above are calculated in line with the strict definitions set out in the Prudential Code. Whilst these show a relatively high degree of inherent risk exposure, they do not take into account the specific measures taken by the Council to mitigate these risks. The Council holds a significant commercial assets reserve (forecast to stand at £6.0 million as at 31 March 2025), which can be used to cover any short term shortfall in commercial property income. In the longer term, the Council retains the option to sell some or all of its commercial properties should market conditions dictate, which would reduce both borrowing and MRP costs (although would clearly also result in an associated loss of income). Further information on the risks associated with the commercial property portfolio, and the ways in which these are mitigated, is included within the Commercial Strategy (Appendix B).

Due to the very long term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years could extend for up to 50 years into the future. Overall, the Strategic Director of Finance, Commercialisation and Corporate Services (Section 151 Officer) is satisfied that the proposed capital programme is prudent, affordable and sustainable.

9. Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Strategic Director of Finance, Commercialisation and Corporate Services (Section 151 Officer) and Director of Finance, Revenues and Benefits (Deputy Section 151 Officer) are both qualified accountants. The Council also provides appropriate professional development opportunities to more junior officers within Financial Services, including opportunities to study towards relevant professional qualifications such as the CIPFA Professional Qualification.

Where Council officers do not have the requisite knowledge or skills to take important decisions alone, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose as its treasury management adviser, and other specialists may also be engaged depending on the expertise required. This approach is more cost effective than employing highly specialised staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.