Report to the Audit & Governance Committee

Report reference:
Date of meeting: **22 March 2021**

Epping Forest District Council

Portfolio:	**Finance and Economic Development – Cllr J. Philip**		
Subject:	**Capital Strategy 2021/22 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 2021/22 to 2025/26 _(Appendix A)_

(2) To consider and recommend for approval to full Council, the Minimum Revenue Provision Statement (MRP) 2021/22 _(Appendix A, Annex 1)._

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). Since then, the Council has significantly changed its approach to some of the component parts of the original Strategy, especially on commercial investment and regeneration, including the introduction of Qualis, the Council's arms-length investment and service delivery vehicle.

The Strategy sets out the Council's recently adopted five-year Capital Programme for both its General Fund and Housing Revenue Account 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 current Programme is "prudent, affordable and sustainable" as required by the Prudential Code.

Wider topics considered in the Capital Strategy 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 introduced in the 2017 (latest) edition of the Code.

Safer, Cleaner and Greener (SCG) Implications:

None.

Background Papers:

The Prudential Code for Capital Finance in Local Authorities (2017 Edition) published by CIPFA.

(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.

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.

Appendix A

EPPING FOREST DISTRICT COUNCIL

Capital Strategy 2021/22 to 2025/26 (DRAFT)

1. Introduction

1.1 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council.

1.2 Epping Forest District Council introduced its first Capital Strategy in February 2019 (effective from the 2019/20 financial year). This updated Capital Strategy incorporates significant changes to the component parts of the original version, reflecting especially the Council's latest approach to commercial investment and regeneration.

1.3 The Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in the district of Epping Forest, along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been purposely written in an accessible style to enhance understanding of what can be very technical areas.

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, which 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. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

2.1.2 Further details on the Council's capitalisation policy can be found in Note 1 of the Statement of Accounts 2019/20.

2.1.3 In 2021/22, Epping Forest District Council is planning capital expenditure of £52.152 million (and £266.973 million over the next five years) as summarised in Table 1 below.

Table 1: Prudential Indicator: Estimates of Capital Expenditure

Description	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
	£000's	£000's	£000's	£000's	£000's	£000's
General Fund Services	18,286	5,946	16,184	13,577	1,087	1,027
Qualis Investments (GF)	52,000	10,000	47,000	0	0	0
Housing Revenue Account	25,313	36,206	55,582	50,509	18,799	11,056
TOTALS	**95,599**	**52,152**	**118,766**	**64,086**	**19,886**	**12,083**

2.1.4 The most significant General Fund capital scheme scheduled for delivery and completion in 2021/22 is as follows:

- *ICT Strategy (£2.021 million)* – planned spending covers the development and progression of the Strategy. There are several strands to the work, including (subject to full business case) potentially moving the Council's on-site data centre to the Cloud. In addition, work has also commenced on evaluating the current on-site telephone system, the Council's collaboration and flexible working tools, as well as the current document storage solution.

2.1.5 There are two other significant General Fund capital schemes set to commence in 2021/22 as follows:

- *Cartersfield Road (£1.330 million in 2021/22)* – estimated capital spending of £2.807 million is anticipated on this scheme spread over 2021/22 and 2022/23. The scheme will see the redevelopment of a group of Council-owned industrial warehouse units, situated in Waltham Abbey; and

- *Museum and Library Joint Facility (£0.770 million in 2021/22)* – the Museum and Library Joint Facility at Waltham Abbey is at the heart of the proposed development of Community and Cultural Hub in Sun Street, Waltham Abbey and is set to be developed during 2021/22 and 2022/23, with a budgeted capital cost to the Council is £1.540 million over the two year period.

2.1.6 As noted above in Table 1, the Council also has a £10.0 million budget allocated to Qualis Investments in 2021/22, with a further allocation of £47.0 million in 2022/23. See Section 6.2 of this report for further detail.

2.1.7 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 £113.974 million allocated to the Housing Development Programme over a four-year period commencing in 2021/22 through to 2024/25, which is expected to deliver around 417 new homes.

2.2 Governance

2.2.1 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.

2.2.2 The draft Capital Programme is then subjected to formal Scrutiny prior to setting the budget (followed by Cabinet and full Council approval).

2.3 Financing

2.3.1 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	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
External Sources	1,266	2,548	1,152	1,052	1,052	1,052
Own Resources	35,758	17,333	16,751	16,826	14,412	10,485
Debt	58,575	32,271	100,863	46,208	4,422	546
TOTALS	**95,599**	**52,152**	**118,766**	**64,086**	**19,886**	**12,083**

2.3.2 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	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Own Resources	21,042	4,773	5,705	6,061	4,052	4,234

2.3.3 The Council's annual MRP statement can be found at ***Annex 1*** below.

2.3.4 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 £25.8 million in 2021/22. 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	**2020/21 Budget**	**2021/22 Budget**	**2022/23 Budget**	**2023/24 Budget**	**2024/25 Budget**	**2025/26 Budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
General Fund Services	162,300	169,600	223,100	255,700	250,700	204,600
Housing Revenue Account	155,600	174,100	214,600	219,000	219,000	255,800
TOTALS	**317,900**	**343,700**	**437,700**	**474,700**	**469,700**	**460,400**

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. Led by the Facilities team and 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 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	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
	£000's	£000's	£000's	£000's	£000's	£000's
Asset Sales	19,427	2,961	2,869	2,100	2,142	2,185
Loans Repaid	0	900	1,850	2,633	2,633	2,633
TOTALS	**19,427**	**3,861**	**4,719**	**4,733**	**4,775**	**4,818**

3.2.2 Assumed asset sales in 2020/21 include the transfer (at market value) of a number of key regeneration sites within the district to Qualis; this includes sites at Cottis Lane (valued at £3.470 million) and Hemnall Street (valued at £2.030 million) as part of the forthcoming development of a new Leisure Facility and Multi-Storey Car Park in Epping (due for completion in 2023/24). Additional regeneration sites are also due to transfer to Qualis as part of the Council's Housing Development Programme (highlighted above in Paragraph 2.1.7) as part of the same package.

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 (@ 28th February 2021) has borrowing of £250.206 million at an average interest rate of 2.63% and £11.039 million in treasury investments at an average interest rate of 0.015%.

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 (currently available at around 0.10%) and long-term fixed rate loans where the future cost is known but higher (typically available from the PWLB in the range 1.4% to 2.3% as at 28th February 2021).

4.2.2 Projected levels of the Council's outstanding 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	31/03/21 Budget	31/03/22 Budget	31/03/23 Budget	31/03/24 Budget	31/03/25 Budget	31/03/26 Budget
	£000's	£000's	£000's	£000's	£000's	£000's
Debt (including leases)	247,700	193,100	192,900	192,600	192,400	192,100
Capital Financing Requirement (CFR)	317,900	343,700	437,700	474,700	469,700	460,400

4.2.3 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

4.2.4 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 £12.0 million at each year-end. The Liability Benchmark is currently £282.0 million and is forecast to increase to £433.8 million over the next four years.

Table 7: Borrowing and the Liability Benchmark

Description	31/03/20 Actual	31/03/21 Estimate	31/03/22 Forecast	31/03/23 Forecast	31/03/24 Forecast	31/03/24 Forecast
	£000's	£000's	£000's	£000's	£000's	£000's
Outstanding Borrowing	224,500	253,700	307,800	401,800	438,800	433,800
Liability Benchmark	214,300	282,000	307,800	401,800	438,800	433,800

4.2.5 Table 7 above shows that the Council temporarily exceeded its Liability Benchmark on 31st March 2020, with £22.1 million held in Investments (i.e. £10.1 million above target). This was a short-term position as the Council assembled funds for planned lending to Qualis at the time. Conversely estimated Borrowing at 31st March 2021 is well within the Liability Benchmark, due to strong cash flows (especially related to Government grants related to Covid-19). Borrowing from 2021/22 onwards is expected to be in line with the Liability Benchmark.

Affordable Borrowing Limit

4.2.6 The Council is legally obliged to set an affordable borrowing limit (also termed the "Authorised Limit" for external debt) each year. In line with statutory guidance, a lower "Operational Boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt

Description	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£000's	£000's	£000's	£000's
Authorised Limit – borrowing	290,482	363,663	458,043	495,439
Authorised Limit – other long-term liabilities	0	0	0	0
Authorised Limit – total external debt	**290,482**	**363,663**	**458,043**	**495,439**
Operational Boundary – borrowing	280,482	353,663	448,043	485,439
Operational Boundary – other long-term liabilities	0	0	0	0
Operational Boundary – total external debt	**280,482**	**353,663**	**448,043**	**485,439**

4.2.7 Further details on borrowing are contained in the Treasury Management Strategy 2021/22.

4.3 Investments

4.3.1 Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

(Treasury Management) Investment Strategy

4.3.2 The Council's Investment Strategy is to prioritise security and liquidity over yield; focussing on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with 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 9 below summarises the Council's current and forecast treasury investments.

Table 9: Treasury Management Investments

Description	**31/03/20 Actual**	**31/03/21 Forecast**	**31/03/22 Budget**	**31/03/23 Budget**	**31/03/24 Budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Short-Term Investments	22,142	12,000	12,000	12,000	12,000
Long-Term Investments	0	0	0	0	0
TOTALS	**22,142**	**12,000**	**12,000**	**12,000**	**12,000**

4.4 Governance

4.4.1 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 recommendation from the Audit and Governance Committee), whereas mid-year updates are reported exclusively to the Audit and Governance Committee.

5. Investments for Service Purposes

5.1 The Council will sometimes make investments for service delivery purposes where there is a strategic case for doing so. This is an approach that has been adopted 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. Similarly, the Council's recent investment of £1.3 million in 2020/21 on the refurbishment Ongar Leisure Centre formed part of the agreed terms within the 20-year leisure contract and is reflected in the Management Fee that the Council receives.

Governance

5.2 Decisions on service investments are made by the Council's Cabinet and require the support of a full business case.

6. Commercial Investments

6.1 Direct Investments: Commercial Property Portfolio

6.1.1 The Council has pursued an expansive commercial investment strategy in recent years through the direct acquisition of commercial property in a range of locations across the district. The value of the overall portfolio rose from £117.011 million to £138.026 million in 2019/20, with net income of £6.216 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 (now the lowest district Council Tax in Essex).

Table 10: Commercial Property Portfolio

Portfolio Category	Balance Sheet Value	
	31/03/19	**31/03/20**
	£000's	**£000's**
Shops	81,133	94,765
Industrial Units	24,547	32,011
Other	11,331	11,250
Total Portfolio	**117,011**	**138,026**

6.1.2 The Council continues to invest in its directly owned Commercial Property Portfolio. Notably:

- 2020/21 – the Capital Programme for 2020/21 included budget provision of £4.833 million available for Commercial Property acquisitions. The Council has applied £2.662 million of those funds on the acquisition of leases on two Council owned industrial units in Waltham Abbey. The anticipated unspent balance of £2.171 million will roll forward at the year end and be available to acquire further suitable investments in 2021/22; and
- 2021/22 and 2022/23 –– as noted above in Paragraph 2.1.5, capital investment of £2.8 million is planned on Council-owned industrial warehouse units in Waltham Abbey; the project has a 10-year payback period and is expected to yield net income of £270,000 annually.

6.2 Arms-Length Investments: "Qualis"

6.2.1 Building on the commercial success of its directly owned commercial property portfolio, the Council established a wholly owned Local Authority Trading Company ("LATCO") in October 2019 with the trading name of "Qualis".

6.2.2 Qualis comprises a holding company ("Qualis Group") with three operating subsidiaries. The primary aim of the Group is to help create more jobs, grow the local economy, and improve housing and public amenities in the district. The subsidiary companies are as follows:

- Qualis Commercial – a development company
- Qualis Living – an investment company; and
- Qualis Management – a services company.

6.2.3 Qualis is required to act commercially to maximise profits within Qualis and deliver sustainable returns to the Council as the shareholder. Therefore, the Council will benefit from the receipt of a dividend on future profits. Qualis operations are rapidly expanding with activity so far (in 2020/21) predominantly focused on Qualis Living (with the acquisition of Commercial Property Investments in November 2020) and Qualis Management (following the transfer of the Council's Housing Repairs service in October 2020).

6.2.4 The Council also makes a margin on the loans that it has made to Qualis as well as the supply of various services that are supplied at market rates. Table 11 below summarises the Council's planned capital investment position with Qualis.

Table 11: Qualis Capital Investments

Description	**Type/Terms**	**2020/21**	**2021/22**	**2022/23**	**Totals**
		£000's	**£000's**	**£000's**	**£000's**
Investment Loan	10-Year Maturity/4.0%	30,000	0	0	**30,000**
Regeneration Finance Loans	TBC	6,000	10,000	47,000	**63,000**
Totals		**36,000**	**10,000**	**47,000**	**93,000**

6.2.5 In addition to the capital loans presented above, the Council has also provided Qualis with a Working Capital Loans totalling £6.0 million in a series of seven tranches as follows:

- 2019/20 (Tranche 1) - £500,000 (5-Year EIP @ 7.80%); and
- 2020/21 (Tranches 2 - 7) - £5,500,000 (5-Year EIP @ 3.80%).

6.3 Governance

6.3.1 It is important that Qualis have freedom and 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.

6.3.2 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.

7. Other Liabilities

7.1 Outstanding Commitments

7.1.1 The Council also 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). The overall deficit was valued at £63.637 million as at 31st March 2020 and back-funding payments of £0.602 million are scheduled to be made in 2021/22, followed by £0.624 million in 2022/23. Required payments in 2023/24 and beyond will be reviewed as part of the next Triennial Valuation (scheduled for 31st March 2023); and
- The Council has also set aside £2.145 million (as at 31st March 2020) 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) entailed a strategy of debt repayment, rather than a growth strategy based on debt re-financing and upgrading and/or expanding the stock; this 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 committed to building council houses in the district again, for the first time in many years.

7.2.3 A new HRA Business Plan is under development at the time of preparing this Strategy. This will be 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 2020 was £185.456 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; this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general Government grants.

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

General Fund Financing Costs	**2020/21 Budget**	**2021/22 Budget**	**2022/23 Budget**	**2023/24 Budget**
	£000's	**£000's**	**£000's**	**£000's**
Financing Costs	1,628	2,315	2,842	3,686
Proportion of Net Revenue Stream (Standard CIPFA Indicator)	**11%**	**15%**	**19%**	**25%**
Proportion of Net Revenue Stream (Local Indicator)	**10%**	**13%**	**15%**	**19%**

8.1.2 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.

8.1.3 An updated Net Revenue Stream Indicator for the Housing Revenue Account will be calculated upon the completion of the updated HRA Medium-Term Financial Plan as informed by the revised HRA Business Plan noted above (anticipated 30th September 2021). Typically, the HRA indicator will display a higher percentage, reflecting the ability of the Account to operate at a higher level of gearing than the General Fund due to the backing of a large property portfolio.

8.2 "Prudence, Affordability and Sustainability"

8.2.1 (*Subject to the comments below in Paragraph 8.2.2*) 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 10 (General Fund)* (Paragraph 8.1.1) – Proportion of Financing Costs to Net Revenue Stream – the growth in Financing Costs reflects the Council's ambitions for capital investment in its strategic priorities over the medium-term, including its ambitions for Qualis. The standard CIPFA indicator shows the impact on taxpayers should Qualis default on its loans from the Council, with all Financing Costs having to be met from Council Tax, Business Rates and general Government Grants. The standard indicator however excludes the interest that the Council receives from Qualis loans. A local indicator has therefore been prepared, including the interest received from Qualis loans. Importantly, this shows that the indicator remains under 20% for the duration of the forecast (the latest planned loan to Qualis is currently scheduled for 2022/23), which is within expected and controllable parameters

- *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 (£94.821 million over the five years from 2021/22) have been included in the 2021/22 Budget and Medium-Term Financial Plan (MTFP), extending to 2025/26; 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 secured a larger 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.

8.2.2 At the time of preparing this report (March 2021) as mentioned above in Paragraph 7.2.3, the HRA Business Plan is subject to a detailed review. The current 30-Year Business Plan was adopted by the Council in 2018, immediately prior to the Government announcement removing the HRA Borrowing Cap. This has led to a more expansive approach by the Council, and the new Business Plan is being designed to support that, whilst ensuring the long-term financial sustainability of the HRA. It is a detailed undertaking, with initial results anticipated in the summer of 2021. The HRA Capital Programme will be reviewed in the light of the updated Business Plan and some adjustments to profiling especially may be required to ensure that the “prudent, affordable and sustainable” assertion remains valid for this element of the overall Capital Programme.

9. Knowledge and Skills

9.1 Officers

9.1.1 The Council employs professionally qualifies 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 focussed professional training in specialist areas such as Treasury Management and Business Partnering

- *Property* – the Head of Assets and Facilities, who is leading on the development of the Asset Management Strategy, is a highly experienced senior property professional with a background spanning a range of business sectors. In addition, the Council also has a dedicated Commercial Property team, resourced by two senior ("MRICS") chartered surveyors; and

- *Housing* – the Council has a separate Housing Team that is responsible 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 Asset Management 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. Council elections are scheduled to be held in May 2021 and will be followed by a range of training for both newly elected councillors (induction training) and experienced councillors (refresher training). For example, a training event on "Local Authority Finance and the Budget Process" is scheduled for July 2021.

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 2021 elections.

10. Section 151 Statement on the Capital Strategy

10.1 Prudential Code

10.1.1 Paragraph 24 of the 2017 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 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 2025/26 that contains adequate revenue provision, including adequate reserves in the even that 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 2025/26) 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 asset s 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 2021/22 in accordance with CIPFA's "Treasury Management in the Public Services: Code of Practice 2017". 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 approve an Investment Strategy for 2021/22 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 sections 6.3 and 6.4) 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 2022/23.

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. However, the development of the new HRA Business Plan (explained in Paragraph 8.2.2 above) – anticipated in summer 2021 – may necessitate an in-year update to this Strategy should there be any material impact on the assertions contained herein.

Annex 1

Minimum Revenue Provision Statement 2021/22

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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.