Supplementary Committee Agenda

Epping Forest District Council

Audit & Governance Committee
Monday, 13th February, 2023

Place:	Council Chamber - Civic Offices
Time:	7.00 pm
Democratic Services:	Laura Kirman Tel: 01992 564243 Email: democraticservices@eppingforestdc.gov.uk

9. TREASURY MANAGEMENT POLICY AND PRACTICE (Pages 3 - 10)

(Strategic Director Corporate and Section 151 Officer) To consider and comment on Treasury Management Policy and Practice (report attached).

10. TREASURY MANAGEMENT STRATEGY (INCLUDING INVESTMENT STRATEGY) 2023/24 (Pages 11 - 38)

(Strategic Director Corporate and Section 151 Officer) To consider and comment on the Treasury Management Strategy (including Investment Strategy) 2023/24 (report attached).

11. CAPITAL STRATEGY 2023/24 TO 2025/26 (Pages 39 - 60)

(Strategic Director Corporate and Section 151 Officer) To consider and comment on the Capital Strategy 2023/24 to 2025/26 (report attached).

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Report to the Audit & Governance Committee

Date of meeting: 13th February 2023

Portfolio:	**Finance, Qualis Client & Economic Development**	
Subject:	**Treasury Management Policy & Practice**	
Responsible Officer:	**Andrew Small**	**(01992 564278)**
Democratic Services:	**Laura Kirman**	**(01992 564243)**

Recommendations/Decisions Required:

(1) To consider and recommend for approval by full Council, the updated Treasury Management Policy Statement (***Appendix A, Sections 1 & 2***); and

(2) To consider and comment upon the proposed approach to the development of updated Treasury Management Practices (TMPs) and new Investment Management Practices (IMPs) in accordance with recommended good practice (***Appendix A, Sections 3 & 4***).

Executive Summary:

CIPFA's recently updated Treasury Management in the Public Services: Code of Practice (2021 Edition) (the Code) requires the Council to create and maintain, as the cornerstones for effective Treasury Management:

- A Treasury Management Policy Statement stating the policies, objectives, and approach to Risk Management of its Treasury Management activities
- Suitable Treasury Management Practices (TMPs), setting out how the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities; and
- Investment Management Practices (IMPs) for investments that are not for Treasury Management purposes.

The purpose of this report is to present for consideration an updated Treasury Management Policy Statement, reflecting the requirements of the 2021 Treasury Management Code. The report also presents for Committee, the current position on the development of updated Treasury Management Practices (TMPs) and new Investment Management Practices (IMPs) for Investments that are not part of Treasury Management activity.

See ***Appendix A*** for a detailed discussion on both Treasury Management policy and practice.

Reasons for Proposed Decision:

To enable the robust scrutiny the Council's Treasury Management function, ensuring in particular, future compliance with CIPFA's updated Treasury Management Code of Practice (2021 edition) and developing best practice.

Legal and Governance Implications:

The Local Government Act 2003 requires local authorities in England to "have regard" for the Prudential Framework, two parts of which comprise the Treasury Management Code and the Prudential Code (see Background Papers below).

Safer, Cleaner and Greener (SCG) Implications:

None.

Background Papers:

Treasury Management in the Public Services: Code of Practice (2021 Edition) (published by CIPFA December 2021)

The Prudential Code for Capital Finance in Local Authorities (2021 Edition) (published by CIPFA December 2021).

Risk Management:

There are a range of inherent financial risks associated with Treasury Management activity; not least the potential for loss of interest and/or deposits. The Council therefore engages the services of external Treasury Management advisors, Arlingclose Ltd.

The Council also maintains a detailed set of Treasury Management Practices (TMPs), with "TMP1" in particular, covering Risk Management.

Appendix A

Treasury Management Policy & Practice

1. INTRODUCTION AND BACKGROUND

1.1 Epping Forest District Council (the Council) adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (2021 Edition) (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective Treasury Management:

- A Treasury Management Policy Statement stating the policies, objectives, and approach to Risk Management of its Treasury Management activities
- Suitable Treasury Management Practices (TMPs), setting out how the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities; and
- Investment Management Practices (IMPs) for investments that are not for Treasury Management purposes.

1.3 Full Council will receive reports on its Treasury and Investment management policies, practices and activities including, as a minimum, an Annual Strategy and Plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs and IMPs.

1.4 In accordance with its Scheme of Delegation, the Council delegates responsibility for the implementation and monitoring of its Treasury Management policies and practices to the Portfolio Holder for Finance and for the execution and administration of Treasury Management decisions to the Section 151 Officer, who will act in accordance with the Council's Policy Statement and TMPs, IMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates the Audit and Governance Committee to be responsible for ensuring the effective scrutiny of the Treasury Management Strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 Epping Forest District Council defines its Treasury Management activities as the management of the Council's borrowing, investments, and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

2.2 Epping Forest District Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Council, and any financial instruments entered into, to manage these risks.

2.3 Epping Forest District Council acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2.4 Epping Forest District Council's borrowing will be affordable, sustainable, and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source of borrowing and the type of borrowing should allow the Authority transparency and control over its debt.

2.5 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.

2.6 Epping Forest District Council's priority in relation to its Treasury Investments is the security of capital and liquidity (or accessibility) of these investments.

2.7 The Council's objective when investing treasury 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, where appropriate, 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.

3. TREASURY MANAGEMENT PRACTICES (TMPs)

3.1 Section 7 of the Code recommends that an organisation's Treasury Management Practices (TMPs) include those of the following that are relevant to its treasury management powers and the scope of its treasury:

- TMP1 Risk management
- TMP2 Performance measurement
- TMP3 Decision making and analysis
- TMP4 Approved instruments, methods, and techniques
- TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements
- TMP6 Reporting requirements and management information arrangements
- TMP7 Budgeting, accounting, and audit arrangements
- TMP8 Cash and cash flow management
- TMP9 Money laundering
- TMP10 Training and qualifications
- TMP11 Use of external service providers; and
- TMP12 Corporate governance.

3.2 The requirement to operate a specified set of TMPs is not new, having been introduced in CIPFA's original Treasury Management Code of Practice back in 2001/02; Epping Forest District Council adopted relevant TMPs at the time, and the underlying principles and procedures have been operated ever since. However, there are some minor modifications to the TMPs in the 2021 Code and industry best practice has developed significantly over the last two decades. It is therefore timely that the Council should review, develop (where necessary), and document local Treasury Management practice and procedure. That review has now commenced and will result in a detailed set of draft TMPs for the consideration of this Committee in September 2023. The following paragraphs (3.3 to 3.15) provides an indication of the content of each specific TMP.

TMP1 RISK MANAGEMENT

3.3 This Council regards a key objective of its Treasury Management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investments. The Section 151 Officer will design, implement, and monitor all arrangements for the identification, management, and control of Treasury Management risk, will report at least annually on the adequacy/suitability thereof and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect. Specific arrangements will seek to ensure compliance with these objectives in respect of each of the following risks:

A) *Credit and Counterparty Risk* – this includes ensuring that counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited or investments made.

B) *Liquidity Risk* – ensuring adequate though not excessive cash resources, borrowing arrangements and overdraft or standby facilities to enable at all times to have the level of funds available that are necessary for the achievement of business/service objectives.

C) *Interest Rate Risk* **–** managing exposure to fluctuations in interest rates with a view to containing net interest costs or revenues in accordance with Treasury Management Policy and Strategy

D) *Exchange Rate Risk* – managing exposure to fluctuations in exchange rates so as to minimise any detrimental impact on budgeted income/expenditure levels.

E) *Inflation Risk* – keeping under review the sensitivity of Treasury assets and liabilities to inflation and seeking to manage the risk accordingly in the context of the whole Council's inflation exposure.

F) *Refinancing Risk* – ensuring that borrowing and other long-term liabilities are negotiated, structured, and documented, and the maturity profile of the money raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, that are competitive and as favourable to the Council as can reasonably be achieved in light of market conditions prevailing at the time.

G) *Legal and Regulatory Risk* – ensuring that all Treasury Management activities comply with the Council's statutory powers and regulatory requirements.

H) *Operational Risk, including Fraud, Error, and Corruption* – ensuring that all circumstances are identified that could expose the Council to the risk of loss, through inadequate or failed internal processes, people, and systems or from external events.

l) *Price Risk Management* – seeking to ensure that stated Treasury Management policies and objectives will not be compromised by adverse market fluctuations in the value of the sums invested and accordingly seeking to protect the Council from the effects of such fluctuations.

TMP2 PERFORMANCE MEASUREMENT

3.4 This Council is committed to the pursuit of value for money in its Treasury Management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement. Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated service objectives.

TMP3 DECISION MAKING AND ANALYSIS

3.5 This Council will maintain full records of its Treasury Management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for accountability.

TMP4 APPROVED INSTRUMENTS, METHODS, AND TECHNIQUES

3.6 This Council will undertake its Treasury Management activities by employing only specified instruments, methods, and techniques, and within clearly defined limits and parameters.

TMP5 ORGANISATION, CLARITY, AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

3.7 The Council considers it essential, for the purposes of the effective control and monitoring of its Treasury Management activities, for the reduction of the risk of fraud or error and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of Treasury Management responsibilities.

3.8 The principle on which this will be based is a clear distinction between those charged with setting Treasury Management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of Treasury Management decisions, and the audit and review of the Treasury Management function.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

3.9 This Council will ensure that regular reports are prepared and considered on the implementation of its Treasury Management policies; the effects of decisions taken, and transactions executed in pursuit of those policies; the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and the performance of the Treasury Management function.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

3.10 The Section 151 Officer will prepare – and this Council will approve and, if necessary, from time to time will amend – an annual budget for Treasury Management, which will bring together all of the costs involved in running the Treasury Management function, together with associated income.

TMP8 CASH AND CASH FLOW MANAGEMENT

3.11 Unless statutory or regulatory requirements demand otherwise, all money in the hands of this Council will be under the control of the Section 151 officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis.

TMP9 MONEY LAUNDERING

3.12 This Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained.

TMP10 TRAINING AND QUALIFICATIONS

3.13 This Council recognises the importance of ensuring that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge, and skills.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

3.14 The Council recognises that responsibility for Treasury Management decisions remain with the Council at all times. It also recognises that there may be potential value in employing external providers of Treasury Management services in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons that have been submitted to a full evaluation of the costs and benefits.

TMP12 CORPORATE GOVERNANCE

3.15 This Council is committed to the pursuit of proper corporate governance throughout its services, and to establishing the principles and practices by which this can be achieved. Accordingly, the Treasury Management function and its activities will be undertaken with openness and transparency, honesty, integrity, and accountability.

4. INVESTMENT MANAGEMENT PRACTICES (TMPs) FOR INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY

4.1 Investments for Treasury Management purposes (or “Treasury Management Investments”) are those investments that arise from the Council’s cash flows or Treasury Risk Management activity and ultimately represent balances that need to be invested until the cash is required for use in the course of business.

4.2 Investments for Commercial purposes (or “Commercial Investments”) are taken or held primarily for financial return and are not linked to Treasury Management activity or directly part of delivering services. This includes non-financial assets such as Commercial Property, where they are held primarily for financial return.

4.3 Investments for Service purposes (or “Service Investments”) are taken or held primarily for the provision and for the purposes of delivering public services (including Housing, Regeneration and Local Infrastructure), or in support of joint working with others to deliver such services. Service Investments may or may not involve commercial returns; however, obtaining those returns will not be the primary purpose of the investment.

4.4 The requirement to operate a specified set of Investment Management Practices (IMPs) is a new requirement of the 2021 Code. As with TMPs noted above (in Paragraph 3.2), a review has now commenced, which will result in a set of draft IMPs for the consideration of this Committee in September 2023. The following paragraphs (4.5 to 4.7) briefly considers IMPs.

INVESTMENT MANAGEMENT PRACTICES (IMPs)

4.5 The Section 151 officer will categorise non-Treasury Management investments and plans into appropriate portfolios (or individual major investments) reflecting the different purposes, objectives and management arrangements of the investments and covering all the Council’s financial investments, together with any non-financial assets that are held primarily for financial return (e.g., Commercial Property).

4.6 Each such portfolio (or major investment) will have clearly set out investment objectives, investment criteria, risk management arrangements, decision-making and reporting arrangements, performance measurement and management, and arrangements for training and qualifications.

4.7 The risk appetite for these activities may differ from that for Treasury Management.

Report to the Audit & Governance Committee

Date of meeting: 13th February 2023

Epping Forest District Council

Portfolio:	**Finance, Qualis Client & Economic Development**
Subject:	**Treasury Management Strategy (including Investment Strategy) 2023/24**

Responsible Officer:	**Andrew Small**	**(01992 564278)**
Democratic Services:	**Laura Kirman**	**(01992 564243)**

Recommendations/Decisions Required:

(1) To consider and recommend for approval by full Council, the draft Treasury Management Strategy 2023/24 (attached at ***Appendix A***); and

(2) To consider and recommend for approval by full Council, the draft Investment Strategy 2023/24 (attached at ***Appendix B***).

Executive Summary:

The preparation of an annual Treasury Management Strategy is a requirement of CIPFA's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) and generally accepted good practice. It covers planned treasury activity for the financial year 2023/24 and is attached at ***Appendix A***.

In addition, following the issue of (MHCLG) statutory guidance on Local Government Investments in 2018, the Council is also recommended to produce an annual Investment Strategy, covering the Council's wider investment activities. The 2023/24 Strategy is attached at ***Appendix B.***

The overriding position that this report presents in the year ahead is a further rise in Borrowing activity as the Council continues to roll out its capital investment plans. Conversely Investment activity is expected to be very limited.

Both borrowing and investing is taking place against a backdrop of rising interest rates; although interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected in the medium-term.

The purpose of this report is to allow the Audit and Governance Committee to consider and comment on both strategies, before making appropriate recommendations to full Council on 28th February 2023.

Reasons for Proposed Decision:

To provide assurance to full Council that the risks associated with treasury management and investments are being appropriately managed.

Legal and Governance Implications:

The Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) requires the Council to prepare for approval by full Council, an annual Treasury Management Strategy. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The Government (MHCLG) issued Investment Guidance in 2018, recommending the preparation (at least annually) of an Investment Strategy for approval by full Council.

The role of the Audit and Governance Committee is to consider this report – covering both the Treasury Management and Investment strategies – and make recommendations to full Council.

Safer, Cleaner and Greener (SCG) Implications:

None.

Background Papers:

Treasury Management in the Public Services: Code of Practice (2021 Edition) published by CIPFA December 2021.

(MHCLG) Statutory Guidance on Local Government Investments (3rd Edition). Issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1st April 2018.

Arlingclose Technical Update (revised Prudential and Treasury Management Codes) issued 22nd December 2021.

Risk Management:

There are a range of inherent financial risks associated with Treasury Management activity; not least the potential for loss of interest and/or deposits. The Council therefore engages the services of external Treasury Management advisors, Arlingclose Ltd.

Borrowing and Investment decisions are made in accordance with the Council's formally adopted Treasury Management Strategy. The Strategy includes several Risk Management features, including – for example – the overriding priority that security of deposit takes precedence over return on investment.

Appendix A

Treasury Management Strategy 2023/24 (DRAFT)

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 Investment Strategy ***(Appendix B).***

External Context

The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain Government policy, and a deteriorating economic outlook, will be major influences on the Council's Treasury Management Strategy for 2023/24.

The Bank of England (BoE) increased the Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

The November 2022 quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August 2022 report, due in part to the Government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November 2022 MPR.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

The Arlingclose forecast for November 2022 anticipates the Bank Rate will continue to rise in 2022 and 2023 as the BoE attempts to subdue inflation which is significantly above its 2.0% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023.

Local Context

At close of business on 31st December 2022, the Council held £267.173 million Borrowing and £16.048 million in Treasury Investments (excluding Qualis Working Capital Loan). This is set out in further detail in Table 5 below. Forecast changes in these sums are shown in the Balance Sheet analysis in Table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31/03/22 Actual £m's	**31/03/23 Estimate £m's**	**31/03/24 Forecast £m's**	**31/03/25 Forecast £m's**	**31/03/26 Forecast £m's**
General Fund CFR	151.9	161.9	208.7	243.6	240.7
HRA CFR	157.6	158.5	180.2	202.1	214.4
Total CFR	**309.5**	**320.4**	**388.9**	**445.7**	**455.1**
Less: Other debt liabilities*	0	0	0	0	0
Less: External borrowing	(269.0)	(246.6)	(221.3)	(219.0)	(216.7)
Internal borrowing	**40.5**	**73.8**	**167.6**	**226.7**	**238.4**
Less: Balance Sheet Resources	(59.2)	(59.2)	(59.2)	(59.2)	(59.2)
Investments/ (New Borrowing)	**18.7**	**(14.6)**	**(108.4)**	**(167.5)**	**(179.2)**

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

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 (including Qualis Investments) and will therefore be required to take out further (new) borrowing up to £179.2 million over the forecast period (2023/24 to 2025/26).

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 2023/24.

Liability Benchmark

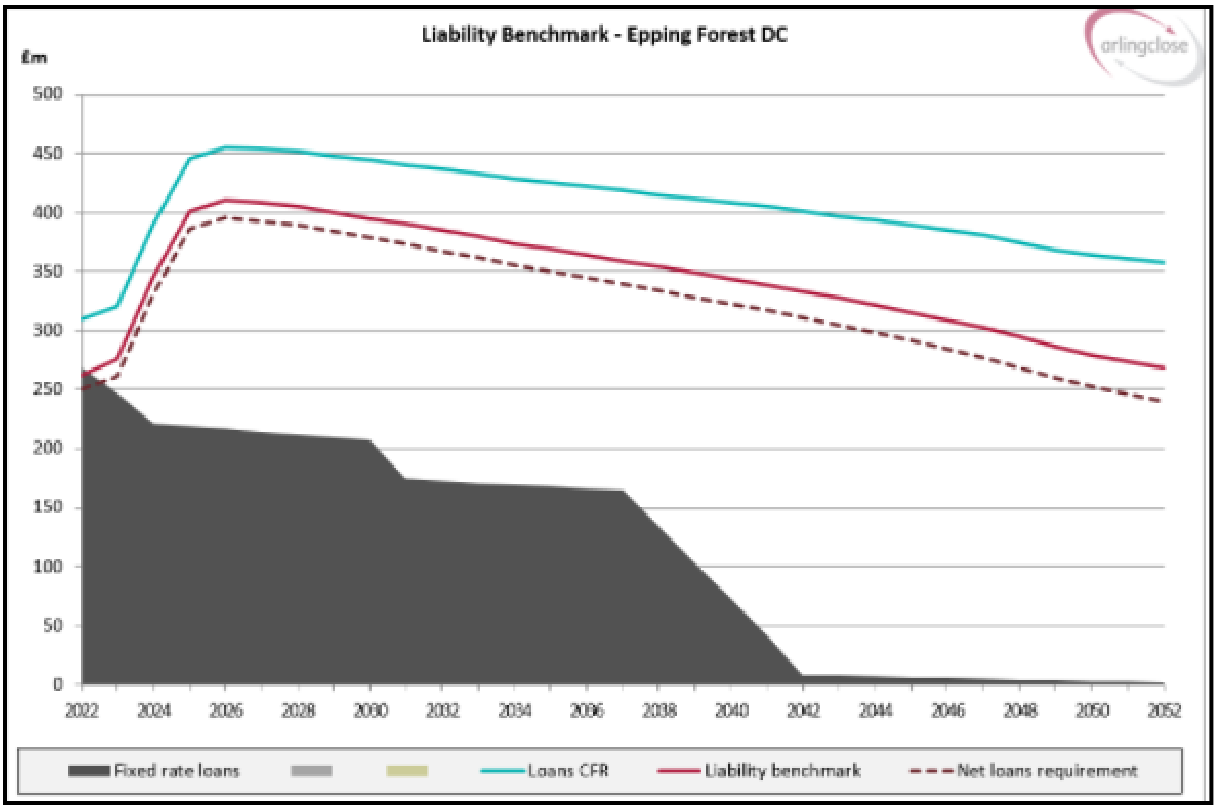
To compare the Council's actual borrowing against an alternative strategy, a Liability Benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £15.0 million at each year-end to maintain adequate 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

	31/03/22 Actual £m's	31/03/23 Estimate £m's	31/03/24 Forecast £m's	31/03/25 Forecast £m's	31/03/26 Forecast £m's
Loans CFR	309.5	320.4	388.9	445.7	455.1
Less: Balance Sheet Resources	(59.2)	(59.2)	(59.2)	(59.2)	(59.2)
Net Loans Requirement	**250.3**	**261.2**	**329.7**	**386.5**	**396.0**
Liquidity Allowance	12.0	15.0	15.0	15.0	15.0
Liability benchmark	**262.3**	**276.2**	**344.7**	**401.5**	**411.0**

Following on from the medium-term forecasts in table 2 above, the long-term Liability Benchmark assumes capital expenditure funded by borrowing of up to £411.0 million by 31st March 2026. Tailored Minimum Revenue Provision (MRP) contributions based on asset lives – ranging from 10 years on Equipment up to 50 years on Buildings – on new capital expenditure have been applied with an underlying inflation rate of 2.5% per annum assumed on income, expenditure, and reserves. This is shown in the Chart below, together with the Council's existing borrowing.



The Chart presented above spans 30-years and illustrates how the Council's borrowing is significantly below the Liability Benchmark. The year ahead (2023/24) is planned to include a number of 30-Year Loans (primarily for on-lending to Qualis), which will have the effect of smoothing the borrowing profile in the later years.

Borrowing Strategy

The Council currently (@ 31st December 2022) holds £267.173 million in loans, a decrease of £1.783 million compared to 31st March 2022, as part of its strategy for funding previous years' Capital Programmes. The Council's current lenders are the PWLB and other local authorities. There are total loans of £232.173 million outstanding with the PWLB as summarised in Table 3 below.

Table 3: PWLB Borrowing

PWLB Loans (@ 31st December 2022)			
Description	**Amount (£m's)**	**Interest Rate**	**Maturity Date**
Long-Term Maturities			
Fixed-Rate Maturity	30.000	2.06%	21/09/30
Fixed-Rate EIP	9.667	2.99%	28/01/37
Fixed-Rate Maturity	30.000	3.46%	28/03/38
Fixed-Rate Maturity	30.000	3.47%	28/03/39
Fixed-Rate Maturity	30.000	3.48%	28/03/40
Fixed-Rate Maturity	30.000	3.49%	28/03/41
Fixed-Rate Maturity	33.656	3.50%	28/03/42
Fixed-Rate EIP	5.700	1.98%	25/03/51
Fixed-Rate EIP	5.900	1.98%	28/01/52
Fixed-Rate EIP	10.000	3.96%	15/12/52
Fixed-Rate EIP	9.250	2.99%	03/12/59
Short-Term Maturities			
Fixed-Rate EIP	8.00	4.14%	25/10/23
Total PWLB	**232.173**		

Local authorities are able to access preferential interest rates on PWLB loans (known as the "Certainty Rate"; currently a 0.2% discount on published rates) provided they submit a high-level description of their capital spending and financing plans (whether it is financed through PWLB borrowing or another source) for the following three years (meaning any capital spending and financing for the whole current financial year and subsequent two financial years), including their expected use of the PWLB.

The PWLB lending terms are contained in *Circular 163* (issued 21st October 2021). The updated terms now explicitly forbid borrowing for the purposes of purchasing investment assets primarily for yield. Thus Paragraph 41 requires that – before a loan can be granted – the Council's Section 151 Officer must confirm that the Council does not plan to:

- Use the PWLB to refinance any prior investment asset primarily for yield transactions which concluded after 25th November 2020; and/or
- Buy investment assets primarily for yield in the next three years.

The Council also has further outstanding loans of £35.0 million with other local authorities as summarised in Table 4 below.

Table 4: Local Authority Borrowing

Local Authority Short-Term Loans (@ 31st December 2022)*			
Lender	**Amount (£m's)**	**Interest Rate**	**Maturity Date**
East Suffolk Council	2.0	3.55%	14/04/23
East Suffolk Council	4.0	4.10%	18/07/23
Horsham District Council	4.0	1.42%	06/03/23
Northern Ireland Housing Executive	6.0	1.42%	24/03/23
Northern Ireland Housing Executive	5.0	3.60%	31/03/23
Northern Ireland Housing Executive	5.0	3.80%	28/04/23
Northern Ireland Housing Executive	4.0	2.91%	31/05/23
West Midlands Combined Authority	5.0	2.00%	31/03/23
Total Local Authority	**35.0**		

**Exclusively fixed rate Maturity Loans*

The Council *expects* to borrow up to £344.7 million in 2023/24 (if the minimum Investment balance of £15.0 million illustrated in Table 2 is achieved). The Council may also borrow additional sums to pre-fund future years' requirements, providing the Authorised Limit for Borrowing of £409.973 million is not exceeded.

Objectives

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 local government funding in recent years, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Council reduces its net borrowing costs (despite foregone investment income) and reduces overall treasury risk. The benefits of internal and 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 2023/24 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 of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pension funds 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 take out 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)
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except Essex County Pension Fund)
- Capital market bond investors; and
- UK Municipal Bonds Agency plc and other 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; and
- Sale and leaseback.

Municipal Bonds Agency

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency would therefore be the subject of a separate report to full Council.

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.

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 significant invested funds, representing income received in advance of expenditure, plus balances and reserves held. During 2022/23, the Council's 'Cash and Cash Equivalent' balance has so far remained over £9.0 million at all times (with the lowest available balance being £9.347 million on 19th July 2022), although substantial Government support for a range of support schemes to local businesses and residents – initially Covid-19 related, but increasingly 'cost of living' related – has so far made achieving the 2022/23 target liquidity level of £12.0 million difficult again (the highest available balance peaked at £35.828 million on 15th December 2022, immediately ahead of scheduled repayment of £10.0 million in local government short-term loans). This Strategy therefore includes a "Liquidity Allowance" of £15.0 million.

The Council currently (@ 31st December 2022) holds £16.048 million in Cash and Cash Equivalents, a decrease of £2.7 million compared to 31st March 2022. In addition, an outstanding balance of £4.750 million is owed by Qualis to the Council in respect of the original Cash Flow Loan of £6.0 million. The overall position is summarised in Table 5 below.

Table 5: Treasury Management Investments

Treasury Management Investments (@ 31st December 2022)		
Counterparty	**Amount (£m's)**	**Interest Rate**
Long-Term Investments (maturity > 12 months)		
Qualis Working Capital Loan	4.750	3.80%
Short-Term Investments (maturity < 12 months)		
None	N/A	N/A
Cash and Cash Equivalents (instant access)		
NatWest Bank (bank deposits)	4.048	0.80%
DMADF (Government)	7.000	3.20%
Deutsche Managed (MMF)	5.000	3.32%
Total Investments	**20.798**	

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 also 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.

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.

Nevertheless, the Council is mindful of its ESG responsibilities and only invests in banks and funds that have Arlingclose approval. This ensures (through an annual check) – for example – that approved banks remain signatories to the UN Principles for Responsible Banking and approved Money Market Fund managers remain signatories to the UN Principles for Responsible Investment.

Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in Table 6 below, subject to the limits shown.

Table 6: Treasury Investment Counterparties and Limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	N/A
Local authorities & other Government entities	25 years	£10 million	Unlimited
Banks (unsecured)*	13 months	£4.0 million	£20.0 million
Building Societies* (unsecured)	13 months	£2.0 million	£2.0 million
Registered Providers* (unsecured)	5 years	£3.0 million	£3.0 million
Money Market Funds*	N/A	£10.0 million	Maximum of 3 Funds (see below)

Note - 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 account of.

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 £10 million per counterparty as part of a diversified pool (e.g., via a peer-to-peer platform).

Government

Loans to, and bonds and bills issued or guaranteed by, 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. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

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.

If operational need requires the use of more than three funds, the S151 officer can authorise this in consultation with the Portfolio Holder for Finance, Qualis Client and Economic Development, provided this is reported to the Chair of the Audit and Governance Committee, and a report is submitted to the next available meeting of the Audit and Governance Committee.

Operational Bank Accounts

The Council may incur operational exposures, for example though 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 £4.0 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25.0 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. 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.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, 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 with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment Limits

The Council had £15.603 million in (General Fund + HRA) revenue reserves on its (draft) Balance Sheet as at 31st March 2022 to cover unexpected credit losses in an emergency. A reasonable level of risk to carry in a single institution would be (say) 25%. An Investment Limit for a single institution (excluding Government and Money Market Funds) of £4.0 million has therefore been applied.

Liquidity Management

The Council uses cash flow forecasting 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 usually spread its liquid cash over at least three providers (e.g., Bank, DMADF and Money Market Funds) 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.

Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit Risk Indicator	Target
Portfolio average credit rating	A-

Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling [three] month period, without additional borrowing.

Liquidity Risk Indicator	Target
Total cash available within 3 months	£12.0 million

Interest Rate Exposure

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 £'s
Upper limit on one-year revenue impact of a 1% rise in interest rates	96,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	(96,000)

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.

The indicator shows that, as a net borrower, the Council benefits from a reduction in interest rates, rather than an increase.

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	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 15 years	50%	0%
15 years and within 20 years	50%	0%
25 years and above	50%	0%

It should be noted that – based on Arlinclose advice – the proposed limits presented above are deliberately wide in range. This is because the indicator is only designed to cover the risk of replacement loans being unavailable, rather than interest rate risk.

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 long-term treasury management investments will be:

Price Risk Indicator	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£15.0 million	£10.0 million	£5.0 million

Related Matters

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 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. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured, with interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive (MIFID)

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

In 2023/24, overall investment income (General Fund and HRA) is budgeted at £478,500.

The budgets for General Fund and HRA debt interest payable in 2023/24 are £4,587,200 (including £1,780,072 on Qualis loans for on-lending) and £5,616,000 respectively.

If investment levels and borrowing, or interest rates, differ from expectations, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any specific Treasury Management Strategy for local authorities to adopt. The Section 151 Officer, having consulted the Portfolio Holder for Finance and Economic Development, 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

Annex 1 (Appendix A)

Existing Investment & Debt Portfolio

	31/12/22 Actual Portfolio £m	31/12/22 Average Rate %
External Borrowing		
Public Works Loan Board	232.173	3.23%
Local authorities	35.0	2.75%
Other loans	-	-
Total External Borrowing	**267.173**	
Other Long-Term Liabilities:		
Leases	-	-
Total Other Long-Term Liabilities	**-**	
Total Gross External Debt	**267.173**	
Treasury Investments		
The UK Government	7.0	3.20%
Local authorities	-	-
Banks (unsecured)	4.048	0.80%
Money market funds	5.000	3.32%
Other investments (Qualis WC loan)	4.750	3.80%
Total Treasury Investments	**20.798**	
Net Debt	**246.375**	

Appendix B

Investment Strategy 2023/24 (DRAFT)

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.

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 the 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 in 2023/24, although the aim is to maintain a minimum liquidity level of £4.0million as part of a £15.0 million balance available for investments.

Contribution

The contribution that these investments make to the objectives of the Council is to support effective Treasury Management activities.

Full details of the Council's policies and its plan for 2023/24 for Treasury Management investments are covered in a separate document, the Treasury Management Strategy (***Appendix A*** of this report).

Service Investments: Loans

Contribution

The Council will sometimes make investments to support service delivery objectives where there is a strategic case for doing so. This is an approach that has been adopted by the Council for many years for the delivery of a package of services, including Refuse Collection and Leisure. For example, the Council has previously invested in contractor loans for the procurement of Refuse Vehicles, which has realised a return for the Council in the form of lower contract payments, whilst protecting the local Waste Collection service.

More recently, the Council has invested (and continues to invest) in Service Loans to Qualis in order to help enable the deliver on the creation more jobs, growth in the local economy, and the improvement of housing and public amenities in the district.

The Council also provides "Home Assistance Loans" to eligible homeowners in certain circumstances (e.g., to help achieve the 'Decent Homes' standard in private sector housing). The loans are funded from the General Fund Capital Programme; they are secured against the property and are repayable on disposal.

In addition, the Council is committed to providing loans to leaseholders in Council owned blocks of flats for the cost of major works, for which they are liable under Section 20 of the Landlord and Tenant Act 1985 (as amended by the Commonhold and Leasehold Reform Act 2002). The loans are funded through the Housing Revenue Account and take the form extended payment periods (subject to interest charges). It is a new scheme, recently approved by the Cabinet, and the first loans are expected to be issued in 2023/24.

Security

The Qualis Business Plan requires the approval of the Council, and forms part of a wider Governance Framework purposely set-up to protect the interests of the Council (when lending to Qualis).

The main risk when making service loans generally is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit the risk, and ensure that overall 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: Service Investments

Category of Borrower	31/03/22 Actual			Total Approved Limit
	Balance Owing	Loss Allowance	Net Figure in Accounts	
	£000's	£000's	£000's	£000's
Subsidiaries (Qualis):				
Working Capital Loan	4,050	(69)	3,981	**6,000**
Asset Purchase Loan	14,630	(257)	14,373	**16,782**
Development Loans	10,800	(265)	10,535	**68,218**
Regeneration Loans	0	0	0	**35,000**
Home Assistance Loans (General Fund)	426	(186)	240	**150***
Leaseholder Loans (HRA)	0	0	0	**250****
TOTAL	**29,906**	**(777)**	**29,129**	**126,400**

** Draft Capital Programme allocation 2023/24 to 2027/28 (£30,000 over five-years)*
***Based on estimates supplied by Housing officers*

Accounting standards require the Council to set aside a 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 committing to, and whilst holding, service loans. The approach taken is tailored to individual circumstances and will often include the engagement of professional advisors, the undertaking of credit checks etc. In addition, the Council will – wherever possible – look to securitise loans against physical assets (Property, Plant and Equipment).

Service Investments: Shares

Contribution

The Council will sometimes invest in shares to support local public services and stimulate local economic growth. Most notably the Council has 1 Ordinary Share in, and is the sole shareholder of, the Qualis Group, which has been set up to help create more jobs, grow the local economy, and improve housing and public amenities in the district.

Security

One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. However, in the case of the Qualis Group, (other than for service purposes) the Council has invested with a view to realising a significant financial return through the receipt of dividends and, despite limited liability status, the Council carries significant risk in the event of the financial failure of Qualis (e.g., through a guarantee to the Pension Fund as part of the transfer of staff from the former in-house Housing Repairs service).

The Qualis Business Plan therefore requires the approval of the Council, and forms part of a wider Governance Framework purposely set-up to protect the interests of the Council.

Risk Assessment

The Council assesses the risk of loss before committing to, and whilst holding, shares. The approach taken is tailored to individual circumstances, although in the case of Qualis, extensive use of professional advisors was made.

Non-Specified Investments

Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in Government guidance.

Commercial Investments: Property

Contribution

The Council invests in the acquisition of commercial property in a range of locations across the district. The value of the overall portfolio rose from £147.305 million to £162.006 million in 2021/22, with net income of £7.490 million achieved. Shops and Industrial Units have been two areas of emphasis and the returns achieved have been a key enabler in maintaining a low Council Tax charge in the district (currently the lowest district Council Tax in Essex) as well as helping to shape the district through the protection and promotion of local business and employment opportunities.

Table 2: Commercial Property Investments

Portfolio Category	Actuals				Expected		
	Balance Sheet Value 01/04/14	Net Additions/ (Disposals)	Gains/ (Losses)	Balance Sheet Value 31/03/22	Net Additions/ (Disposals)	Gains/ (Losses)	Balance Sheet Value 31/03/23
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Shops	**17,201**	58,220	23,721	**99,142**	(140)	205	**99,207**
Industrial Units	**12,997**	10,193	20,513	**43,703**	1,254	0	**44,957**
Other	**9,556**	320	9,285	**19,161**	0	0	**19,161**
Total Portfolio	**39,754**	**68,733**	**53,518**	**162,006**	**1,114**	**205**	**163,325***

**31/03/23 valuation estimates not available*

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, a fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment.

The Council's Commercial Property Portfolio has been acquired over many years and, within reporting deadlines, it has not been possible to identify the purchase cost of some of the older assets. Instead, the Balance Sheet value as at 1st April 2014 has been used as a proxy for purchase cost. The table above quite clearly shows a substantial gain in the value of the Portfolio over the last decade.

Risk Assessment

The Council assesses the risk of loss before committing to commercial property acquisitions; the 'strength of covenant' is of primary interest. Thus, checks on tenants, purchasers or sellers are done through Dunn & Bradstreet, with reports reviewed by property and finance teams within Qualis. Where financial strength is low/higher risk, rent deposits or guarantors may be required. For major transactions, Qualis may advise the Council not to engage with the other party if they are deemed to be high risk. Depending on the opportunity, in some instances, Qualis may look at insurance options in order to mitigate risk.

Liquidity

Compared with other investment types, commercial property is relatively difficult to sell and convert to cash at short notice and can take a considerable period of time to sell in certain market conditions.

However, the Council's liquidity risk is very low, which reflects the financing structure of the portfolio; underlying borrowing is minimal, having been purchased historically during a period when the Council's General Fund was debt free.

Commercial Investments: Loans

Contribution

The Council also provided an Investment Loan of £30.0 million to Qualis in September 2020. This was a key part of the Qualis Business Plan and was important part of helping to establish the company in its infancy.

The loan was utilised for the acquisition of commercial property outside the district, providing a key income stream to Qualis, which in turn enables the company to service the interest payments on a 10-Year maturity loan; the Council makes a margin on the interest payments.

Table 2: Commercial Loans

Category of Borrower	31/03/22 Actual			Total Approved Limit
	Balance Owing	Loss Allowance	Net Figure in Accounts	
	£000's	£000's	£000's	£000's
Subsidiaries (Qualis):				
Investment Loan	30,000	(476)	29,524	30,000
TOTAL	**30,000**	**(476)**	**(29,524)**	**(30,000)**

Security

In order to protect the Council's interests, both "floating" and "fixed" charges were included in the legal agreement for the Investment Loan, which would be activated in the event of a payment default by Qualis.

Risk Assessment

As with Service Loans, the Council assesses the risk of loss before committing to, and whilst holding, Commercial Loans. In this instance, given that Qualis was a fledgling company in September 2020, detailed consideration was also given to the Business Plan before the Council committed to granting the Investment Loan.

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.

The Council became "self-financing" in respect of its retained housing stock from April 2012. The self-financing regime applied to all authorities and replaced the former Housing Subsidy system whereby the Council made annual payments to the Government funded from its HRA. Its introduction entailed a one-off redistribution of 'debt' between local authorities, and locally this resulted in the Council taking on PWLB loans, which it is required to service (instead of making Housing Subsidy payments).

If the HRA is unable to repay the debt at any point in the future, the Council (through its General Fund) is liable to repay any remaining balance. The remaining balance on the HRA debt as 31st March 2022 was £153.656 million.

The Council has also provided a guarantee (to the Essex County Pension Fund) on pension costs for 38 'TUPE protected' employees that transferred to Qualis in October 2020, as part of the transfer of the Housing Repairs service. If Qualis is unable to meet its liabilities incurred, through its participation in the Local Government Pension Scheme (LGPS), the Council is obliged to meet those costs on its behalf.

Proportionality

Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the MTFP. Should it fail to achieve the expected net profit, the Council's ongoing financial planning process includes short-term measures such as budget contingencies (e.g., a contingency of £0.713 million has been included in the 2023/24 final draft budget to cover for potential slippage in the forecast drawdown profile for Qualis Service Loans. The rolling MTFP also acts as an early warning sign, which enables the Cabinet and senior officers to be both proactive and reactive as financial circumstances dictate. This includes making suitable adjustments to spending priorities and targeting efficiency savings in order to reduce net expenditure.

Table 4: Proportionality of Investments

Description	2021/22 Actual	2022/23 Forecast	2023/24 Budget	2024/25 MTFP	2025/26 MTFP
	£000's	£000's	£000's	£000's	£000's
Investment Income	8,902	10,468	11,491	12,097	12,434
Gross Service Expenditure	70,101	70,306	71,832	74,392	74,535
Proportion	13%	15%	16%	16%	17%

Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the extra sums borrowed. The Council follows this guidance and does not borrow more than or in advance of need.

Capacity, Skills, and Culture

Statutory Officers and Elected Members

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making investment decisions. In particular, the Section 151 Officer, who is the strategic lead on the Council's finances, is a qualified (CIPFA) accountant with many years of experience, whereas the Deputy Section 151 Officer, who leads on operational matters, is also a qualified (ACCA) accountant, also with many years of experience. The Council is committed to the ongoing professional development of the other officers within the Finance function, which includes a commitment towards general professional development (e.g., through CIPFA, ACCA and AAT), as well focussed professional training in specialist areas including Treasury Management.

The Section 151 Officer maintains personal oversight on the negotiation of all major commercial deals and achieves oversight and control of all other commercial deals through the governance process; this extends to personally signing off significant financial commitments.

The Council also acknowledges the importance of ensuring that Members have appropriate capacity, skills, and information to effectively undertake their role on the Audit and Governance Committee and have arranged training in the past from the Council's Treasury Management advisors, Arlingclose.

Investment Indicators

The Council has set the following quantitative indicators to allow 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 the amounts that the Council is committed to lend but have yet to be drawn down.

Table 5: Total Investment Exposure

Total Investment Exposure	31/03/2022 Actual	31/03/2023 Forecast	31/03/2024 Forecast
	£000's	£000's	£000's
Treasury Management Investments	18,700	14,961	14,977
Service Investments: Loans	29,906	35,967	70,076
Service Investments: Shares	0*	0*	0*
Commercial Investments: Property	162,006	163,325	163,325
Commercial Investments: Loans	30,000	30,000	30,000
TOTAL INVESTMENTS	**240,612**	**244,253**	**278,378**
Commitments to Lend	92,218	85,618	47,538
Guarantees Issued on Loans	0	0	0
TOTAL EXPOSURE	**332,830**	**329,871**	**325,916**

**De minimis (single share in Qualis) - loss allowances excluded*

How Investments are Funded

Government guidance is that these indicators should include how these investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments Funded by Borrowing

Investments Funded by Borrowing	**31/03/2022 Actual**	**31/03/2023 Forecast**	**31/03/2024 Forecast**
	£000's	**£000's**	**£000's**
Treasury Management Investments	6,956	0	0
Service Investments: Loans	29,906	35,967	70,076
Service Investments: Shares	0	0	0
Commercial Investments: Property	27,525	28,828	28,828
Commercial Investments: Loans	30,000	30,000	30,000
TOTAL FUNDED BY BORROWING	**94,387**	**94,795**	**128,904**

Rate of Return

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. It should be noted 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

Investments Net Rate of Return	**31/03/2022 Actual**	**31/03/2023 Forecast**	**31/03/2024 Forecast**
	£000's	**£000's**	**£000's**
Treasury Management Investments	0.06%	2.93%	3.19%
Service Investments: Loans	4.23%	4.35%	2.74%
Service Investments: Shares	0	0	0
Commercial Investments: Property	4.65%	5.20%	5.29%
Commercial Investments: Loans	1.94%	1.94%	1.94%
ALL INVESTMENTS	**3.90%**	**4.54%**	**4.17%**

Report to the Audit & Governance Committee

Epping Forest District Council

Date of meeting: 13th February 2023

Portfolio: **Finance, Qualis Client and Economic Development – Cllr J. Philip**

Subject: **Capital Strategy 2023/24 to 2025/26**

Responsible Officer: **Andrew Small** **(07548 145665)**

Democratic Services: **Laura Kirman** **(01992 564243)**

Recommendations/Decisions Required:

(1) To consider and recommend for approval to full Council, the Capital Strategy 2023/24 to 2025/26 ***(Appendix A)***

Executive Summary

The requirement to produce an overarching Capital Strategy was first introduced in CIPFA's Prudential Code for Capital Finance in Local Authorities (updated 2017) ("the Prudential Code"). Epping Forest District Council subsequently introduced its inaugural Capital Strategy in February 2019 (effective from the 2019/20 financial year).

However, a decade of austerity in the public sector, and especially local government, has led to an increasing emphasis on commercialisation in order to protect – rather than cut – public services. Commercial property investments financed by cheap borrowing available to local authorities (through the PWLB) especially has seen a sharp increase; such activity has become increasingly controversial.

In response to a recommendation from the Public Accounts Committee, CIPFA launched an initial (principles-based) consultation in February 2021 on proposals to strengthen the provisions within the 2017 Code (and the Treasury Management Code that complements it). The consultation process eventually led to the publication of CIPFA's updated Prudential Code in December 2021; it is a legal requirement for local authorities to "have regard" – with effect from 2023/24 – to the 2021 Code when carrying out its duties.

This report presents a draft Capital Strategy (2023/24 to 2027/28) (***Appendix A***) –incorporating the updated requirements of the 2021 Code – for consideration and comment by the Audit and Governance Committee, before making appropriate recommendations to full Council on 28th February 2023.

The Strategy sets out the Council's draft five-year Capital Programme for its General Fund and Housing Revenue Account (as recommended to Cabinet in February 2023) and explores the financial implications of that, including its impact on a range of Prudential Indicators, with the Council's Section 151 Officer concluding that the Programme is "prudent, affordable and sustainable" as required by the Code.

Wider topics considered in the Capital Strategy also include the Council's approach to Asset Management, Treasury Management, Service Investments, Commercial Investments, Financial Guarantees, and the way in which professional capacity is maintained through the development and maintenance of knowledge and skills and the selective use of professional advisors.

The Capital Strategy will be regularly updated – usually annually – in accordance with the Prudential Code.

Reasons for Proposed Decision:

To enable the robust scrutiny the Council's overarching Capital Strategy, giving special consideration to the approach to ensuring that it is prudent, affordable, and sustainable.

Legal and Governance Implications:

Local authorities are required by regulation to have regard to the Prudential Code (the Code) when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003. The requirement for local authorities to produce a Capital Strategy for adoption by full Council was first introduced in the 2017 edition of the Code. The updated 2021 edition includes a number of revisions to the Code and its adoption is required with effect from the 2023/24 financial year.

Safer, Cleaner and Greener (SCG) Implications:

None.

Background Papers:

CIPFA's Prudential Code for Capital Finance in Local Authorities (2021 Edition).

(MHCLG) Statutory Guidance on Local Government Investments (3rd Edition). Issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1st April 2018.

Arlingclose Technical Update (revised Prudential and Treasury Management Codes) issued 22nd December 2021.

Risk Management:

There are a range of financial risks associated with Capital Financing. Wide-ranging risk mitigation measures are therefore put in place, which are explained in detail in the report. The overall aim is to ensure that the Capital Strategy is always prudent, affordable, and sustainable.

EPPING FOREST DISTRICT COUNCIL

Capital Strategy 2023/24 to 2025/26 (DRAFT)

1. Introduction

1.1 This Capital Strategy report gives a high-level overview of how Capital Expenditure, Capital Financing and Treasury Management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance Members' understanding of these – sometimes technical – areas.

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

2. Capital Expenditure and Financing

2.1 Expenditure

2.1.1 Capital expenditure occurs when the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

2.1.2 In 2023/24, Epping Forest District Council is planning capital expenditure of £92.580 million (and £212.284 million over the next three years) as summarised in Table 1 below.

Table 1: Prudential Indicator: Estimates of Capital Expenditure

Description	2021/22 Actual	2022/23 Forecast (Q3)	2023/24 Budget	2024/25 Budget	2025/26 Budget
	£000's	£000's	£000's	£000's	£000's
General Fund Services	5,924	**5,860**	17,551	19,773	4,541
Qualis Investments (GF)	19,752	**8,750**	40,010	22,100	0
Housing Revenue Account	21,414	**19,577**	35,019	43,964	29,326
TOTALS	**47,090**	**34,187**	**92,580**	**85,837**	**33,867**

2.1.3 The most significant General Fund capital scheme in the Programme is the development of the new Epping Leisure Facility (£33.1 million). The wider scheme will see the development of a replacement leisure facility for the existing (and aging) leisure facility as well as the construction of a multi-story car park. Cabinet approved the addition of this scheme to the draft Capital Programme at its meeting on 21st January 2021.

2.1.4 As noted above in Table 1, the Council also has a £40.010 million draft budget allocated to Qualis Investments in 2023/24, with a further allocation of £22.10 million in 2024/25. See Section 5 of this report below for further detail.

2.1.5 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that the Council's housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes £56.310 million allocated to the Housing Development Programme over a five-year period commencing 2023/24 through to 2027/28, which is expected to deliver 196 new homes (including 63 Qualis acquisitions).

<u>*Governance*</u>

2.1.6 The evaluation, prioritisation, and acceptance of capital schemes onto the Capital Programme is carried out within a new governance framework that is being progressively rolled out by the Council at the time of preparing this Strategy. The approach ensures that Council priorities are reflected in schemes accepted onto the Programme, and that deliverability is also given due consideration in terms of available capacity and capability. Proposals are shaped by senior managers in consultation with councillors.

2.1.7 The draft Capital Programme is then subjected to formal Scrutiny prior to setting the budget (followed by Cabinet and full Council approval). The draft Capital Programme for 2023/24 to 2027/28 was considered by Cabinet on 6th February 2023.

2.2 Financing

2.2.1 All capital expenditure must be financed, either from external sources (Government grants and other contributions), the Council's own resources (revenue, reserves, and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is presented in Table 2 below.

Table 2: Capital Financing

Description	**2021/22 Actual**	**2022/23 Forecast (Q3)**	**2023/24 Budget**	**2024/25 Budget**	**2025/26 Budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Internal: Capital Resources	26,843	20,511	11,743	14,528	15,400
Internal: Revenue Resources	9,004	0	1,282	2,778	2,487
External Sources	1,700	1,266	2,238	6,725	1,170
Debt	9,543	12,410	77,317	61,806	14,810
TOTALS	**47,090**	**34,187**	**92,580**	**85,837**	**33,867**

2.2.2 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as “Minimum Revenue Provision” (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and the use of capital receipts are presented in Table 3 below.

Table 3: Replacement of Debt Finance

Description	2021/22 Actual	2022/23 Forecast (Q3)	2023/24 Budget	2024/25 Budget	2025/26 Budget
	£000’s	£000’s	£000’s	£000’s	£000’s
Capital Resources	17,704	3,234	2,606	5,208	5,894
Revenue Resources (MRP)	883	1,125	1,261	2,675	2,790
TOTALS	**18,587**	**4,359**	**3,867**	**7,883**	**8,684**

2.2.3 The Council’s updated MRP statement (considered by the Audit & Governance Committee on 28th November 2022 and recommended to Council for approval) to can be found at ***Annex 1*** below.

2.2.4 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 and capital receipts used to replace debt. The CFR is expected to increase by £68.5 million in 2023/24. Based on the above figures for expenditure and financing, the Council’s estimated CFR is presented in Table 4 below.

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement (CFR)

Description	2021/22 Actual	2022/23 Forecast (Q3)	2023/24 Budget	2024/25 Budget	2025/26 Budget
	£000’s	£000’s	£000’s	£000’s	£000’s
General Fund	151,947	161,895	208,695	243,588	240,679
Housing Revenue Account	157,552	158,452	180,186	202,142	214,438
TOTALS	**309,499**	**320,347**	**388,881**	**445,730**	**455,117**

3. Asset Management

3.1 Asset Management Strategy

3.1.1 The Council recognises the importance of ensuring that capital assets continue to be of long-term use and, especially in a post pandemic world, where there has been a step change increase in the speed of legislative (especially Building Control regulations), technological and operational change. Consequently, at the time of preparing this Capital Strategy, a new Asset Management Strategy (AMS) for General Fund assets is under development. Backed by a comprehensive review of Council assets, the AMS takes a longer-term view comprising:

- 'Good' information about existing assets
- The optimal asset base for the efficient delivery of Council objectives
- The gap between existing assets and optimal assets
- Strategies for purchasing and constructing new assets, investments in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and
- Plans for individual assets.

3.1.2 The Council is also committed to rapidly achieving Zero Carbon status for all its buildings; it is an ambition that will be embedded within the new Asset Management Strategy.

3.1.3 The Council's housing assets are managed as part of a separate strategy based on professionally prepared rolling stock condition surveys (with effect from 2023) and evolving housing demand (by type), with routine repairs and maintenance funded through the annual Housing Revenue Account and major works phased within the HRA Capital Programme.

3.2 Asset Disposals

3.2.1 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 used to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. Table 5 below summarises the overall projections for capital receipts.

Table 5: Capital Receipts

Description	2021/22 Actual	2022/23 Forecast (Q3)	2023/24 Budget	2024/25 Budget	2025/26 Budget
	£000's	£000's	£000's	£000's	£000's
Asset Sales	17,581	2,742	1,964	4,524	5,210
Loans Repaid	123	492	642	684	684
TOTALS	**17,704**	**3,234**	**2,606**	**5,208**	**5,894**

3.2.2 The sale (at market value) of a number of key regeneration sites within the district to Qualis occurred in October 2021, which included the Cottis Lane site (valued at £3.470 million) as part of the development of the new Leisure Facility and Multi-Storey Car Park in Epping (overall scheme scheduled for completion in 2025/26). A loan was granted by the Council to Qualis to enable the purchase. In accordance with the capital accounting rules, the associated capital receipt is recognised by the Council gradually over the period of the loan (categorised as "Loans Repaid" in Table 5 above).

3.2.3 Asset sales include receipts from Council tenants for the purchase of their properties under the "Right to Buy" (RTB) scheme; an average of 12 disposals per annum are assumed within current projections. A proportion of the capital receipts must be used to provide additional homes within a five-year time scale or be remitted to the Government.

4. Treasury Management

4.1 Introduction

4.1.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

4.1.2 Due to decisions taken in the past, the Council currently (@ 31st December 2022) has borrowing of £267.173 million at an average interest rate of 3.17% and £20.798 million in Treasury Investments at an average interest rate of 2.94%.

4.2 Borrowing

4.2.1 The Council's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (current local authority rates typically in the range 3.3% to 4.2%) and long-term fixed rate loans where the future cost is known but higher (current PWLB rates typically in the range 4.3% to 4.8%).

4.2.2 The Council no longer borrows to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

4.2.3 Projected levels of the Council's outstanding/current debt are shown in Table 6 below, compared with the Capital Financing Requirement (Table 4 above).

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

Description	2021/22 Actual	2022/23 Forecast (Q3)	2023/24 Budget	2024/25 Budget	2025/26 Budget
	£000's	£000's	£000's	£000's	£000's
Outstanding Debt (including leases)	269.0	246.6	221.3	219.0	216.7
Capital Financing Requirement (CFR)	309.5	320.4	388.9	445.7	453.7

4.2.4 Statutory guidance requires debt to remain below the Capital Financing Requirement, except in the short-term. As can be seen from Table 6 (which provides a view on how much debt the Council needs to take on to bring it up to the CFR), the Council expects to comply with this in the medium-term.

Liability Benchmark

4.2.5 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the minimum amount of borrowing required to keep investments at a minimum liquidity level. This assumes that cash and investment balances are kept to a minimum level of £15.0 million at each year-end. The actual Liability Benchmark was £262.3 million as at 31st March 2022 and is expected to increase to £411.0 million over the four-year period.

Table 7: Borrowing and the Liability Benchmark

Description	2021/22 Actual	2022/23 Forecast (Q3)	2023/24 Budget	2024/25 Budget	2025/26 Budget
	£000's	£000's	£000's	£000's	£000's
Outstanding Borrowing	269.0	246.6	221.3	219.0	216.7
Liability Benchmark	262.3	276.2	344.7	401.5	411.0

4.2.6 Table 7 above shows that the Council was marginally above its Liability Benchmark on 31st March 2022 as borrowing was taken out in advance for anticipated Qualis loan drawdowns in late 2021/22; this was a short-term temporary position and latest projections above shows that the Council is now back on course to be below its Liability Benchmark by 31st March 2023. Borrowing from 2023/24 onwards is expected to be in line with the Liability Benchmark.

Affordable Borrowing Limit

4.2.7 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: Operational Boundary and Authorised Limit for External Debt

Description	2022/23 Actual	2023/24 Proposed	2024/25 Estimate	2025/26 Estimate
	£000's	**£000's**	**£000's**	**£000's**
Operational Boundary – borrowing	443,184	399,973	456,751	466,561
Operational Boundary – other long-term liabilities	0	0	0	0
Operational Boundary – total external debt	**443,184**	**399,973**	**456,751**	**466,561**
Authorised Limit – borrowing	453,184	409,973	466,751	476,561
Authorised Limit – other long-term liabilities	0	0	0	0
Authorised Limit – total external debt	**453,184**	**409,973**	**466,751**	**476,561**

HRA Borrowing: Local Indicator

4.2.8 The requirement to borrow and the risk associated with HRA borrowing can be distinguished from that of the General Fund. The HRA is underpinned by a very large property portfolio (6,436 properties, with a Balance Sheet value of £774.586 million as at 31st March 2022). Accordingly, the different risk profile is reflected within the capital financing rules e.g., the Local Government Act 2003 established the requirement for councils to put aside resources (through making a "Minimum Revenue Provision") to repay debt in later years; it was (still is) a legal requirement that only applies to General Fund borrowing.

4.2.9 Nevertheless, HRA borrowing is not risk free; HRA capital investment plans must be just as prudent, affordable, and sustainable as General Fund capital investment plans. Two local indicators have therefore been developed, which are used to gauge, and provide assurance, around the Council's HRA borrowing plans:

- *'Loan to Value'* – LTV is an easy-to-understand Borrowing indicator that is widely used as a measure of default risk by lenders in Housing finance. It is a determined by calculating the year-end outstanding debt as a proportion of the total value of assets. Table 9 below shows that the total LTV on the HRA is expected to rise from 0.18 in 2021/22 to 0.22 by 2025/26; and

- *HRA Interest Cover* – Again a relatively simple indicator that reflects how able the HRA is to meet interest costs from its Net Cost of Services. This is a Financing Indicator (refer to Sections 8.1 and 8.2 below for presentation and discussion).

4.2.10 Both indicators form a key part of the Council's emerging HRA Business Plan with target levels (both minimum and maximum) reflecting generally accepted industry good practice across the wider social housing sector.

Table 9: Local Indicator: 'Loan to Value' (HRA)

Description	2021/22 Actual	2022/23 Forecast (Q3)	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	Ratio	**Ratio**	**Ratio**	**Ratio**	**Ratio**
Loan to Value	0.18	0.18	0.19	0.21	0.22
Target Maximum (LTV)	**0.70**	**0.70**	**0.70**	**0.70**	**0.70**

4.1.11 It can be seen from Table 9 above, that – based on current projections – HRA borrowing plans are well within acceptable Loan to Value limits.

4.1.12 Further details on borrowing are contained in the Treasury Management Strategy 2023/24.

4.3 Treasury Investment Strategy

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

4.3.2 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, Money Market Funds or selected high-quality banks, to minimise the risk of loss.

4.3.3 The availability of cash for the purposes of longer-term investment is currently limited by the Council's need to fund the expanding Capital Programme. Treasury Management advice in recent years (in the context of a low interest rate environment) has also been to 'keep investments short' (in the expectation that interest rates will rise in the future).

4.3.4 Table 10 below summarises the Council's current and forecast treasury investments.

Table 10: Treasury Management Investments

Description	31/03/22 Actual	31/03/23 Forecast (Q3)	31/03/24 Budget	31/03/25 Budget	31/03/26 Budget
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Long-Term Investments	0	0	0	0	0
Short-Term Investments	18.7	15.0	15.0	15.0	15.0
TOTALS	**18.7**	**15.0**	**15.0**	**15.0**	**15.0**

Risk Management

4.3.5 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.

4.3.6 Further details on the Treasury Management Prudential indicators can be found in the Treasury Management Strategy.

Governance

4.3.7 Treasury Management decisions are made every day and are therefore delegated to the Section 151 Officer, who must act in line with the Treasury Management Strategy approved by the Council. Annual outturn reports on Treasury Management are also approved by the Council (following a recommendation from the Audit and Governance Committee), whereas quarterly updates are reported exclusively to the Audit and Governance Committee (the Committee with responsibility for scrutinising Treasury Management decisions).

5 Service Investments

5.1 The Council will sometimes make investments to support service delivery objectives where there is a strategic case for doing so. This is an approach that has been adopted by the Council for many years for the delivery of a package of services, including Refuse Collection and Leisure. For example, the Council has previously invested in contractor loans for the procurement of Refuse Vehicles, which has realised a return for the Council in the form of lower contract payments, whilst protecting the local Waste Collection service.

5.2 More recently, the Council has invested (and continues to invest) in Service Loans to Qualis in order to deliver its Housing and Regeneration ambitions for the district.

5.3 The Council also provides "Home Assistance Loans" to eligible homeowners in certain circumstances (through the General Fund e.g., to help achieve the 'Decent Homes' standard in private sector housing) and Leaseholder Loans (through the HRA, enabling leaseholders to pay for major works on the communal areas of Council-owned blocks of flats).

5.4 The Council will sometimes invest in shares to support local public services and stimulate local economic growth. Most notably the Council has 1 Ordinary Share in, and is the sole shareholder of, the Qualis Group, which has been set up to help create more jobs, grow the local economy, and improve housing and public amenities in the district.

5.5 Total Investments for Service Purposes were valued at £29.129 million as at 31st March 2022. The largest individual Service Investment is an Asset Purchase Loan granted to Qualis in October 2021, which had a Net Book Value of £14.373 million on the Council's Balance Sheet. The loan has enabled Qualis to purchase a number of key assets from the Council for development, including Cottis Lane Car Park and the site of the former "Conder Building". This is a key enabling part of the Council's future Housing and Regeneration ambitions.

5.6 The second largest Service Investment is a Development Loan (Net Book Value on Balance Sheet of £10.535 million on 31st March 2022). This is enabling Qualis to develop the transferred assets, including the former Conder Building site for Housing provision. The value of this Investment is rising significantly as Qualis progressively draws down further tranches of the loan as the various sites are developed and is eventually expected to rise to £68.0 million.

Risk Management

5.7 In light of the public service objective, the Council is willing to take more risk than with Treasury Investments, however an overriding objective is to ensure that such investments breakeven (and usually) generate a profit after all costs.

5.8 The risk of incurring unexpected losses is tailored to individual circumstances, but is often managed by the engagement of professional advisors, the undertaking of credit checks etc. In addition, the Council will – wherever possible – look to securitise loans.

Governance

5.9 Decisions on Service Investments are made by the Council's Cabinet and require the support of a full business case. Most loans represent capital expenditure and purchases will therefore also be approved as part of the Capital Programme (which is approved by full Council).

5.10 With regard to Qualis specifically, it is important that it has the freedom to act 'commercially', within the boundaries of its Business Plan (approved by the Council). However, it is also important that this is balanced against the need for the Council to exercise the necessary oversight so that its risk exposure as the sole shareholder is minimised.

5.11 The Qualis Board includes two nominated (Epping Forest District Council) councillors and the Council's Chief Executive, although all Board members are required to act in the interests of Qualis. Consequently, additional oversight is exercised through the Council's Section 151 Officer in the role of "Shareholder's Representative", acting as the official conduit from the Council to Qualis.

6 Commercial Investments

Commercial Property

6.1 The Council invests in the acquisition of commercial property in a range of locations across the district. The value of the overall portfolio rose from £147.305 million to £162.006 million in 2021/22, with net income of £7.490 million achieved. Shops and Industrial Units have been two areas of emphasis and the returns achieved have been a key enabler in maintaining a low Council Tax charge in the district (currently the lowest district Council Tax in Essex) as well as helping to shape the district through the protection and promotion of local business and employment opportunities.

Qualis Investment Loan

6.2 Access to affordable finance is a key enabler in the Qualis Business Plan which underpins the Council's ambition to create more jobs, grow the local economy, and improve housing and public amenities in the district. Consequently, most of the loans granted to Qualis are Service Investments (as presented above in Section 5), which are aimed at facilitating the delivery of those objectives (they are all 'district council functions'), whilst also generating a margin; the loans are *not* provided primarily for the purpose of generating a profit.

6.3 However, the Council provided an Investment Loan of £30.0 million to Qualis in September 2020. This was a key part of the Qualis Business Plan and an important part of helping to establish the company in its infancy. This was purely a 'debt-for-yield' Commercial Investment, with the loan utilised for the acquisition of commercial property outside the district, providing a key income stream to Qualis; although the Council makes a margin on the loan (and the rental income helps sustain Qualis; a wholly owned subsidiary), there is no direct service benefit, and the primary objective is to generate a financial return (for both Qualis and the Council).

6.4 It should be noted that the Prudential Code 2021 (Paragraph 51) now makes clear that "an authority must not borrow to invest primarily for financial return". This is a change to the 2017 edition of the Prudential Code, with the PWLB also making its loans to local authorities conditional on meeting the requirements of Paragraph 51. The Council no longer undertakes debt-for-yield investments and maintains full access to the PWLB borrowing facility.

Risk Management

6.5 With financial return being the main objective, the Council accepts higher risk on Commercial Investments compared to Treasury Investments. The principal risks include rental losses caused by voids and insolvencies (on Commercial Property) and payment default (on the Qualis Loan). The risks are managed as follows:

- *Commercial Property* – the Council has appointed Qualis to deliver the property and asset management service to its commercial property portfolio (comprising mostly of retail and industrial units). Qualis employs a team of qualified and experienced property professionals to maximise portfolio performance.

  Checks on tenants, purchasers or sellers are done through Dunn & Bradstreet, with reports reviewed by property and finance teams within Qualis. Where financial strength is low/higher risk, rent deposits or guarantors may be required. For major transactions, Qualis may advise the Council not to engage with the other party if they are deemed to be high risk. Depending on the opportunity, in some instances, Qualis may look at insurance options in order to mitigate risk.

- *Qualis Investment Loan* – the loan agreement was purposely drafted to protect the Council's position, with charges secured against both Qualis assets and the commercial assets acquired with the proceeds. Progress against the Qualis Business Plan is also frequently monitored and reported to Members (see further discussion on Governance arrangements below).

Governance

6.6 General decisions on Commercial Investments are made by the Council's Cabinet and require a full business case, which is supported by the Section 151 Officer. Most loans represent capital expenditure and purchases will therefore also be approved as part of the Capital Programme (which itself is approved by full Council).

6.7 Commercial Property arrangements are set to change with effect from April 2023, with the permanent transfer of the Council's Asset Management function to Qualis, following completion of a successful development trial of the new arrangements since October 2021. The Council will retain ownership of the Asset Portfolio, with day-to-day management passing to Qualis.

6.8 This strengthens current arrangements, with the Council benefitting from the additional professional expertise and agility available within Qualis. Precise arrangements are the subject of ongoing discussions at the time of preparing this Strategy, but there are a number of key features that have already been agreed in principle, which are specifically designed to protect the interests of the Council.

6.9 Arrangements to ensure that the Council exercises appropriate oversight over Qualis and minimises the associated risks are the are the same as those described above for Service Investments (see Paragraphs 5.10 and 5.11).

Table 11: Prudential Indicator: Net Income from Commercial and Service Investments to Net Revenue Stream

Description	31/03/22 Actual	31/03/23 Forecast (Q3)	31/03/24 Budget	31/03/25 Budget	31/03/26 Budget
	£000's	£000's	£000's	£000's	£000's
Total Net Income from Service and Commercial Investments	8,902	10,468	11,491	12,097	12,434
Proportion of Net Revenue Stream	57%	66%	69%	72%	72%

6.10 The relatively high proportion of income from Service and Commercial Investments illustrated in the table above reflects the Council's commercial focus over many years as to means of protecting local public services, whilst maintaining a low Council Tax.

7 Other Liabilities

7.1 Outstanding Commitments

7.1.1 The Council has the following outstanding commitments:

- A commitment to achieve a fully funded position on the Pension Fund (over a 16-year period from 2020 to 2036). A funding deficit was valued by the actuary at £2.66 million as at 31st March 2022 (with the Epping share of the Essex fund liabilities 98.5% funded at that point). Back-funding payments of £0.185 million are scheduled to be made in 2023/24; and

- The Council has also set aside £2.381 million (as at 31st March 2022) to cover the financial risk associated with Business Rates Appeals lodged with the Valuation Office Agency (VOA).

7.2 Guarantees

7.2.1 The Council became “self-financing” in respect of its retained housing stock from April 2012. The self-financing regime applied to all authorities and replaced the former Housing Subsidy system whereby the Council made annual payments to the Government funded from its HRA. Its introduction entailed a one-off redistribution of ‘debt’ between local authorities, and locally this resulted in the Council taking on PWLB loans, which it is required to service (instead of making Housing Subsidy payments).

7.2.2 The Council’s original 30-Year Business Plan for the HRA (effective from April 2012) primarily entailed a strategy of debt repayment, with a limited growth strategy based on debt re-financing and upgrading and/or expanding the stock; this comfortably complied with the Government debt cap that was in place at the time. However, the Government removed the debt cap in late 2018, and the Council has since increased its commitment towards building council houses in the district through a more expansive approach to Housing Development.

7.2.3 The Council’s current HRA Business Plan is designed to ensure adequate rental income is generated each year to run an efficient and effective housing management service (as well as delivering ambitious housing development plans) whilst at the same time servicing the debt. However, if the HRA is unable to repay the debt at any point in the future, the Council (through its General Fund) is liable to repay any remaining balance. The remaining balance on the HRA debt as 31st March 2022 was £153.656 million.

7.2.4 The Council has also provided a guarantee (to the Essex County Pension Fund) on pension costs for 38 ‘TUPE protected’ employees that transferred to Qualis in October 2020, as part of the transfer of the Housing Repairs service. If Qualis is unable to meet its liabilities incurred, through its participation in the Local Government Pension Scheme (LGPS), the Council is obliged to meet those costs on its behalf.

7.3 Governance

7.3.1 Decisions on incurring new discretionary liabilities are taken by Service Directors in consultation with the Section 151 Officer. For example, in accordance with the Council’s Financial Regulation D6, “leasing agreements or other financial facilities” can only be agreed by the Section 151 Officer or an officer nominated by them.

8 Revenue Implications

8.1 Financing Costs

8.1.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as Financing Costs; the ‘standard’ CIPFA Prudential Indicator compares this to “Net Revenue Stream” (the amount funded from Council Tax, Business Rates, and general Government grants).

8.1.2 However, the standard definition of Net Revenue Stream does not adequately take account of the circumstances of Epping Forest District Council, which has had – for many years – a major income stream from Commercial Property and – more recently – an additional income stream from Qualis loan margins. Factoring in those two major sources of income produces a more meaningful Prudential Indicator, tailored to the specific circumstances of this Council. The 'local' Prudential Indicator is presented in the table below, alongside the standard CIPFA Indicator (for comparison purposes only).

Table 12: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (General Fund)

General Fund Financing Costs	2021/22 Actual	2022/23 Forecast (Q3)	2023/24 Budget	2024/25 Budget	2025/26 Budget
	£000's	£000's	£000's	£000's	£000's
Financing Costs	2,244	3,169	5,370	8,516	9,048
Proportion of Net Revenue Stream (Standard CIPFA Indicator)	14%	20%	32%	50%	52%
Proportion of Net Revenue Stream (Local Indicator)	**9%**	**12%**	**18%**	**27%**	**27%**

Financing: Local Indicator (HRA)

8.1.3 As noted above in Section 4.2, the Council also monitors the ability of the HRA to meet interest costs from its Net Cost of Services. Table 13 below shows a stable position whereby HRA Interest Cover is expected to remain above the Target Minimum for the duration of this Strategy.

Table 13: Local Indicator: Interest Cover (HRA)

Description	2021/22 Actual	2022/23 Forecast (Q3)	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	Ratio	Ratio	Ratio	Ratio	Ratio
HRA Interest Cover	1.40	1.36	1.31	1.42	1.30
Target Minimum (IC)	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**

8.1.4 It can be seen from Table 13 above that – based on current projections – current HRA borrowing plans are within the Interest Cover target.

8.2 "Prudence, Affordability and Sustainability"

8.2.1 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for many (occasionally up to 50) years into the future. The Section 151 Officer is satisfied that the proposed Capital Programme (Section 2) is prudent, affordable, and sustainable based on the following:

Prudence

- *Prudential Indicator 13 (General Fund)* (Paragraph 8.1.2) – Proportion of Financing Costs to Net Revenue Stream (Local Indicator) – the growth in Financing Costs reflects the impact of the Council's ambitions for capital investment in its strategic priorities over the medium-term, including its ambitions for Qualis. The increase also reflects the recent increase in global interest rates. The standard CIPFA indicator shows the impact on taxpayers should the Council lose both its income from Commercial Property and suffer a default by Qualis on its loans. The local indicator therefore recognises income from Commercial Property and interest received from Qualis loans. Importantly, this shows that the indicator remains under 30% for the duration of the forecast, which is within expected and controllable parameters. It should also be noted that:
    - The Council's Commercial Property Portfolio (Balance Sheet value £162.006 million as at 31st March 2022) overwhelmingly debt free and not backed by Council borrowing. This gives the Council flexibility to realise substantial capital receipts through asset sales without the need to repay underlying borrowing, should the need arise
    - The above forecast includes all lending contained within the Qualis Business Plan approved by full Council; there are currently no plans to extend Council lending beyond that already contained within the Business Plan
    - Qualis loans are fully secured and 'asset-backed', which greatly enhances the protection afforded to public funds in the event of any potential default
    - Future Qualis lending (especially) is planned to be predominantly in the form of repayment loans ("Equal Instalments of Principal") which means that, in the absence of further extended borrowing to Qualis, the level of outstanding debt will reduce in the longer term; and
    - If this indicator should threaten to breach the 30% threshold, the Section 151 Officer would engage with the Council.
- *Local Indicator 14 (HRA)* (Paragraph 8.1.3) – HRA Interest Cover – current estimates indicate that the 1.25 minimum cover threshold is exceeded for 2023/24 through to 2025/26 (the duration of this Strategy)
- *Underlying Prudent Assumptions* – a prudent set of assumptions have been used in formulating the Capital Programme (e.g., no future asset disposals that may be identified as part of the updated Asset Management Strategy have been assumed in General Fund projections)
- *Repairs and Maintenance* – the approach to asset maintenance is professionally guided with assets maintained in a condition commensurate with usage and expected life, addressing those items that could affect ongoing and future maintenance, in the most appropriate and cost-effective manner.

Affordability

- The estimated General Fund revenue consequences of the Capital Programme (£108.655 million over the five years from 2023/24) have been included in the 2023/24 Budget and Medium-Term Financial Plan (MTFP), extending to 2027/28; and

- The MTFP is underpinned by a Reserves Strategy, which includes maintaining contingency funds in the event that projections are not as expected (further supported by Section 151 report to Council under Section 25 of the Local Government Act 2003 on the robustness of estimates and the adequacy of financial reserves and balances).

Sustainability

- Capital schemes that are expected to deliver long-term revenue savings/generate income are given due priority. For example, the recent investment in Ongar Leisure Centre underpinned an established revenue stream for the Council through its annual Management Fee. The new Leisure Facility for Epping, which includes provision for a Multi-Storey Car Park as part of the wider scheme, will increase footfall, including a range of associated revenue streams; and

- As explained in Section 3.1 above, the new Asset Management Strategy for General Fund represents an enhancement to the Council approach to asset planning through (especially) taking a longer-term view. This includes providing for future operational need, balancing the requirement to achieve optimal performance, whilst taking account of technological change and managing the risk of obsolescence.

9 Knowledge and Skills

9.1 Officers

9.1.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Most notably:

- *Finance* – the Section 151 Officer, who is the strategic lead on the Council's finances, is a qualified (CIPFA) accountant with many years of experience, whereas the Deputy Section 151 Officer, who leads on operational matters, is also a qualified (ACCA) accountant, also with many years of experience. The Council is committed to the ongoing professional development of the other officers within the Finance function, which includes a commitment towards general professional development (e.g., through CIPFA, ACCA and AAT), as well as focussed professional training in specialist areas such as Treasury Management and Business Partnering

- *Property* – the Head of Asset Strategy, who is leading on the development of the Asset Management Strategy, is a highly experienced senior property professional. In addition, the Council – through its arms-length arrangements with Qualis – has a dedicated Commercial Property Team, resourced by experienced and senior ("MRICS") chartered surveyors; and

- *Housing* – the Council has a separate Housing Team that is responsible for overseeing social housing developments within the district.

9.2 External Advisors

9.2.1 Where the Council does not have the relevant knowledge and skills required, judicious use is made of external advisors and consultants that are experts/specialists in their field. The Council currently engages Arlingclose Limited as Treasury Management advisers, and the Commercial Property Team will appoint property advisers (e.g., development managers, valuers etc.) to support their work where required. The approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with risk.

9.3 Councillors

9.3.1 Newly elected councillors have been required to undertake induction training at the Council for some years. For example, a training events on "Local Authority Finance and the Budget Process" are routinely held.

9.3.2 For specialist training such as Treasury Management, the Council acknowledges the importance of ensuring that Members have appropriate capacity, skills, and information to effectively undertake their role on the Audit and Governance Committee and have arranged training in the past from the Council's Treasury Management advisors, Arlingclose. The most recent session took place in January 2019. A further session is to be ran following the May 2022 elections.

10. Section 151 Statement on the Capital Strategy

10.1 Prudential Code

10.1.1 Paragraph 25 of the 2021 Prudential Code requires the Section 151 Officer to report explicitly on the affordability and risk associated with the Capital Strategy.

10.1.2 Accordingly, it is the opinion of the Section 151 Officer that the Capital Strategy as presented is affordable, and the associated risk has been identified and is being adequately managed.

10.2 Affordability

10.2.1 The Capital Strategy is affordable and there is a range of evidence to support this assertion, including:

- *Capital Programme* – the Programme as presented above (in Section 2) is supported by a robust and resilient General Fund Medium-Term Financial Plan (MTFP) extending through until 2027/28 that contains adequate revenue provision, including adequate reserves, in the event plans and assumptions do not materialise as expected

- *Asset Management* – as presented above (in Section 3), a new Asset Management Strategy for General Fund assets is under development, which is taking a strategic longer-term view (i.e., beyond 2027/28) of the Council's asset base. A fundamental aim of the Strategy is to achieve the optimum balance between future operational need and affordability, which will be reflected in its component parts including strategies for purchasing and constructing new assets, investment in existing assets, the transferring of assets to other organisations and the disposal of surplus assets; and

- *Commercial Investment* – as presented above (in Section 6), building on the success of its in-house Commercial Property Portfolio, the Council is now widening its commercial investment activities on arms-length basis through the creation of Qualis. The company is still at a relatively early stage in its evolution but is already generating financial returns for the Council through interest receipts and other 'inter-company' services and the Qualis Business Plan is progressing positively towards delivering a shareholder return to the Council in the medium-term.

10.3 Risk

10.3.1 The risk associated with the Capital Strategy has been identified and is being adequately managed. Evidence to support this assertion includes:

- *Treasury Management Strategy* – alongside this Capital Strategy, and subject to the recommendation of the Audit and Governance Committee, the Council is set to formally approved a Treasury Management Strategy for 2023/24 in accordance with CIPFA's (updated) "Treasury Management in the Public Services: Code of Practice 2021". That Strategy was developed by a professionally qualified and experienced officer within the Finance Team and informed by specialist advisors Arlingclose and other relevant and extant professional guidance

- *Investment Strategy* – the Council is also set to formally a approve an Investment Strategy for 2023/24 in accordance with MHCLG's "Statutory Guidance on Local Government Investments (3rd Edition) 2017". As with the Treasury Management Strategy, the Investment Strategy was developed by a professionally qualified and experienced officer within the Finance Team and informed by specialist advisors Arlingclose and other relevant and extant professional guidance; and

- *Commercial Activities* – as noted above (in Section 6) the Council is committed to significantly expanding its commercial activities through its arms-length delivery vehicle Qualis. It is recognised and accepted that increased commercial activity brings additional risk. The development of the Qualis initiative was therefore guided by the engagement of professional advisors on the commercial, financial, and legal aspects of the project, and the preparation of full supporting business cases, prior to the commencement of trading activities. Now that the company is operational, the Council manages its risk exposure through a formally agreed governance framework, which balances the commercial freedom of Qualis with the need for oversight by the Council.

10.3.2 In addition (pending the completion of the Asset Management Strategy), the Section 151 Officer has sought, and obtained, further assurance in issuing this statement in reviewing the position and arrangements in place for maintaining the Council's current assets. Based on a high-level review (all assets with a Gross Book Value of £0.5 million+ were sampled), the Section 151 Officer is satisfied that there are no major omissions – in terms of financial liabilities – from the Capital Programme in the medium-term. The new Asset Management Strategy will extend beyond the medium-term and will therefore – once completed – provide longer-term assurance with effect from 2023/24.

10.4 Capital Strategy Updates

10.4.1 The Capital Strategy is a 'living document' and will be periodically – usually annually – updated to reflect changing local circumstances and other significant developments. Progress/performance against relevant Prudential Indicators will be reported Quarterly alongside the Capital Programme.

Annex 1

Minimum Revenue Provision Statement 2023/24

DRAFT

(Recommended for Council approval by Audit & Governance Committee 28th November 2022)

Where the Council finances capital expenditure by 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 (MHCLG) Guidance on MRP (the MHCLG Guidance) updated in 2018.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement and recommends a range of options for calculating a prudent amount of MRP.

MRP Policy

No MRP is required to be charged for Housing Revenue Account (HRA) assets.

No MRP is required to be charged on any General Fund Capital Financing Requirement, which was in existence prior to the HRA Subsidy Reform exercise of 2012.

For General Fund capital expenditure incurred after the HRA Subsidy Reform exercise of 2012:

- MRP will be determined by charging the expenditure over the expected useful life of the asset, to a maximum of 50 years, on an annuity basis; and
- MRP on purchases of freehold land will be charged over 50 years.

The MRP payment is financed from revenue with an option that part, or all, of the payment could be financed from capital receipts to repay debt.

MRP will commence in the financial year following the asset coming into operational use or after purchase.

External Loans

For capital expenditure loans to third parties that are repaid in instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement.

Capitalisation Directions

For capitalisation directions on expenditure incurred after 1st April 2008 MRP will be made using the annuity method over 20 years.

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