



Capital and Treasury Management

2026-29

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1 Capital Programme 2026-29

1.1 Introduction and Context

Executive Summary

The Non-Housing Capital Programme (NHCP) and the Housing Capital Programme (HCP) have both been prepared in line with the Building Harlow's Future plan which contain the council's corporate missions. These programmes are developed in a way that ensures all capital projects are fully funded and deliverable with the associated resources.

Key Headlines of the Capital Programme:

- The Non-Housing Capital Programme has seen substantial growth, rising to £92.7 million in 2026/27. This compares to £39.7 million in 2025/26 (last year) and £22 million in 2024/25 (two years ago), with a notable increase from just £7.6 million in 2021/22 (five years ago).
- The Housing Capital Programme for 2026/27 stands at £111.3 million, up from £75.2 million in 2025/26 (last year), £52.8 million in 2024/25 (two years ago), and £18.5 million in 2021/22 (five years ago). This demonstrates a consistent and significant investment in housing year-on-year.
- The entire Capital Programme is fully and sustainably funded through the General Fund and Housing Revenue Account (HRA), ensuring robust financial health both now and as projected for future years.
- All financial rules and prudential indicators are fully complied with across the lifetime of the MTFP, demonstrating robust governance and responsible financial management.

The Budget Setting Process

Cabinet members and officers have carried out an extensive review of each of the projects within the current capital programmes along with a robust scrutiny of new proposed projects to ensure that ambitious but deliverable capital programmes are developed.

The enhanced process saw all service areas submitting initial capital project business cases that were then subject to further scrutiny in phases:

- Gateway 1 is the first stage in the bidding process and is the creation of potential projects. The process determines whether a project should be recommended to proceed to the next stage. Should the project pass through this gateway, it will have passed the set criteria around links to strategy and deliverability to move to the next stage.

- Gateway 2 is the second stage in the bidding process where additional information and feedback processes improve the initial business cases with enough detail to decide if project should be approved for inclusion into one of the capital programmes.

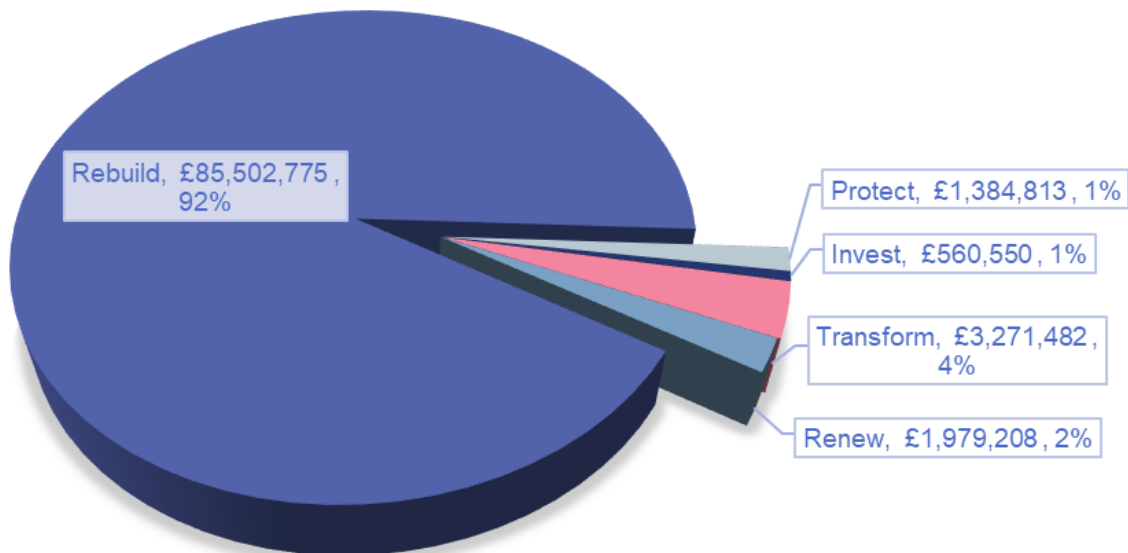
A review of the existing programmes was also undertaken to ensure that projects already in the programmes were still relevant and deliverable, adjusting the timeframes or budgets as necessary. The totality of the existing and new projects was then reviewed by the extended management team and by Cabinet members in its entirety to confirm capital resources are available. Together, the existing projects and new projects are presented to Cabinet and to Council as part of the MTFP for approval.

1.2 Non-Housing Capital Programme (NHCP)

Summary

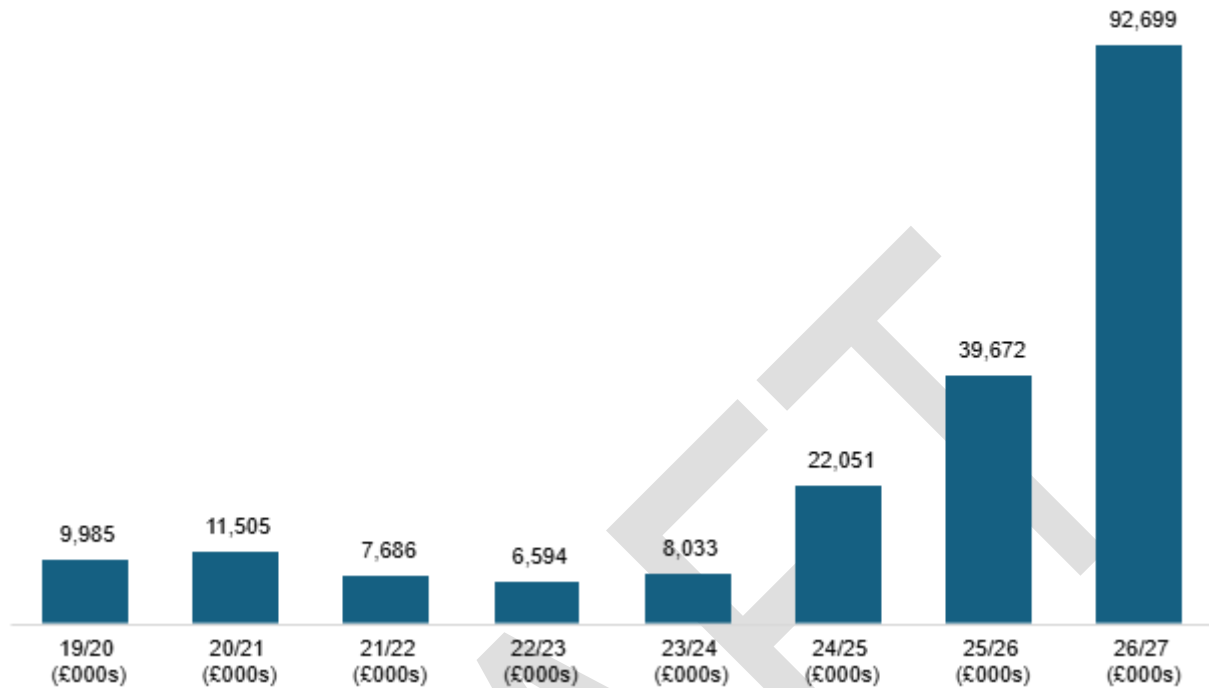
The Non-Housing Capital Programme (NHCP) has been prepared in line with the budget guidelines and supports the non-housing aspects of the council’s corporate plan, Building Harlow’s Future. The total proposed budget for the NHCP for 2026/27 is £92.699 million, which includes £70.4 million of decisions taken in-year in the 2025/26 NCHP programme. The following chart shows the breakdown of the levels of investment into each of the Building Harlow’s Future plan missions.

Budget 2026/27 £92.699 million



The graph below demonstrates the significant increase in the overall NHCP year on year which shows the level of investment the council is and has been undertaking.

Non-Housing Capital Programme Totals £



NHCP Revised Forecast 2025/26

Set out below is the NHCP 2025/26 approved budget and revised forecasts to period 9 (December 2025) which will be reported to Cabinet on 26 February 2026. Additional budget allocations have been approved through Cabinet during 2025/26 for one-off acquisitions and regeneration developments and the overall programme has been adjusted accordingly.

Explanations for the variances have been reported in the Period 9 Budget Monitoring report. There are two types of variance, one is the slippage of the project which results in the budget moving into a different period (re-profiling). The other is where an underspend or an overspend occurs to a completed project which creates either a surplus for use elsewhere or a deficit which needs to be funded. In the 2025/26 forecast, there is an expected slippage of £70.489 million and an expected underspend of £1.307 million to the end of the year. These figures may vary at year end and will be captured in the 2025/26 outturn reports and will require the approved capital programme for 2026/27 onwards to be updated.

CAPITAL PROJECT	£'000s						
	Original	Carry Over	Approved Adjustments	CURRENT BUDGET	P9 FORECAST	Projected Slippage	Variance
TOTAL CAPITAL PROGRAMME	0	0	0	0	0	0	0
Capital Expenditure	39,672	11,147	65,272	116,091	44,295	70,489	(1,367)
Corporate Services & Improvemen	260	32	11	303	303	0	0
Culture & Community	1,184	107	644	1,934	837	997	(100)
Environment	949	321	(250)	1,019	867	88	(65)
Facilities & Assets	5,192	560	(505)	5,247	2,994	1,044	(1,210)
Finance	0	0	0	0	0	0	0
HR & Organisational Development	0	0	33	33	33	0	0
Housing Operations (People) GF	890	0	500	1,390	90	0	(1,300)
Public Protection	1,103	11	492	1,606	1,606	0	0
Regeneration	30,095	10,117	64,347	104,559	37,566	68,361	1,368
Funding	(39,672)	(11,147)	(65,272)	(116,092)	(44,295)	(70,489)	1,307
Grants - Towns Fund	(10,323)	(7,463)	0	(17,786)	(7,154)	(10,632)	0
Grants - Levelling Up	(16,218)	(553)	3,852	(12,919)	(3,945)	(8,974)	0
Grants - Other	(1,003)	0	(492)	(1,495)	(1,495)	0	0
Revenue Contributions	(936)	(54)	(7,700)	(8,690)	(190)	(7,200)	1,300
Capital Receipts	(1,540)	0	(2,490)	(4,030)	(3,746)	0	284
Borrowing - Acquisitions	0	0	(42,101)	(42,101)	(13,999)	(23,671)	4,431
Prudential Borrowing	(9,652)	(3,077)	(16,341)	(29,071)	(13,766)	(20,012)	(4,707)

NHCP Budget 2026/27 and onwards

The Cabinet approved the MTFP for the three-year period 2025/26 to 2027/28 in February 2025. Set out below are the changes and movements built into the 2026/27 to 2028/29 programme which will see those original approved budgets changing. There are no expected movements or adjustments expected for 2028/29.

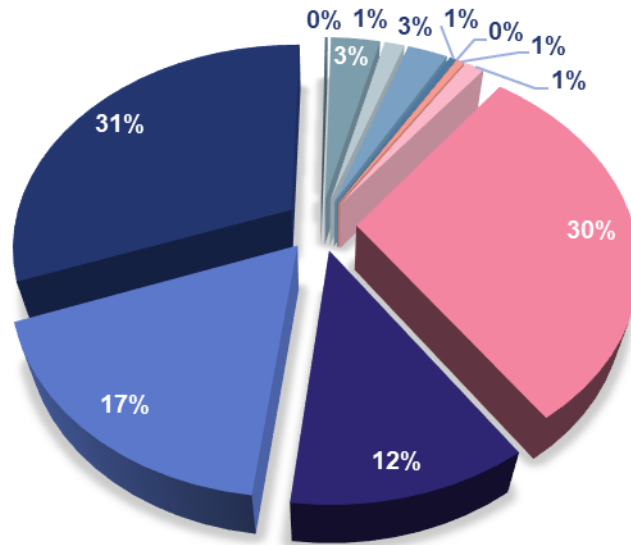
NHCP Adjustments to Approved Budgets

Budget Stage	Budget 2026/27 £'000s	Budget 2027/28 £'000s	Budget 2028/29 £'000s
Original Budget as per 2025/26 MTFP	6,697	5,854	-
Expected 2025/26 reprofiling as at Period 9	20,012		
Acquisitions Reprofiled as at period 9	23,671	-	
Towns Fund Allocation Reprofiled as at period 9	10,632	-	
Levelling Up Fund Allocation Reprofiled as at period 9	16,174	-	
New Scheme/Bids 2026/27	15,772	350	
Funding realigned of Existing Schemes	(681)	(511)	
Re-Profiling of Existing Schemes	422	1,305	
Original Budget as per 2026/27 MTFP	92,699	6,999	-

Reprofiling of the capital programme happens as a part of the delivery monitoring process. Each month, the service managers responsible for the delivery of the programme make forecast adjustments to the timing and cost of delivery which impacts on the money expected to be spent in any given period. This is a normal part of the capital monitoring process where projects are large, complicated and last more than a year. Funding has been realigned on some existing schemes, and some schemes that are

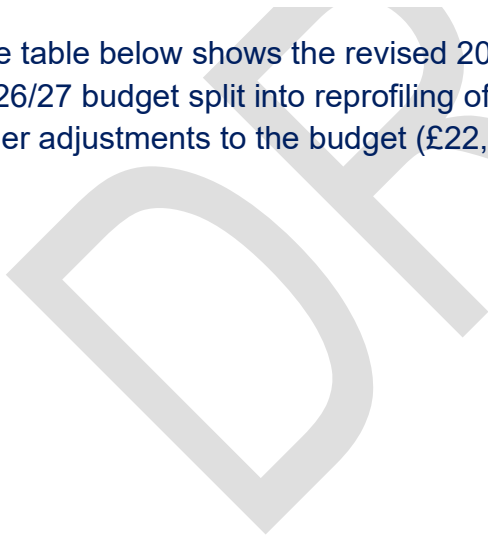
not a priority have been slipped into future years to allow funding for other priority projects.

Budget 2026/27 £92.699 million



- Corporate Services and Improvement
- Culture & Community
- Environment
- Facilities & Assets
- Housing Operations - People
- Human Resources & Organisational Development
- Planning & Garden Town
- Public Protection
- Regeneration
- Towns Fund
- Levelling Up Fund
- Acquisitions

The table below shows the revised 2025/26 NCHP budget and shows the adjusted 2026/27 budget split into reprofiling of the existing programme (£70,489 million) and the other adjustments to the budget (£22,209) creating a new 2026/27 budget of £92,699.



Non-Housing Capital Programme 2025/26 to 2027/28				
SCHEMES	Revised 2025/26 £'000s	Expected Reprofiled 2026/27 £'000s	Expected Budget 2026/27 £'000s	Budget 2027/28 £'000s
Corporate Services and Improvement	303	-	160	50
Culture & Community	398	587	2,580	1,097
Environment	2,238	88	1,205	619
Facilities & Assets	4,235	1,454	1,143	1,835
Housing Operations - People	90	-	425	-
Human Resources & Organisational Development	33	-	20	-
Planning & Garden Town	-	-	500	100
Public Protection	1,606	-	1,235	1,048
Regeneration	1,306	17,883	9,942	2,250
Towns Fund	7,153	10,632	-	-
Levelling Up Fund	3,945	16,174	-	-
Acquisitions	24,294	23,671	5,000	-
TOTAL NON-HOUSING CAPITAL PROGRAMME	45,602	70,489	22,209	6,999

NCHP New Schemes/Projects

All assets owned by the council will need to be maintained and there is always a list of required works required to keep assets safe and usable. A list of new projects is set out below which reflect the priorities set out in Building Harlow's Future plan.

A comprehensive business case has been prepared to support each project which has been reviewed through the gateway process outlined at the start of this report. The overall new schemes that have been included in the NCHP for approval are set out as below.

New Schemes (2026/27)	Budget 2026/27 £'000s	Budget 2027/28 £'000s
Stow Snooker Club	22	
Civic Centre - access control system	50	
Civic Centre WIFI	50	
Town Park toilets	220	
Walled Gardens welfare cabin	20	
Pets Corner habitat improvements	10	
Skatepark renewal/extension	250	
Bandstand	1,700	
Car Parks resurfacing and lighting	170	
Ponds and Watercourses	100	
Replacement of Telecare alarm units	348	
iTrent upgrade	20	
CCTV Modernisation Project	212	
Cycle Hire Scheme	500	100
Town Centre Improvements	250	250
Staple Tye Development	150	
Elm Hatch Development	100	
Rothwell House Development	750	
6-20 The Rows Development	500	
Wych Elm Development	500	
Terminus House Development	4,500	
Town Centre Signage	350	
Regeneration plan acquisitions	5,000	
Total	15,772	350

NHCP Financing

The table below shows how the NHCP will be financed over the life of the MTFP. It is prudent to utilise all available sources of funding before resorting to borrowing as this requires significant amounts of revenue funding to be available to pay for the cost of borrowing.

The programme continues to allocate the Towns Fund and Levelling Up Fund Grant income to the associated projects. The council is proposing a contribution of £7.2 million from the revenue Regeneration Earmarked Reserve. The remaining grant income comes from the Disabled Facilities Grant contributions that the council receive from Essex County Council.

The council will sell assets as part of its strategy to keep the asset portfolio maintained and affordable. Capital receipts which are received when assets are sold, of which there is an annual programme agreed. The income expected from asset sales is used to pay for new capital projects and is outlined below.

Once the above directly available contributions are taken into account, the balance of the NHCP requirement is funded from prudential borrowing. There are revenue implications of borrowing which have been factored into the MTFP. The revenue requirements of capital borrowing are subject to rigorous governance and are shown in more detail later in this report.

NCHP FINANCED BY:	Revised 2025/26 £'000s	Reprofiled 2026/27 £'000s	Budget 2026/27 £'000s	Budget 2027/28 £'000s
Grants - Towns Fund	(7,153)	(10,632)	-	-
Grants - Levelling Up	(3,945)	(8,974)	-	-
Grants - Other	(1,495)	-	(1,003)	(1,003)
Revenue Contributions	(1,490)	(7,200)	(436)	(136)
Capital Receipts	(4,030)	-	(5,500)	(100)
Acquisition Borrowing	(18,430)	(23,671)	-	-
Prudential Borrowing	(9,058)	(20,012)	(15,270)	(5,760)
TOTAL FINANCING	(45,602)	(70,489)	(22,209)	(6,999)

NCHP Capital Receipts

Part of the NHCP is funded from capital receipts, the known estimated availability of those receipts are shown below. As part of the council's normal asset management planning, capital receipts will arise from the management of asset sales during the MTFP period.

In line with the council's missions, up to £5.5 million of capital receipts is earmarked for further acquisitions to support the regeneration programme and the cycle hire scheme.

The council has a flexible use of capital receipts strategy (FUCR) that states that we are able to apply up to £2 million of capital receipts for projects that meet the qualifying expenditure. For forecasting purposes £1 million has been included for 2026/27 and future years.

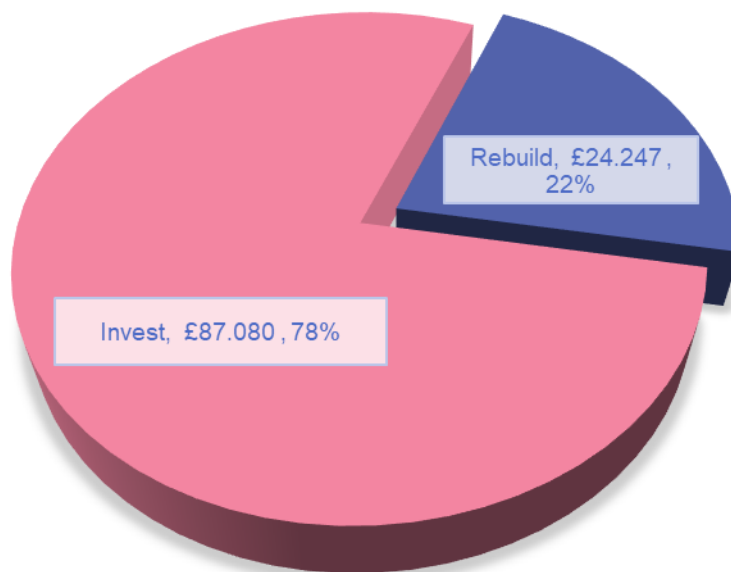
	2024/25 Outturn	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Capital Receipts B/fwd	(7,823)	(6,543)	(4,319)	(7,819)
Capital Receipts Received	(2,892)	(2,522)	(10,000)	0
Capital Receipts Used	2,721	3,746	5,500	100
FUCR	1,451	1,000	1,000	1,000
Capital Receipts C/Fwd	(6,543)	(4,319)	(7,819)	(6,719)

1.3 Housing Capital Programme (HCP)

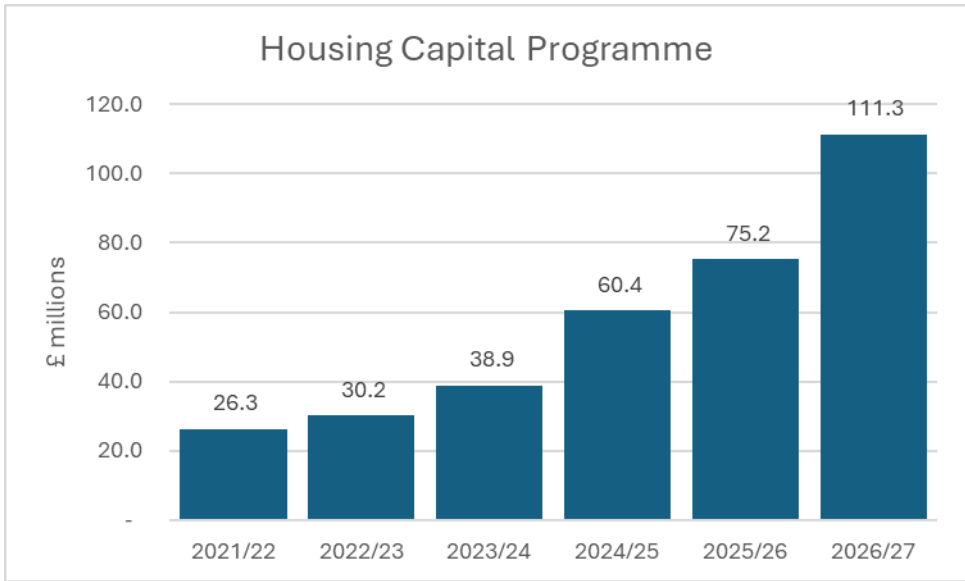
Summary

The HCP requires continued investment in council owned dwellings to improve and make the council's housing stock safe. The HCP has been updated to recognise priorities required by the enhanced regulatory landscape. The total proposed HCP is £111.327 million, (which includes £22.675 million of expected slippage from 2025/26). The breakdown of Building Harlow's Future corporate plan missions shows the level of investment into each of the different areas of priority.

Budget 2026/27 £111.327 million



The graph below demonstrates the significant increase in the overall HCP year on year which shows the level of investment the council is and has been undertaking.



HCP Revised Forecast 2025/26

Set out below is the HCP 2025/26 approved budget and revised forecasts to period 9 (December 2025) which will be reported to Cabinet on 26 February 2026. An additional budget allocation was agreed in year for the development of new affordable homes in the Arts and Cultural Quarter.

Explanations for the variances have been reported in the Period 9 Budget Monitoring report. There are two types of variance, one is the slippage of the project which results in the budget moving into a different period (re-profiling). The other is where an underspend or an overspend occurs to a completed project which creates either a surplus for use elsewhere or a deficit which needs to be funded. In the 2025/26 forecast, there is an expected slippage of £22.675 million and an expected underspend of £1.659 million to the end of the year. These figures may vary at year end and will be captured in the 2025/26 outturn reports and will require the approved capital programme for 2026/27 onwards to be updated.

£'000s							
CAPITAL PROJECT	Original	Carry Over	Approved Adjustments	CURRENT BUDGET	P9 FORECAST	Projected Slippage	Variance
CAPITAL PROGRAMME	0	0	0	0	0	0	0
Capital Expenditure	75,236	11,954	17,333	104,524	80,190	22,675	(1,859)
Main Programme	46,261	3,642	1,733	51,637	51,570	0	(67)
External Works	24,165	1,803	0	25,968	21,100	0	(4,868)
Fire Safety	0	0	0	0	0	0	0
Internal Works	5,382	114	0	5,495	5,565	0	70
Energy Efficiency	2,000	227	0	2,227	2,264	0	37
Health & Safety	10,170	522	0	10,692	9,439	0	(1,253)
Other Works	1,425	589	1,733	3,747	4,026	0	279
Housing IT	120	32	0	152	152	0	0
Damp/Structure	2,000	203	0	2,203	2,524	0	321
Disabled Adaptations	1,000	153	0	1,153	769	0	(384)
Support Costs	0	0	0	0	5,732	0	5,732
Additional Programme	28,975	8,312	15,600	52,887	28,620	22,675	(1,592)
Regeneration	6,000	6,500	15,600	28,100	10,151	17,949	0
Council House Build Programme	22,975	1,812	0	24,787	18,469	4,726	(1,592)
Funding	(75,236)	(11,954)	(17,333)	(104,524)	(80,190)	(22,675)	1,659
Major Repairs Reserve	(13,827)	0	0	(13,827)	(13,827)	0	0
Major Works Contribution	(300)	0	0	(300)	(300)	0	0
Revenue Contributions	0	0	0	0	0	0	0
Levelling Up	0	0	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Capital Receipts	0	(267)	(1,733)	(2,000)	(2,000)	0	0
RTB Receipts	(13,212)	(6,500)	(919)	(20,631)	(18,907)	(10,726)	(9,002)
Prudential Borrowing	(47,897)	(5,187)	(11,681)	(64,766)	(42,156)	(8,949)	13,661

HCP Budget 2026/27 and onwards

The Cabinet approved the MTFP for the three-year period 2025/26 to 2027/28 in February 2025. Set out below are the changes and movements built into the 2026/27 to 2028/29 HCP programme which will see those original approved budgets changing.

Reprofiling of the HCP happens as a part of the delivery monitoring process. Each month, the service managers responsible for the delivery of the programme make forecasted adjustments to the timing and cost of delivery which impacts on the money expected to be spent in any given period. This is a normal part of the capital monitoring process where projects are large, complicated and last more than a year. Funding has been realigned on some existing schemes, and some schemes that are not a priority have been slipped into future years to allow funding for other priority projects.

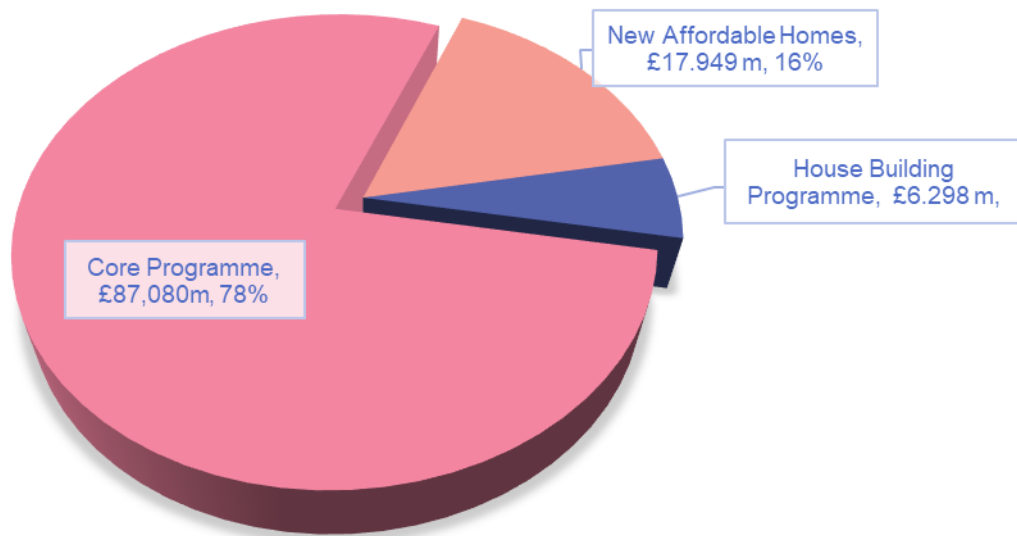
HCP Adjustments to Estimates in the MTFP 2026/27

Budget Stage	Budget 2026/27 £'000s	Budget 2027/28 £'000s	Budget 2028/29 £'000s
Original Budget as per 2025/26 MTFP	32,323	29,769	29,841
2025/26 Proposed reprofiling	22,675	-	-
Funding realignment	56,329	45,261	3,803
2026/27 Re-Profiling to 2027/28	-	224	-
Original Budget as per 2026/27 MTFP	111,327	75,254	33,644

The HCP has been prepared in conjunction with the updated the HRA Business Plan in line with the council’s corporate plan, Building Harlow’s Future. It has been built based on robust data and evidence with the focus on meeting the regulatory requirements, improving housing services and fully funding corporate missions.

The council's Housing Capital Programme continues to deliver a set of internal and external works to meet the identified short, medium and long-term asset management priorities outlined in the HRA Business plan and shows a core programme of £162 million over the next two years.

Budget 2026/27 £111.327 million



SCHEMES	Revised 2025/26 £'000s	Reprofiled 2026/27 £'000s	Budget 2026/27 £'000s	Budget 2027/28 £'000s	Budget 2028/29 £'000s
Core Housing Capital Programme	51,637		87,080	75,030	33,644
New Affordable Homes	10,151	17,949			
Council House Building Programme	20,061	4,726	1,572	224	
TOTAL HOUSING CAPITAL PROGRAMME	81,849	22,675	88,652	75,254	33,644

HCP - Council House Build Programme (CHBP)

The current CHBP has seen all schemes but one move into construction phase, with Woodleys, and the Perry Road site, part of the Staple Tye development due to complete by the end of February 2026.

The Staple Tye Depot and Parnall Road developments will likely complete on or before 31 March 2026. The other 5 HRA Sites (Elm Hatch, Yorkes, Arkwrights, Pytt Field and Sherards House) are all progressing well with completions expected in 2026/27.

Council House Build Programme	Budget 2025/26 £'000s	Budget 2026/27 £'000s	Budget 2027/28 £'000s
Elm Hatch (HRA)	2,251	1,194	-
The Yorkes	1,494	562	-
Arkwrights Garages	1,754	1,150	-
Woodleys Garages	859	-	-
Pytt Field	1,091	909	-
Sherards House	4,624	1,226	-
Potter Street	30	1,000	224
Staple Tye Neighbourhood Renewal Scheme (HRA)	7,957	257	-
Total CHB Programme	20,061	6,298	224

The HCP shows considerable investment in the council's existing housing stock as well as the construction of new homes.

HCP Financing

The table below shows how the HCP will be financed over the life of the MTFP. It is prudent to utilise all available sources of funding before resorting to borrowing as this

requires significant amounts of revenue funding to be available to pay for the cost of borrowing.

The programme continues to allocate available grant income to the associated projects.

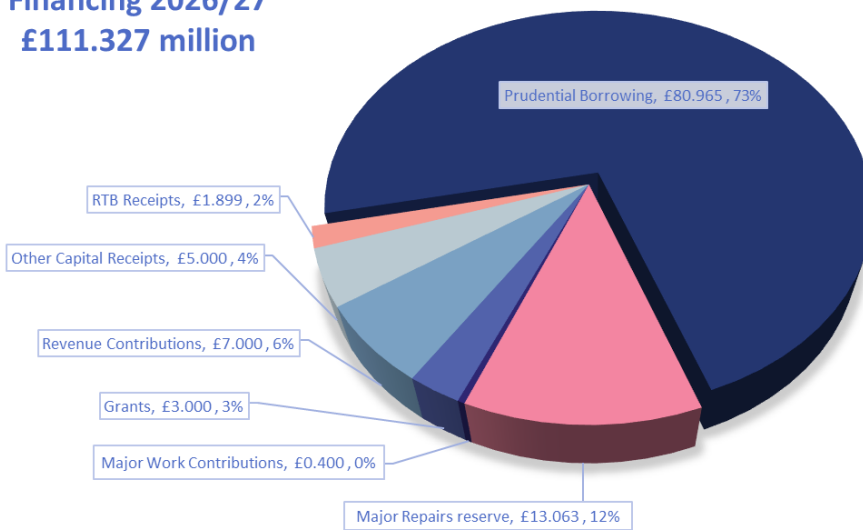
The council will sell assets as part of its strategy to keep the asset portfolio maintained and affordable. Capital receipts which are received when assets are sold, of which there is an annual programme agreed. The income expected from asset sales is used to pay for new capital projects and is outlined below.

The Council House Externals Programme will be partly financed from retained Right to Buy receipts which are accrued from the sale of council housing stock to tenants as part of the governments Right to Buy Scheme. And partly by contributions from the Major Repairs Reserve and other revenue contributions.

Once the above directly available contributions are taken into account, the balance of the HCP requirement is funded from prudential borrowing. There are revenue implications of borrowing which have been factored into the MTFP. The revenue requirements of capital borrowing are subject to rigorous governance and are shown in more detail later in this report.

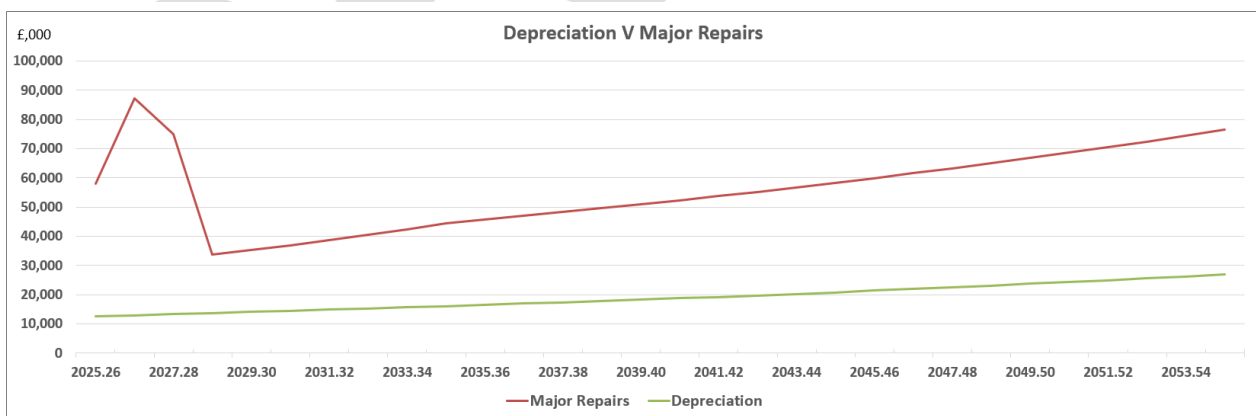
FINANCED BY	Revised 2025/26 £'000s	Reprofiled 2026/27 £'000s	Budget 2026/27 £'000s	Budget 2027/28 £'000s	Budget 2028/29 £'000s
Major Repairs reserve	(12,759)		(13,063)	(13,545)	(13,902)
Major Work Contributions	(400)		(400)	(400)	(400)
Revenue Contributions			(7,000)		
Grant		(3,000)			
Other Capital Receipts	(2,000)		(5,000)		
RTB Receipts	(18,953)		(1,899)	(224)	
Prudential Borrowing	(47,737)	(19,675)	(61,290)	(61,085)	(19,342)
TOTAL FINANCING	(81,849)	(22,675)	(88,652)	(75,254)	(33,644)

**Financing 2026/27
£111.327 million**



HCP - Major Repairs Reserve (MRR)

In accordance with HRA business plan assumptions the core element of the HCP should be financed from the MRR which is a reserve that is set aside to ensure that repairs to housing stock is affordable. The graph below shows how the balance in the MRR is compared to the level of depreciation charged to the revenue account. The level of depreciation is an indicator of age and therefore necessary maintenance of housing assets. It highlights that there is a sufficient balance within the major repairs reserve to fund future anticipated major works. The additional available balance is there to provide for additional unanticipated events and considered alongside the overall HCP business plan.



HCP - Capital Receipts

Capital receipts are obtained when council housing stock and other assets are sold. In particular, the HRA receives capital receipts in the form of Right to Buy receipts when

tenants buy their properties. Under the current rules, 100 percent of the new build costs can be financed from retained RTB receipts.

Planned use of other housing related capital receipts of £5 million are expected to fund the Council House Externals Programme.

RTB Capital receipts	2024/25 Actual	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Capital Receipts B/fwd	(19,894)	(9,687)	0	0
Capital Receipts Received	(2,653)	(9,266)	(1,899)	(1,967)
Capital Receipts Used	12,861	18,953	1,899	224
Capital Receipts C/Fwd	(9,687)	0	0	(1,742)

Other Housing Capital Receipts	2024/25 Actual	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Capital Receipts B/fwd	(5,397)	(6,547)	(5,151)	(651)
Capital Receipts Received	(1,150)	(604)	(500)	(100)
Capital Receipts Used	0	2,000	5,000	0
Capital Receipts C/Fwd	(6,547)	(5,151)	(651)	(751)

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2 Capital Strategy 2026-27

Introduction

Capital money (which is about assets lasting more than a year) is treated differently to revenue money (income that is used for day-to-day expenditure) and has a separate budget strategy. This capital strategy report gives an overview of how capital expenditure, capital financing and treasury management activity (dealing with the cash) 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.

Decisions made on capital and treasury management will have financial consequences for the council for many years into the future because borrowing for capital programmes can take 50 years to pay back depending on how long the loan is taken out for. Decisions about capital, especially borrowing, are therefore subject to both a rigorous national regulatory framework and to a local policy framework, both of which are summarised in this report.

Capital Expenditure and Financing

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

In 2026/27, the council is planning capital expenditure of £110.861 million across the Non-Housing and Housing Capital Programmes as well as £93.164 million to be re-profiled from previous years and are summarised below:

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

	2024/25 actual	2025/26 forecast	2025/26 forecasted reprofiling into 2026/27	2026/27 budget	2027/28 budget	2028/29 budget
General Fund services (NHCP)	26.789	45.602	70.489	22.209	6.999	0.000
Council Housing (HCP)	44.444	81.849	22.675	88.652	75.254	33.644
TOTAL	71.233	127.451	93.164	110.861	82.253	33.644

The main General Fund (NHCP) capital projects for 2026/27 include major projects with The Towns Fund £10.6 million, Levelling up Fund of £17.8 million, which are all funded by

governments grants, which are expected to be reprofiled into 2026/27. There is a total of new capital schemes of £15.7 million, which includes regeneration schemes of £7.1 million within 2026/27, ensure that vital development works are carried out throughout the town.

The council holds council housing stock, the funding of which is contained in a ring-fenced account called the Housing Revenue Account (HRA). The HRA is ring-fenced to ensure that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately with the current programme including the building new homes over the forecast period.

The complete programme of capital expenditure for both the NHCP and the HCP is included within section 1 of this report.

The governance surrounding the inclusion of projects onto the capital programme is rigorous. For the council's non-housing capital programme (NHCP), service managers commence a process annually in September to bid for projects to be included and funded. Initial business cases are collated and processed through a Gateway 1 to assess whether the project fits within the strategic priorities and would offer value for money. If the initial business case meets the criteria set, the collated projects are presented to the Executive Management Team (EMT) for review. The projects then pass on to Gateway 2 which then improves on the initial business case ensuring that there is sufficient information available to make decisions. Recommendations from EMT and Cabinet formalise the final Capital Programme, which is presented for to Full Council in February each year. Additional projects may be added to the programme during any year which are taken through the same process of gateways to ensure deliverability, affordability and value for money.

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

Table 2: Capital financing in £ millions

	2024/25 actual	2025/26 forecast	2025/26 forecast slippage into 2026/27	2026/27 budget	2027/28 budget	2028/29 budget
External sources: Grant income	7.762	12.593	22.606	1.003	1.003	0.000
Capital receipts	15.582	26.785	0.000	12.399	0.224	0.000
Revenue resources	12.297	14.650	7.200	20.899	14.081	14.302
Debt	35.592	73.423	63.358	76.560	66.945	19.342
TOTAL	71.233	127.451	93.164	110.861	82.253	33.644

It is prudent to use all other means of funding the capital programme before creating a debt by borrowing to cover for the cost of a capital because borrowing requires there to be available revenue to pay for the costs of borrowing. The council is required to ensure that there is a Minimum Revenue Provision (MRP) covers the annual cost of borrowing and is the indicator of affordability. If a council does not have enough revenue MRP available to pay back borrowing costs, the debt will not be affordable.

Capital receipts can be used to pay off debt and therefore reduce the CFR. The council is proposing to use its capital receipts to reduce future borrowing rather than paying back past borrowing and as such have no plans to utilise capital receipts to reduce the CFR. Planned MRP and use of capital receipts are shown in the table below:

Table 3: Planned MRP and use of capital receipts to reduce CFR in £ millions

	2024/25 actual	2025/26 forecast	2025/26 forecast slippage into 2026/27	2026/27 budget	2027/28 budget	2028/29 budget
MRP	1.307	1.827	0.000	2.334	3.812	3.960
Capital receipts	Nil	Nil	Nil	Nil	Nil	Nil
TOTAL	1.307	1.827	0.000	2.334	3.812	3.960

The Council's full MRP statement is available in section 5: Minimum Revenue Provision Statement 2026-27 of this Capital and Treasury Management 2026-29 Report.

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 increase by £137.584 million during 2026/27. 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

	2024/25 actual	2025/26 forecast	2026/27 budget	2027/28 budget	2028/29 budget
General Fund services	171.769	197.431	254.049	255.997	255.997
Council housing (HRA)	234.788	282.525	363.491	424.576	439.958
TOTAL CFR	406.557	479.956	617.540	680.573	695.955

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 £ millions

	2024/25 actual	2025/26 estimate	2025/26 revised	2026/27 estimate	2027/28 estimate
Balance as at 1 April	(5.397)	(5.397)	(6.547)	(5.151)	(0.651)
Other Housing Capital Receipts Received	(1.150)	0.000	(0.604)	(0.500)	(0.100)
Other Housing Capital Receipts Used	0.000	0.000	2.000	5.000	0.000
Balance as at 31 March	(6.547)	(5.397)	(5.151)	(0.651)	(0.751)

Table 5b - Movement in Non-Housing Capital receipts in £ millions

	2024/25 actual	2025/26 estimate	2025/26 revised	2026/27 estimate	2027/28 estimate
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Capital Receipts Brought Forward	(7.823)	(10.057)	(6.543)	(4.319)	(7.819)
Capital Receipts Received	(2.892)	0.000	(2.522)	(10.000)	0.000
Capital Receipts Used	2.721	0.670	3.746	5.500	0.100
Flexible Use of Capital Receipts	1.451	2.000	1.000	1.000	1.000
Capital Receipts Carried Forward	(6.543)	(7.387)	(4.319)	(7.819)	(6.719)

Table 5c - Movement in Retained Right to Buy (RTB) Receipts in £ millions

	2024/25 actual	2025/26 estimate	2025/26 revised	2026/27 estimate	2027/28 estimate
Balance as at 1 April	(19.894)	0.000	(9.687)	0.000	0.000
Receipts Retained from RTB	(2.653)	(13.212)	(9.266)	(1.899)	(1.967)
Receipts Used to Finance New Builds	12.860	13.212	18.953	1.899	0.227
Balance as at 31 March	(9.687)	0.000	0.000	0.000	(1.740)

Treasury Management

Treasury management is concerned with keeping sufficient cash available to meet the council's spending needs, while managing the risks involved. Surplus cash is invested until it is required, while a shortage of cash will be met by short term 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 the need for borrowing.

Past decisions mean that the council had borrowed £299.837 million at the 31 December 2025, comprising £251.837 million long-term borrowing at an average interest rate of 3.51% and £48.00 million short-term borrowing at an average interest rate of 4.26%. The council had £16.4 million treasury investments which create income at the same date, earning an average return of 3.8%.

Borrowing strategy: The council's main objectives when borrowing is to achieve a low and certain cost of finance while retaining some flexibility should plans change in the future. These objectives are often conflicting, and the council 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.

In the current economic environment, gilt yields at the medium and longer end of the curve remain high, and as a result borrowing rates for long term loans are also high. However, medium and long-term borrowing rates are expected to fall throughout 2026/27, so if the council fixes in long-term rates today, it may not be able to take advantage of this opportunity when medium and long-term rates inevitably fall. Despite the challenges faced for borrowing longer term, there is an incentive to borrow short-term today to then refinance when those short-term loans mature at lower long-term rates, but this is not guaranteed and subject to external economic and market factors.

The council will still look to meet future borrowing needs through 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.

The council does not borrow to invest for the primary purpose of creating a financial return and as a result are able to retain full access to the Public Works Loans Board (PWLB) which is a fund operated by the government for public bodies to obtain advantageous loans for public good.

Projected levels of the council's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown below, compared with the CFR (see above).

Table 6: Prudential Indicator: Gross Debt and the CFR in £ millions

	31/03/2025 actual	31/03/2026 forecast	31/03/2027 budget	31/03/2028 budget	31/03/2029 budget
Existing debt (including PFI & Leases) *	314.224	324.289	278.685	273.076	267.465
CFR	406.557	479.956	617.540	680.573	695.955

* This includes any future borrowing firmly agreed and any PFI and lease arrangements in-place as-at 16 February 2026.

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

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 £10 million at each year-end. This benchmark currently forecasts £402.500 million at year-end and is forecast to rise to £659.600 million over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31/03/2025 actual	31/03/2026 forecast	31/03/2027 budget	31/03/2028 budget	31/03/2029 budget
Existing borrowing *	313.337	261.837	216.453	211.068	205.684
Forecast total borrowing **	N/A	402.500	578.100	642.700	659.600
Liability benchmark	310.300	402.500	578.100	642.700	659.600

* The existing borrowing figures include any future borrowing firmly agreed as-at 16 February 2026. Reporting the most up-to-date figures was agreed in conjunction with Arlingclose Limited, the council's treasury management advisers.

** The forecast total borrowing figures are inclusive of the existing borrowing figures above, as-at 16 February 2026.

The Housing Revenue Account became self-financing in April 2012. This ended the national subsidy system and allowed the council to keep all the rent it collects to invest directly in its housing stock. In return, the council took on a share of national housing debt. The self-financing system means the HRA must fully fund its own capital investment and borrowing needs, supported by a long-term 30-year business plan. The HRA took on an initial debt of

£208.8 million financing in April 2012. This ended the national subsidy system and allowed the council to keep all the rent it collects to invest directly in its housing stock. In return, the council took on a share of national housing debt. The self-financing system means the HRA must fully fund its own capital investment and borrowing needs, supported by a long-term 30-year business plan.

As of February 2026, the existing borrowing figures comprises of £202.837 million for the HRA as long-term borrowing which includes the self-financing debt, £19 million for the General Fund as long-term borrowing and £40 million for short-term borrowing.

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.

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 £ millions

	2025/26 limit	2026/27 limit	2027/28 limit	2028/29 limit
Authorised limit - borrowing	456.840	667.560	745.080	765.360
Authorised limit - PFI and leases	86.965	86.701	80.433	80.160
Authorised limit - total external debt	543.805	754.261	825.513	845.520
Operational boundary - borrowing	380.700	556.300	620.900	637.800
Operational boundary - PFI and leases	72.471	72.251	67.027	66.800
Operational boundary - total external debt	453.171	628.551	687.927	704.600

Further details on borrowing are in the [treasury management strategy](#).

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 considered to be part of active treasury management.

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

	31/03/2025 actual	31/03/2026 forecast	31/03/2027 budget	31/03/2028 budget	31/03/2029 budget
Near-term investments	9.20	6.00	6.00	6.00	6.00
Longer-term investments	4.00	4.00	4.00	4.00	4.00
TOTAL	13.20	10.00	10.00	10.00	10.00

Further details on treasury investments and prudential indicators are in the [treasury management strategy](#).

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.

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

Investments for Service Purposes

The council may make investments to assist local public services and the capital programme outlined in the MTFP includes the purchase of a number of assets for regeneration purposes as part of the Building Harlow’s Future corporate plan. Other investments for service purposes include shares in and loans to the council’s wholly owned

companies. This promotes economic growth, while allowing the council to retain oversight of operations to ensure VFM is adhered to.

The council has three subsidiaries that are used to manage service investment properties.

- HTS (Property and Environment) Ltd is a wholly owned subsidiary of Harlow Council.
- Burnt Mill (Harlow) LLP
- Market Square (Harlow) LLP

With central government financial support for local public services declining, some councils have invested in commercial property purely or mainly for financial gain. Whilst Harlow Council has made some purchases for regeneration purposes, they have not been primarily for financial gain. They may, at some point in the future, create financial gain but the income included in this MTFP is modest so far which offsets the capital financing costs to fund the acquisition.

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.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Director – Finance (Section 151 Officer). 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 recent acquisitions for regeneration.

Further details on service investments are in the [non treasury investment strategy](#).

Commercial Activities

Harlow Council only has four older 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 £82,500. These were all purchased prior to changes in guidelines that now prohibit borrowing primarily for the purpose of commercial return.

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

Further details on commercial and service investments limits and risk management are in the [non-treasury investment strategy](#).

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

	2025/26 forecast	2026/27 budget	2027/28 budget	2028/29 budget
Total net income from service and commercial investments in £ millions	3.175	3.483	4.024	4.227
Proportion of net revenue stream as a %	21.47%	21.65%	21.96%	21.37%

Other Liabilities

In addition to debt of £299.837 million at the 31st December 2025, embedded within the figures 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.

Governance: Decisions on incurring new discretionary liabilities are taken by EMT in consultation with the Director – Finance (Section 151 Officer). It is the responsibility of Senior Managers to consult the Director – Finance (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 to Cabinet and onwards to Full Council.

Revenue Budget Implications

Although capital expenditure is not charged to the revenue account or therefore shown as part of the revenue budget, interest payable on loans and MRP are charged to the revenue account. The net annual charge of paying back loans 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. Net revenue stream is also equal to the net budget requirement.

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

	2025/26 forecast	2026/27 budget	2027/28 budget	2028/29 budget
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Financing costs in £ millions: General Fund	2.773	5.895	7.603	7.752
Proportion of net revenue stream as a %: General Fund	17.74%	35.05%	41.50%	39.19%
Financing costs in £ millions: HRA	21.047	24.558	27.185	28.458
Proportion of net revenue stream as a %: HRA	34.39%	38.13%	40.15%	40.32%
Financing costs in £ millions: TOTAL	23.820	30.453	34.788	36.210
Proportion of net revenue stream as a %: OVERALL	31.00%	37.49%	40.44%	40.07%

The General Fund net revenue stream ignores other sources of income, for example fees and charges and grants taken into the net cost of services. An alternative ratio, not required by the codes, is to look at the ratio of financing costs to gross expenditure of the net cost of service expenditure.

Table 12 – Estimate of financing costs to gross expenditure

	2025/26 forecast	2026/27 budget	2027/28 budget	2028/29 budget
General Fund	6.26%	13.6%	17.2%	17.1%
HRA	19.7%	26.7%	29.7%	32.0%
Total	12.8%	20.1%	23.5%	24.4%

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 Director – Finance (Section 151 Officer) will need to have been satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and skills

The council employs professionally qualified and experienced staff across a range of disciplines including Finance, Legal and Property that follow Continuous Professional Development (CPD). For example, the Director – Finance (Section 151 Officer) is a CIPFA qualified accountant. The council encourages apprenticeships and study programmes for staff with the ambition to achieve a professional qualification, including qualifications such as AAT and CIPFA.

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 employ Arlingclose Limited as treasury management advisers and Wilks Head and Eve LLP as property valuation advisers. 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.

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 finance team, the EMT and the Director – Finance (Section 151 Officer), in fulfilment of their scrutiny role.

3 Treasury Management Strategy 2026-27

Introduction

Treasury management is the management of the council's cash flows, borrowing and investments, and the associated risks. The council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the council's prudent financial management.

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.

Investments held for service purposes or for commercial profit are considered in a different report, the Non-Treasury Investment Strategy.

External Context

Economic background: The most significant impacts on the council's Treasury Management Strategy for 2026/27 are expected to include: the influence of the government's 2025 Autumn Budget, lower short-term interest rates alongside higher medium- and longer-term rates, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and geopolitical issues.

The Bank of England's Monetary Policy Committee (MPC) cut Bank Rate to 3.75% in December 2025, as expected. The vote to cut was 5-4, with the minority instead favouring holding rates at 4.0%. Those members wanting a cut judged that disinflation was established while those preferring to hold Bank Rate argued that inflation risks remained sufficiently material to leave rates untouched at this stage.

Figures from the Office for National Statistics showed that the UK economy expanded by 0.1% in the third quarter of the calendar year, this was unrevised from the initial estimate. The most recent Monetary Policy Report (November) projected modest economic growth, with GDP expected to rise by 0.2% in the final calendar quarter of 2025. Annual growth is forecast to ease from 1.4% before improving again later, reflecting the delayed effects of lower interest rates, looser monetary conditions, stronger global activity, and higher consumer spending. The view of modest economic growth going forward was echoed by the Office for Budget Responsibility in its Economic and fiscal outlook published in line with the Autumn Statement which revised down its estimate of annual real GDP to around 1.5% on average between 2025 and 2030.

CPI inflation was 3.2% in November 2025, down from 3.6% in the previous month and below the 3.5% expected. Core CPI eased to 3.2% from 3.4%, contrary to forecasts of remaining at 3.6%. Looking forward, the MPC continues to expect inflation to fall to around 3% in calendar Q1 2026, before steadily returning to the 2% target by late 2026 or early 2027.

The labour market continues to ease with rising unemployment, falling vacancies and flat inactivity. In the three months to October 2025, the unemployment rate increased to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%. Pay growth for the same period eased modestly, with total earnings (including bonuses) growth at 4.7% and while regular pay was 4.6%.

The US Federal Reserve also continued to cut rates, including reducing the target range for the Federal Funds Rate by 0.25% at its December 2025 meeting, to 3.50%-3.75%, in line with expectations. The minutes of the meeting noted that most Fed policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.

The European Central Bank (ECB) kept its key interest rates unchanged in December for a fourth consecutive meeting, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB maintained that future policy decisions will remain data-dependent, that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

Credit outlook: Credit Default Swap (CDS) prices, which spiked in April 2025 following President Trump's 'Liberation Day' tariff announcements, have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly during October and November, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years.

While lower interest rates may weigh on banks' profitability, strong capital positions, easing inflation, steady economic growth, low unemployment, and reduced borrowing costs for households and businesses all support a favourable outlook for the creditworthiness of institutions on (the council's treasury management advisor) Arlingclose's counterparty list. Arlingclose's advice on approved counterparties and recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.

Interest rate forecast (22 December 2025): Arlingclose, the council's treasury management adviser, currently forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate in 2026, reaching around 3.25%. This

forecast reflects amendments made following the Autumn Budget and an assessment of the fiscal measures and their market implications, and following the BoE MPC meeting held on 18 December.

Long-term gilt yields, and therefore interest rates payable on long-term borrowing, are expected to remain broadly stable on average, though with continued volatility, and to end the forecast period marginally lower than current levels. Yields are likely to stay higher than in the pre-quantitative tightening era, reflecting ongoing balance sheet reduction and elevated bond issuance. Short-term fluctuations are expected to persist in response to economic data releases and geopolitical developments.

A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 3.09%, and that new long-term loans will be borrowed at an average rate of 4.37%.

Local Context

On 31 December 2025, the council held £299c.8 million of borrowing and £16.3 million of treasury investments. This is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.25 Actual £million	31.3.26 Estimate £million	31.3.27 Forecast £million	31.3.28 Forecast £million	31.3.29 Forecast £million
Capital financing requirement	406.6	480.0	617.5	680.6	696.0
Less: Other debt liabilities * (if any) and any balancing figures	(2.6)	(0.7)	(0.4)	(0.3)	0.0
Loans CFR	404.0	479.3	617.1	680.3	696.0
Less: External borrowing **	(313.3)	(261.8)	(216.5)	(211.1)	(205.7)
Internal (over) borrowing	90.7	217.4	400.6	469.3	490.3
Less: Balance sheet resources	(103.7)	(86.8)	(49.0)	(47.7)	(46.4)
Treasury investments (or New borrowing)	13.0	(130.7)	(351.6)	(421.6)	(443.9)

* Leases and PFI liabilities that form part of the council's total debt

** Shows only loans to which the council is committed and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for

investment. The council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The council has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £382.1 million over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the council expects to comply with this recommendation during 2026/27.

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 the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10 million at each year-end to maintain sufficient liquidity but minimise credit risk.

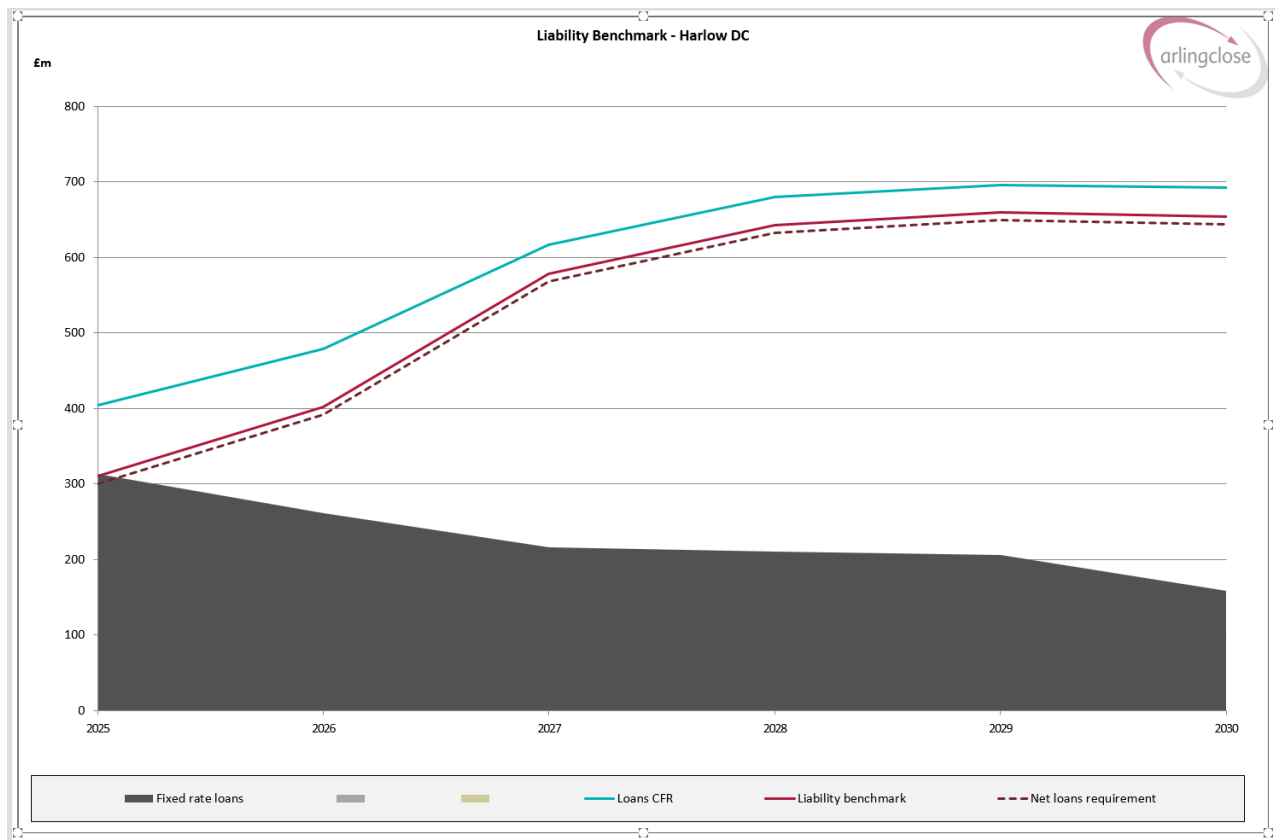
The liability benchmark is an important tool to help establish whether the council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31.3.25 Actual £million	31.3.26 Estimate £million	31.3.27 Forecast £million	31.3.28 Forecast £million	31.3.29 Forecast £million
Loans CFR	404.0	479.3	617.1	680.3	696.0
Less: Balance sheet resources	(103.7)	(86.8)	(49.0)	(47.7)	(46.4)
Net loans requirement	300.3	392.5	568.1	632.7	649.6
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	310.3	402.5	578.1	642.7	659.6

Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes no capital expenditure funded by borrowing after the 2028/29 financial year, minimum revenue provision on new capital expenditure based on an asset life of up-to 40 years and income, expenditure and reserves all increasing by inflation of

2.5% p.a. This is shown in the chart below together with the maturity profile of the council's existing borrowing:



This shows a liability benchmark that is consistently above the level of current debt. This means that the council expects to need to increase its borrowing from current levels on a long-term basis. This is in part to fund a capital programme and also to replace existing loans as they mature.

Borrowing Strategy

At 31 December 2025, the council held £299.8 million of loans, an increase of £2 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the council expects to borrow up to £289.6 million in 2026/27. The council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £754 million.

Objective: The council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates have fallen over the past year, and are expected to fall a little further, and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the council's interest rate exposure within the limit set in the treasury management prudential indicators, see below.

By doing so, the council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the council with this 'cost of carry' and breakeven analysis. Its output may determine whether the council borrows additional sums at long-term fixed rates in 2026/27 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The council has previously raised all its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the council intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the council may borrow further short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- Any institution approved for investments (see below)
- Any bank, building society or insurance company authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except Essex County Council Pension Fund)
- Capital market bond investors
- Retail investors via a regulated peer-to-peer platform

- Special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback
- Similar asset-based finance

Short-term and variable rate loans: These loans leave the council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

The council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the council's treasury investment balance has ranged between £10 and £58 million, and similar levels are expected to be maintained in the forthcoming year.

Objectives: The CIPFA Code requires the council to invest its treasury 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. Where balances are expected to be invested for more than one year, the council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the liability benchmark above, the council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio

of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. However, the council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business models: Under the IFRS 9 standard, the accounting for certain investments depends on the council's "business model" for managing them. The council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	3 years	Unlimited	n/a
Local authorities & other government entities	3 years	£2 million	Unlimited
Secured investments – government collateral	3 years	£2 million	Unlimited
Secured investments – other collateral*	3 years	£2 million	Unlimited
Banks (unsecured) *	13 months	£1 million	Unlimited
Building societies (unsecured) *	13 months	£1 million	£2 million
Registered providers (unsecured) *	3 years	£1 million	£5 million
Money market funds *	n/a	£2 million	Unlimited
Strategic pooled funds	n/a	£2 million	£10 million
Real estate investment trusts	n/a	£2 million	£5 million
Other investments *	3 years	£1 million	£2 million

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £50,000 per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

UK Government: Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government’s ability to create additional currency and therefore may be made in unlimited amounts for up to 3 years.

Local authorities and other government entities: Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

The counterparty limit for loans to local authorities will be increased to an unlimited amount where (a) the government has announced that this authority will merge with the borrowing authority and (b) the loan is scheduled to be repaid after the expected date of the merger.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments. A higher limit applies for investments fully secured on UK or other government collateral.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds, including exchange traded funds, that offer enhanced returns over the longer term but are more volatile in the short term. These allow the council to diversify into asset classes other than cash without the

need to own and manage the underlying investments. Because these funds have no defined maturity date but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the council's investment objectives will be monitored regularly.

Further to consultations in April 2023 and December 2024, MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1 April 2029 for investments already in place before 1 April 2024. The override will not apply to any new investments taken out on or after 1 April 2024. The council has a Treasury Management Reserve to mitigate the impact of the statutory override not being extended beyond April 2029.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured loans to companies and universities. Non-bank companies cannot be bailed-in but can become insolvent placing the council's investment at risk.

Operational bank accounts: The council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £4 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the council maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made,
- Any existing investments that can be recalled or sold at no cost will be, and

- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the council’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

Reputational aspects: The council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the council’s cash balances, then the surplus will be deposited with the UK Government or other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The council’s revenue reserves available to cover investment losses are forecast to be £29.5 million on 31 March 2026 and £19.3 million on 31 March 2027. In order that no more than 25% of available reserves will be put at risk in the case of a single default, the maximum that will be lent unsecured to any one organisation (other than the UK Government) will be £6 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £500,000 in operational bank accounts count against the relevant investment limits.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£5 million per manager
Investments held in a broker's nominee account	£5 million per broker
Foreign countries	£2 million per country

Liquidity management: The council uses a purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the council's medium-term financial plan and cash flow forecast.

The council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds), of which at least two will be UK domiciled, to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Prudential Indicators

The council measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures: This indicator is set to control the council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£1.0 million
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£1.0 million

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Maturity structure of borrowing: This indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term treasury management investments: The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2026/27	2027/28	2028/29	No fixed date
Limit on principal invested beyond year end	£5 million	£5 million	£5 million	£5 million

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts as these are considered short-term.

Related Matters

The CIPFA Code requires the council to include the following in its treasury management strategy.

Financial derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater

risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Financial derivatives: In the absence of any explicit legal power to do so, the council will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Housing Revenue Account: On 1st April 2012, the council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Where the value of the HRA loans pool is below the HRA capital financing requirement, interest on this "under-borrowing" will be charged to the HRA at the council's average rate of borrowing. Interest on any "over-borrowing" above the HRA capital financing requirement, and on balances in the HRA, its earmarked reserves and the major repairs reserve will be credited to the HRA at the council's average interest rate on treasury investments excluding strategic pooled funds and REITS, adjusted for credit risk.

Markets in Financial Instruments Directive: The council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and

fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2026/27 is £0.46 million, for both General Fund and HRA. It is based on an average investment portfolio of £15 million at an interest rate of 3.09%. The budget for interest payable in 2026/27, £15 million, based on an average debt portfolio of £314.54 million at an average interest rate of 3.84%; this average rate assumes that new loans are borrowed at 4.37%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then consideration of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years`.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer, having consulted the Portfolio Holder (Finance), believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default;

		however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

DRAFT

Appendix 1 – Arlingclose Economic & Interest Rate Forecast – 22 December 2025

Underlying assumptions:

- The Bank of England duly delivered on expectations for a December rate cut, but, despite softer economic data over the past two weeks, the minutes highlighted increased caution surrounding both the inflation outlook and the speed of future easing. With a close vote of 5-4 in favour of a rate reduction, this suggests that the bar for further monetary easing may be higher than previously thought despite the possibility of the CPI rate falling to target in 2026.
- Budget policies and base effects will mechanically reduce the CPI rate in 2026, on top of the downward pressure arising from soft economic growth and the looser labour market. However, many policymakers appear concerned that household and business inflation and pricing expectations are proving sticky following recent bouts of high price and wage growth, which may allow underlying inflationary pressure to remain elevated. While, the Bank's measure of household expectations ticked lower in December, it remains above levels consistent with the 2% target at 3.5%.
- While policymakers hold valid concerns, these appear somewhat out of line with current conditions; CPI inflation fell to 3.2% in November, private sector wage growth continued to ease amid the highest unemployment rate since the pandemic, and the economy contracted in October after barely growing in Q3. Business surveys pointed to marginally stronger activity and pricing intentions in December but also suggested that the pre-Budget malaise was not temporary. These data are the latest in a trend suggesting challenging economic conditions are feeding into price and wage setting.
- Risks to the growth and inflation outlook lie to the downside, which may ultimately deliver lower Bank Rate than our central case. However, the minutes suggest that the bar to further rate cuts beyond 3.25% is higher and the near-term upside risks to our Bank Rate forecast have increased. Having said that, we believe inflation expectations will naturally decline alongside headline inflation rates.
- Investors appear to have given the UK government some breathing space following the Budget, with long-term yields continuing to trade at slightly lower levels than in late summer/early autumn. Even so, sustained heavy borrowing across advanced economies, the DMO's move towards issuing more short-dated

gilts and lingering doubts about the government's fiscal plans will keep short to medium yields above the levels implied by interest rate expectations alone.

Forecast:

- In line with our long-held forecast, Bank Rate was cut to 3.75% in December.
- Continuing disinflation, rising unemployment, softening wage growth and low confidence suggests that monetary policy will continue to be loosened.
- Arlingclose expects Bank Rate to be cut to 3.25% by middle of 2026. However, near-term upside risks to the forecast have increased.
- Medium and long-term gilt yields continue to incorporate premia for UK government credibility, global uncertainty and significant issuance. These issues may not be resolved quickly and we expect yields to remain higher.

	Current	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.82	3.55	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.35	3.35	3.35
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	3.96	3.85	3.80	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.80	3.80	3.80
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
10yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.52	4.40	4.35	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
20yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	5.16	5.00	4.95	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.95	4.95	4.95
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
50yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.74	4.65	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

DRAFT

Appendix 2 – Existing Investment & Debt Portfolio Position

	31/12/2025 Actual portfolio £million	31/12/2025 Average rate %
External borrowing:		
Public Works Loan Board	251.8	3.5%
Local authorities	48.0	4.3%
Total external borrowing	299.8	
Other long-term liabilities:		
Private Finance Initiative		
Leases	0.9	1.7%
Total other long-term liabilities	0.9	
Total gross external debt	300.7	
Treasury investments:		
The UK Government		
Local authorities	2.9	
Other government entities		3.7%
Secured investments		
Banks (unsecured)		
Building societies (unsecured)	2.5	
Registered providers (unsecured)		3.2%
Money market funds		
Strategic pooled funds:	7.0	
CCLA Local Authority Property Fund		3.9%
<i>Royal London Cash Plus Fund</i>	2.0	
Real estate investment trusts	2.0	4.1%
Other investments		4.3%
Total treasury investments	16.4	
Net debt	331.3	

4 Non-Treasury Investment Strategy 2026-27

Introduction

The council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

The statutory guidance defines investments as “all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.” The council interprets this to exclude:

- trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and
- property held partially to generate a profit but primarily for the provision of local public services. This aligns the council’s definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

Treasury Management Investments

The council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £10 million and £40 million during the 2026/27 financial year.

Contribution: The contribution that these investments make to the objectives of the council is to support effective treasury management activities.

Further details: Full details of the council’s policies and its plan for 2026/27 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution: The council lends money to its subsidiaries to support local public services and stimulate local economic growth.

HTS (Property and Environment) Ltd is a wholly owned subsidiary of Harlow Council which began trading on 1 February 2017. £0.7 million was loaned to this company on 15 February 2021 for the purchase of vehicles, plant and machinery. The outstanding balance on these loans was £0.14 million as at 31 March 2025 and has been paid back in 2025/26.

During 2024-25, £1.8 million was loaned to HTS (Property and Environment) Ltd in four separate tranches to finance the cost of 74 vehicles. This loan is due to be repaid over a period of 5 years at a rate of 8.23%. The outstanding balance of the loan at 31 March 2026 will be £1.5 million.

Burnt Mill (Harlow) LLP and Market Square (Harlow) LLP have been set up to support the operation of property investments for regeneration activity within the town. Approved limits have been put in place, should the council wish to make loans to these subsidiaries.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2025 actual			2025/26	2026/27
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit	Approved Limit
Subsidiaries HTS P&E	1.94	-	1.94	5	5
Burnt Mill (Harlow) LLP	-	-	-	10	10
Market Square (Harlow) LLP	-	-	-	15	15
TOTAL	1.94	-	1.94	30	30

Accounting standards require the council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the council’s statement of accounts are shown net of this loss allowance. However, the council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The council assesses the risk of loss before entering into and whilst holding service loans. In particular, cash flow forecasts and business plans have been completed for subsidiary companies to show that there is expected to be adequate cash flow to repay loans. Where appropriate, legal advice has been sought. As these loans are small relative to the size of the council, the overall risk they pose is limited.

Service Investments: Shares

Contribution: The council invests in the shares of its subsidiaries HTS (Housing and Property) Ltd to support local public services and stimulate local economic growth. The council has acquired 450,000 £1 shares in HTS (Housing & Property) Ltd. The Investment is to enable HTS (H&P) Ltd to provide rented accommodation within the Harlow District.

Burnt Mill (Harlow) LLP and Market Square (Harlow) LLP have been set up to support the operation of property investments for regeneration activity within the town. Approved limits have been put in place, should the council wish to invest in share to these subsidiaries.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	31.3.2025 actual			2025/26	2026/27
	Amounts invested	Gains or losses	Value in accounts	Approved Limit	Approved Limit
Subsidiaries HTS H&P	0.5	-	0.5	0.5	0.5
Burnt Mill (Harlow) LLP	-	-	-	10	10
Market Square (Harlow) LLP	-	-	-	15	15
TOTAL	0.5	-	0.5	25.5	25.5

Risk assessment: The council assesses the risk of loss before entering into and whilst holding shares. Cash flow forecasts and business plans have been completed to show that the enterprise expect to generate income in the future. Risk assessments will also have been undertaken by other partners in the town centre LLP. Where appropriate, legal

advice has been sought and detailed contractual arrangements have been created. This includes a legal charge on property. As the HTS shareholdings are small relative to the size of the council, the overall risk they pose is limited.

Liquidity: The 2018 MHCLG (Ministry of Housing, Communities and Local Government) Investment Guidance requires Harlow Council to determine the maximum periods for which funds for service equity investments are committed and how they will stay within these limits. These shareholdings are long term investments designed to be held for an indefinite time frame and are therefore not considered a liquid investment. The council help minimise the risk to overall liquidity by staying with the limits specified in table 2.

Non-specified Investments: Shares are the only investment type that the council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the council's upper limits on non-specified investments. The council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Service Investments: Property

The council currently holds a number of regeneration driven assets. These properties were acquired to support the regeneration of Harlow Town Centre, shape future development, protect strategic sites, and deliver wider socioeconomic benefits. Any financial returns generated are secondary to these service objectives

Contribution: These assets contribute to the council's objectives by:

- enabling strategic control over major regeneration sites
- supporting the delivery of new homes, including affordable housing
- revitalising Harlow Town Centre and Market Square
- providing opportunities for long term placemaking
- protecting key sites from fragmentation and speculative ownership
- supporting the council's wider corporate priorities under *Building Harlow's Future*

Table 3: Property held for service investment purposes in £ millions

Property	Actual	31.3.2025 actual		31.3.2026 expected	
	Purchase cost	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Burnt Mill	56.6	0.2	56.8	-	56.8

Harvey Centre	21.0	1.6	22.6	-	22.6
Adams House	7.0	0.8	7.8	-	7.8
Market House	-	-	-	-	6.1
TOTAL	84.6	2.6	86.9	-	93.3

Security: In accordance with statutory guidance, the council assesses these assets as secure because their accounting valuations are at or above their purchase cost, including professional fees and transaction costs. A full valuation was undertaken for each asset at the point of acquisition, supported by independent property, financial and legal advice. Table 3 (above) shows the accounting valuations for the service investments, alongside the purchase costs. Should any Service Investment Property fall below purchase value at year end, the council will update this Strategy and set out mitigation actions

Risk assessment: In assessing risk, the council:

- undertakes full due diligence before acquisition
- commissions expert external legal, financial and property advice
- reviews tenancy profiles, void risks, and market conditions
- considers long term regeneration value rather than short term yield
- models' affordability and financing implications as part of the Capital Programme
- monitors the quality of external technical advice
- uses LLP governance and contractual protections (e.g. Burnt Mills)
- Given their strategic purpose and regeneration outcomes, the council accepts a higher level of service-based risk than for treasury investments, but these risks remain proportionate to the council's financial standing.

Liquidity: These properties are long term service investments and are not intended to be sold in the short to medium term. The council maintains liquidity through treasury investments and does not rely on the disposal of these properties to meet cashflow needs.

Commercial Investments: Property

Contribution: The council holds four historically owned commercial and residential properties for the purpose of making a profit that will be spent on local public services; the Golf Club, Stewards Farm, Barrow Farm Cottage and Cannons Cottage. Annual income from these four assets is around £82,500.

Table 4: Property held for investment purposes in £ millions

Property	Actual	31.3.2025 actual		31.3.2026 expected	
	Purchase cost	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Golf Club	0.0	0.7	0.7	-	0.7
Stewards Farm	0.0	0.3	0.3	-	0.3
Barrow Farm Cottage	0.0	0.0	0.0	-	0.0
Cannons Cottage	0.0	0.2	0.2	-	0.2
TOTAL	0.0	1.2	1.2	-	1.2

Security: In accordance with government guidance, the council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. Table 4 (above) shows the accounting valuations for the commercial investments, alongside the purchase costs.

The Golf Club, Stewards Farm, Barrows Farm Cottage and Cannons Cottage are historically purchased properties, and their valuation now exceeds their purchase price: the underlying assets thus provide security for the capital investment.

Should the 2025/26 year-end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising.

Risk assessment: Risks associated with this commercial portfolio are low and relate mainly to, potential voids on farm/cottage tenancies, maintenance obligations and general market movements.

Mitigation includes: longstanding tenancy and occupancy stability, annual monitoring of management and maintenance costs, regular valuation review as part of the Statement of Accounts process and immaterial exposure relative to council reserves and revenue budget. -standing tenancy and occupancy stability

Because these assets were not financed by borrowing, the council is not exposed to financing risk, nor to the PWLB restrictions on borrowing for yield.

Liquidity: Compared to other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. Harlow Council recognise that these investments are considered long-term and use other types of investment to meet immediate liquidity needs.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the council and are included here for completeness.

In 1987 and 1992, the council agreed to undertake joint liability with a number of other Local Authorities to guarantee loans of £66.3 million and £17.3 million to Home Housing Association (previously Borth Housing Association) in support of their private initiative for the provision of housing in Harlow and surrounding Authorities. The guarantee is for a 50-year period ending 2037. The council's proportion of the total liability is £4.5 million. The council considers that the probability of the guarantee being called upon is low.

Proportionality

Table 5 below sets out the extent to which the Authority's gross service expenditure over the Medium-Term Financial Plan relies on income generated from its investment portfolio. This demonstrates the council's proportionality exposure. Should investment income not be achieved as planned, the councils will undertake a review of alternative operating model for the asset to restore the council's performance. Where funding shortfall remains, the council can specific earmarked reserves and working balances as a last resort.

Table 5: Proportionality of Investments in £millions

	2025/26 Forecast	2026/27 Budget	2027/28 Budget	2028/29 Budget
Investment income	3.07	3.39	3.93	4.13
Gross service expenditure	44.29	43.33	44.15	45.94
Proportion	6.94%	7.82%	8.90%	9.13%

Capacity, Skills and Culture

Elected members and statutory officers: Strategic investment decision are subject to the advice from officers or treasury management advisors. Elected members are also invited to formal or informal training. The process is subject to scrutiny through Cabinet and Full Council.

Specialist expertise: The council was assisted in the purchase of the Harvey Centre and Burnt Mills by Property Consultants, legal advisors and financial advisors. Arlingclose have been one of the council's financial advisors.

Investment Indicators

The council has set the following quantitative indicators to allow elected members and the public to assess the council's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the council's total exposure to potential investment losses. This includes amounts the council is contractually committed to lend but have yet to be drawn down and guarantees the council has issued over third-party loans.

Table 6: Total investment exposure in £millions

Total investment exposure	31.03.2025 Actual	31.03.2026 Forecast	31.03.2027 Forecast
Treasury management investments	13.2	10.0	10.00
Service investments: Loans	1.9	1.2	0.9
Service investments: Shares	0.5	0.5	0.5
Service investments: Property	86.9	93.3	93.3
Commercial investments: Property	1.2	1.2	1.2
TOTAL INVESTMENTS	103.7	106.2	105.9
Guarantees issued on loans	4.5	4.5	4.5

TOTAL EXPOSURE	108.2	110.7	
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How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with.

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment rate of return (net of all costs)

Investments net rate of return %	2024/25 Actual	2025/26 Forecast	2026/27 Forecast
Treasury management investments	4.85	4.08	3.09
Service investments: Loans	4.32	8.23	8.23
Service investments: Property	1.18	0.20	0.15
Commercial investments: Property	4.19	4.82	4.58
ALL INVESTMENTS	3.63	4.33	4.01

5 Minimum Revenue Provision Statement 2026-27

Where the council funds capital expenditure with debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The 'Local Government Act 2003' requires the council to have regard to the Ministry of Housing, Communities and Local Government's 'Guidance on Minimum Revenue Provision' (the MHCLG Guidance), most recently issued in April 2024.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is aligned with that over which the capital expenditure provides benefits.

The MHCLG Guidance requires the council to approve an Annual MRP Statement each year and provides a number of options for calculating a prudent amount of MRP but does not preclude the use of other appropriate methods. The following statement incorporates options recommended in the Guidance.

MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the council's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's 'Prudential Code for Capital Expenditure in Local Authorities', 2021 edition.

For capital expenditure incurred before 1 April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined in accordance with the former regulations that applied on 31 March 2008. For Harlow Council, the adjusted Capital Financing Requirement upon which the MRP is calculated is negative in each year prior to April 2008. The MRP on this portion of CFR is therefore zero. (Option 1 in the guidance).

For unsupported capital expenditure incurred after 31 March 2008, with the exception of pump-priming economic development (defined below), MRP will be determined by charging the expenditure over the expected useful life of the relevant asset either in equal instalments, or by using the annuity method, or equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. (Option 3 in the guidance).

Economic development is defined as the following capital expenditure projects: Harlow Enterprise Zone.

For assets acquired by finance leases or the Private Finance Initiative and for the transferred debt from Essex County Council, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.

For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.

For capital expenditure on loans to third parties which were made primarily for service purposes, the council will make nil MRP except as detailed below for expected credit losses. Instead, the council will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

For capital loans made on or after 7 May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

For capital loans made before 7 May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

No MRP will be charged in respect of assets held within the Housing Revenue Account but depreciation on those assets will be charged instead in line with regulations.

Capital expenditure incurred during 2026/27 will not be subject to a MRP charge until 2027/28 or later.

Based on the council's latest estimate of its CFR on 31 March 2026, the budget for MRP has been set as follows:

	31.03.2026 Estimated CFR £million	2026/27 Estimated MRP £
Capital expenditure before 01.04.2008	45.0	0
Capital expenditure after 31.03.2008	152.4	2.334
Total General Fund	197.4	2.334
Assets in the Housing Revenue Account	282.5	0
Total Housing Revenue Account	282.5	0
Total	479.9	2.334

Proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the council decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.
- Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.
- Capital receipts arising from other assets which form an identified part of the council's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.
- Any other capital receipts applied to repay debt will be used to reduce MRP in 10 equal instalments starting in the year after receipt is applied.

Where assets are transferred from the Housing Revenue Account to the General Fund, for the purposes of the MRP calculation, this will be treated as new General Fund capital expenditure.

Where assets are transferred from the General Fund to the Housing Revenue Account, for the purposes of the MRP calculation, this will be treated as a capital receipt applied to repay debt.

6 Updated Minimum Revenue Provision Statement 2025-26

The MRP Statement for 2025/26 has been updated as a result of a recommendation made by the External Auditors in the Annual Audit Report 2024/25 and included here.

Where the council funds capital expenditure with debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The 'Local Government Act 2003' requires the council to have regard to the Ministry of Housing, Communities and Local Government's 'Guidance on Minimum Revenue Provision' (the MHCLG Guidance), most recently issued in April 2024.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is aligned with that over which the capital expenditure provides benefits.

The MHCLG Guidance requires the council to approve an Annual MRP Statement each year and provides a number of options for calculating a prudent amount of MRP, but does not preclude the use of other appropriate methods. The following statement incorporates options recommended in the Guidance.

MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the council's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.

For capital expenditure incurred before 1 April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined in accordance with the former regulations that applied on 31 March 2008. For Harlow Council, the adjusted Capital Financing Requirement upon which the MRP is calculated is negative in each year prior to April 2008. The MRP on this portion of CFR is therefore zero. (Option 1 in the guidance).

For unsupported capital expenditure incurred after 31 March 2008, with the exception of pump-priming economic development (defined below), MRP will be determined by charging the expenditure over the expected useful life of the relevant asset either in equal instalments, or by using the annuity method, or equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. (Option 3 in the guidance).

Economic development is defined as the following capital expenditure projects: Harlow Enterprise Zone and Town Centre.

For assets acquired by finance leases or the Private Finance Initiative and for the transferred debt from Essex County Council, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.

For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.

For capital expenditure on loans to third parties which were made primarily for service purposes, the council will make nil MRP except as detailed below for expected credit losses. Instead, the council will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

For capital loans made on or after 7 May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

For capital loans made before 7 May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

No MRP will be charged in respect of assets held within the Housing Revenue Account but depreciation on those assets will be charged instead in line with regulations.

Capital expenditure incurred during 2025/26 will not be subject to a MRP charge until 2026/27.

Based on the council's latest estimate of its CFR on 31 March 2025, the budget for MRP has been set as follows:

	31.03.2025 Estimated CFR £million	2025/26 Estimated MRP £million
Capital expenditure before 01.04.2008	45.0	0
Capital expenditure after 31.03.2008	73.1	1.596
Total General Fund	118.1	1.596
Assets in the Housing Revenue Account	234.1	0
Total Housing Revenue Account	234.1	0
Total	352.2	1.596

Proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the council decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.
- Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.
- Capital receipts arising from other assets which form an identified part of the council's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.
- Any other capital receipts applied to repay debt will be used to reduce MRP in 10 equal instalments starting in the year after receipt is applied.

7 Flexible Use of Capital Receipts Strategy 2026-27

This strategy applies from the **1 April 2026** until **31 March 2030** but will be reviewed on an annual basis as part of the budget setting process.

Background and Rules of Qualification

The Secretary of State, through Section 15 (1) of the Local Government Act 2003, gave local authorities the power to spend up to 100% of capital receipts from the disposal of property, plant and equipment assets on the revenue costs of reform projects. This flexibility is limited to the application of those capital receipts received in the years to which this direction applies and does not allow borrowing to finance the revenue costs of service reform.

From 2016/17 Local Authorities were given the power to use capital receipts from the disposal of property, plant and equipment assets received in the years in which this flexibility is offered, to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects. Local Authorities may not use their existing stock of capital receipts to finance the revenue costs of reform, therefore capital receipts realised before 2016/17 cannot be used flexibly under these arrangements.

The council has the flexibility to apply capital receipts to fund transformation projects as enabled by the Secretary of State's Direction and outlined in the Government's Statutory Guidance on the flexible use of capital receipts. The current extension of the flexibility would have ceased in March 2025, but it was announced by Government alongside the Provisional Settlement on 18 December 2023 that the current scheme, which currently applies to expenditure and receipts incurred between 1 April 2022 and 31 March 2025, has been extended to 31 March 2030. Therefore, to make eligible use of the scheme the capital receipts, and any qualifying revenue expenditure, need to be incurred between 1 April 2022 and 31 March 2030.

The authority should prepare an annual strategy that includes separate disclosure of the individual projects that will be funded, or part funded through capital receipts flexibility and that the strategy is approved by Full Council or the equivalent.

This initial Strategy may be replaced by another Strategy ("the revised Strategy") at any time during the year, on one or more occasions. The initial Strategy should specify the circumstances in which a revised Strategy is to be prepared, but a revised Strategy may be prepared in other circumstances, if at any time it is considered to be appropriate. When setting a revised Strategy its impact on the local authority's Prudential Indicators shall be considered and whether it is necessary to amend the Prudential Indicators at the same time.

Qualifying revenue expenditure is time-limited expenditure incurred by the council on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or demand for services in future years for any of the public sector delivery partners. Although set-up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure, the ongoing revenue costs of the new processes or arrangements are excluded.

An important feature of this flexibility requires the council to demonstrate the highest standards of accountability and transparency and each individual project that will be funded or part-funded in this way must be disclosed and approved by a meeting of the Council.

For 2026/27 and through to the current available extended period (31 March 2030) the council initially proposes to use the flexibility to fund up to £2.00 million of qualifying transformation expenditure. Table 1 below sets out specific projects which could qualify for the use of capital receipts. Further schemes maybe identified during the year which meet the use of capital receipts criteria. In this case, these schemes will be reported through to a meeting of the Cabinet.

The council's use of use of capital receipts to fund transformation projects will continue to be subject to development and approval of robust business cases. The business cases will need to demonstrate that:

- The initiative will transform services, generate future savings or reduce future costs; and
- The costs being funded are implementation or set up costs and not on-going operational revenue costs.

Flexible Use of Capital Receipts Process

Flexible use of capital receipts is a means to fund one-off project costs which enable the process of transformation and the resulting benefit realisation. In applying this funding, several measures have been applied to ensure that the qualifying funding criteria are met. These include a robust approval process that is applied whenever the use of capital receipts is considered and to ensure that this funding source is only applied to qualifying expenditure.

Governance includes reporting accountability to Cabinet and regular performance reporting with detailed monitoring undertaken to provide assurance over the value of qualifying spend, benefits realisation and the delivery of anticipated outcomes.

This strategy seeks to allow the flexible use of capital receipts but does not determine they have to be used for the purpose set out. It provides flexibility to use capital receipts to fund the expenditure detailed if it is determined that is the best funding stream to use.

Approval of projects and allocation of funds arising from the use of flexible capital receipts will be at the discretion of the Cabinet Member for Finance in consultation with the S151 officer, in accordance with this strategy.

There are a wide range of projects that could generate qualifying expenditure, and the list below is not prescriptive. Examples of projects include:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Funding the cost of service reconfiguration, restructuring or rationalisation where this leads to ongoing efficiency savings or service transformation;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others); and
- Integrating public facing services across two or more public sector bodies (for example children’s social care or trading standards) to generate savings or to transform service delivery.

Potential 2026/27 Projects to be Funded from Flexible Use of Capital Receipts

The council intends to apply capital receipts of up to **£2.00 million in 2026/27**. Projects which are likely to qualify for the capital receipts flexibility include:

Table 1 – 2026/27 Projects to be Funded from Flexible Use of Capital Receipts

Project	Description of Project	Qualifying Expenditure	Service Transformation Savings	Planned use of Capital Receipts £million	Expected Savings*	Cabinet Portfolio
Rebuild our Town	<ul style="list-style-type: none"> Creating a welcoming renewed Town Centre. Investing in new and existing estate infrastructure. 	To enable the funding of the regeneration skills, experience and knowledge to undertake key feasibility work to achieve the ambitions of the council for our local residents and communities.	Development of potential revenue income streams and potential cost reductions.	0.750	Savings and benefits will be factored into the MTFP over the period of this strategy.	Leader of the Council
Secure Investment for Harlow's Future	<ul style="list-style-type: none"> Facilitate sustainable growth and investment in the town Build the skills and education of future generations. Deliver services which protect and support the town's businesses and homes. 	To enable the funding of the regeneration skills, experience and knowledge to undertake key feasibility work to achieve the ambitions of the council for our local residents and communities.	Development of potential revenue income streams and potential cost reductions.	0.500	Savings and benefits will be factored into the MTFP over the period of this strategy.	Leader of the Council
Deliver High-Performance Council Services	<ul style="list-style-type: none"> Strengthen engagement with the council for people of all ages and backgrounds Listen to what residents tell us and use this, alongside supporting data, to make decisions. Actively tell residents how we use council resources and how others can work with us to deliver services. Continuously improve service provision and provide excellent customer service in all we do. Build resilience around our people, resources and finances to not just deliver services, but to make them better. 	To enable the creation of a Transformation Programme, funding the initial feasibility work and the potential cost of service reconfiguration, restructuring or rationalisation where this leads to ongoing efficiency savings or service transformation and to support the council to drive a digital approach to the delivery of more efficient public services for our local residents and communities. Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy	Efficiency savings and reduction in operating costs.	0.750	Savings and benefits will be factored into the MTFSP over the period of this strategy.	Leader of the Council
Total				2.000		

Impact on Affordability of Prudential Borrowing

The council will have due regard to the requirements of the Prudential Code and the impact on the prudential indicators. Capital receipts from the sale of assets are used to finance the Council's Capital Strategy. The council currently has unallocated capital receipts which can be used to fund this Strategy, therefore the utilisation of receipts for capital receipts flexibility will not have an impact on the Council's Prudential Indicators.

The incremental impact on the Council's Prudential Indicators of **£2.0 million** additional Capital Expenditure in 2026/27 due to its Flexible use of Capital Receipts Strategy is set out in Table 2 below:

Table 2 – Flexible Use of Capital Receipts change to Prudential Indicators

Prudential Indicators	2025/26 £million	2026/27 £million	2027/28 £million	2028/29 £million	2029/30 £million
Capital Financing Requirement	0.00	0.00	0.00	0.00	0.00
Operational Boundary	0.00	0.00	0.00	0.00	0.00
Authorise Borrowing Limited	0.00	0.00	0.00	0.00	0.00

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