EASTSUFFOLK
COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Monday, 08 January 2024

Subject	Capital Strategy 2024/25 to 2027/28
Cabinet Member	Councillor Vince Langdon-Morris Cabinet Member with responsibility for Resources and Value for Money
Report Author(s)	Julian Sturman Specialist Accountant – Capital & Treasury Management julian.sturman@eastsuffolk.gov.uk
Head of Service	Lorraine Rogers Chief Finance Officer and Section 151 Officer lorraine.rogers@eastsuffolk.gov.uk
Director	Chris Bally Chief Executive chris.bally@eastsuffolk.gov.uk

Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is **NOT** in the public interest to disclose the exempt information.	Not applicable
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:
The Capital Strategy (***Appendix A***) gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in East Suffolk, along with an overview of how associated risk is managed and the implications for future financial sustainability
Options:
To comply with the CIPFA Prudential code the report is required to be produced and presented to members, and consequently, no other options have been considered.

Recommendation/s:
That having reviewed and commented upon the Capital Strategy 2024/25 to 2027/28, the committee recommends it to Full Council for approval.

Corporate Impact Assessment

Governance:
The report complies with the Charted Institute of Public Finance and Accountancy (CIPFA) Prudential Code to provide information and scrutiny on the Council's Capital Strategy.
ESC policies and strategies that directly apply to the proposal:
East Suffolk Council Strategic Plan
Environmental:
No impacts.
Equalities and Diversity:
No impacts.
Financial:
Management of the Council's capital budget plans and the impact on the council's cash flows transactions.
Human Resources:
No impacts.
ICT:
No impacts.
Legal:
No impacts.
Risk:
Non-compliance with CIPFA's Prudential Code

External Consultees:	None

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*		Primary priority	Secondary priorities
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☐
P02	Attract and stimulate inward investment	☐	☐
P03	Maximise and grow the unique selling points of East Suffolk	☐	☐
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☐
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☐
P08	Maximising health, well-being, and safety in our District	☐	☐
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☐
P11	Making best use of and investing in our assets	☐	☒
P12	Being commercially astute	☐	☒
P13	Optimising our financial investments and grant opportunities	☐	☒
P14	Review service delivery with partners	☐	☐
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☐
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☐
P21	Minimise waste, reuse materials, increase recycling	☐	☐
P22	Renewable energy	☐	☐
P23	Protection, education, and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☒	☐

How does this proposal support the priorities selected?

Production of the Capital Strategy is a requirement under the CIPFA Prudential Code demonstrating the Council's governance of its capital plans.

Background and Justification for Recommendation

1	Background facts
1.1	The Capital Strategy (Appendix A) gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in East Suffolk, along with an overview of how associated risk is managed and the implications for future financial sustainability.

2	Current position
2.1	Section 2 of the Strategy outlines the draft Capital Programme 2024/25 to 2027/28 and the way in which it is to be financed. The overall planned expenditure is £410.97m (General Fund £329.03m and HRA £81.94m) over 2023/24 to 2027/28. The 2024/25 planned capital expenditure is £105.66m (General Fund £76.59m and HRA £29.07m).
2.2	Section 3 of the Strategy refers to the Asset Management Strategy, this highlights the treatment of asset disposals and the continuation of the prudent policy of not anticipating capital receipts before they are received.
2.3	Section 4 covers Treasury Management, including both borrowing and investments. Treasury Management is a well-established Council activity that operates within a tightly controlled framework.
2.4	Section 5 presents the Council’s approach to Service Investments.
2.5	Section 6 explores the Council’s other financial liabilities, both in terms of existing commitments (e.g., the Pension Fund deficit) and guarantees.
2.6	Section 7 explores the in-built revenue implications within the Capital Programme, its financing costs and evaluates its overall “prudence, affordability and sustainability”.
2.7	Section 8 explains how the Strategy is underpinned by a systematic approach to obtaining and maintaining the necessary knowledge and skills required, to operate effectively, whilst (simultaneously) adequately protecting the Council’s financial risk exposure and wider interests.
2.8	The Strategy concludes in Section 9 which includes an explicit statement by the Chief Finance Officer in accordance with the Prudential Code, providing assurance to Members that the Capital Strategy as a whole is affordable, and that risk has been identified and is being adequately managed.

3	How to address current situation
3.1	The Capital Strategy is a critical component in the delivery of many ambitions included within the Strategic Plan. It is not only essential to achieving one of the three overarching strategic priorities of the Plan (“Financial Sustainability”) but is also vital in the delivery of a vast range of service development and delivery initiatives.

4	Reason/s for recommendation
4.1	To enable the Audit & Governance Committee to review the Capital Strategy, including obtaining a recommendation for approval to Full Council.

Appendices

Appendices:	
Appendix A	Capital Strategy 2024/25 to 2027/28

Background reference papers:
None

APPENDIX A

East Suffolk Council

Capital Strategy 2024/25 – 2027/28

1) Introduction

1.1 This 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 East Suffolk, along with an overview of how associated risk is managed and the implications for future financial sustainability. It has purposely been 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 individual 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 the 2022/23 Draft Statement of Accounts on page 40, note n:

- ESC-Statement-of-Accounts-2022-23.pdf (eastsuffolk.gov.uk)

2.1.3 In 2024/25, East Suffolk Council is planning total capital expenditure of £105.66m (and a total of £410.97m from 2024/25 to 2027/28) as summarised in Table 1 below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2023/24 budget	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**	**2027/28 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
General Fund Services	46,734	76,594	84,927	115,997	4,776
Council Housing (HRA)	14,019	29,068	17,669	12,013	9,173
TOTAL	**60,753**	**105,662**	**102,596**	**128,010**	**13,949**

2.1.4 The capital programme which has been revised through the Councils autumn budget setting process will be reviewed at the January meeting of the Scrutiny Committee. The General Fund and HRA summaries are shown below.

SUMMARY - GENERAL FUND PROGRAMME	2023/24 £000 Revised Budget	2024/25 £000 Revised Budget	2025/26 £000 Revised Budget	2026/27 £000 Revised Budget	2027/28 £000 New Budget	2023/24 to 2027/28 £000 Revised Total
MHCLG Grant Funding to Freeport East via ESC as Accountable Body	0	0	0	0	0	0
Communties, Leisure & Tourism	1,936	5,671	22,850	24,841	0	55,298
Corporate Services (formely ICT - Digital & Programme Management)	796	887	250	250	500	2,683
Corporate Services (formely Operations)	17,505	13,320	4,960	1,930	1,930	39,645
Economic Development & Transport	5,651	21,777	18,498	909	0	46,835
Community Health (formely Environmental Services & Port Health)	485	50	0	0	0	535
Resources & Value for Money (Formerly Financial Services)	400	315	0	0	0	715
Resources & Value for Money (Formerly General Fund Housing)	2,594	2,207	2,194	2,182	2,171	11,348
Resources & Value for Money - Long Term Debtors	0	0	0	0	0	0
Planning & Coastal Management	17,367	32,367	36,175	85,885	175	171,969
Total Capital Expenditure	**46,734**	**76,594**	**84,927**	**115,997**	**4,776**	**329,028**
Financed By:-						
Internal resources - reserves	7,229	2,637	1,250	1,250	1,500	13,866
Internal resources - borrowing	16,485	23,059	36,799	26,635	1,105	104,083
Grants	23,020	50,898	46,878	88,112	2,171	211,079
Total Financing	**46,734**	**76,594**	**84,927**	**115,997**	**4,776**	**329,028**

SUMMARY - HRA PROGRAMME	2023/24 £000 Revised Budget	2024/25 £000 Revised Budget	2025/26 £000 Revised Budget	2026/27 £000 Revised Budget	2027/28 £000 New Budget	2023/24 to 2027/28 £000 Revised Total
Asset Investment	4,203	7,890	10,190	5,490	4,990	32,763
Acquisition & Development	9,816	21,178	7,479	6,523	4,183	49,179
Total Capital Expenditure	**14,019**	**29,068**	**17,669**	**12,013**	**9,173**	**81,942**
Financed By:-						
Internal resources - capital receipt	2,227	5,344	2,244	3,024	2,948	15,787
Internal resources - Housing Revenue Account	3,070	10,278	2,967	1,795	1,235	19,345
Internal resources - reserves	7,606	9,890	10,498	5,290	4,790	38,074
Grants	1,116	3,556	1,960	1,904	200	8,736
Total Financing	**14,019**	**29,068**	**17,669**	**12,013**	**9,173**	**81,942**

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.

2.1.6 Capital investments include loans and shares made for service purposes and property to be held primarily for financial return in line with the definition in the CIPFA Treasury Management Code.

2.2 Governance

2.2.1 The evaluation, prioritisation, and acceptance of capital schemes onto the Capital Programme is carried out in accordance with strict criteria that ensures that new schemes reflect Council priorities and can be delivered within available resources (e.g., due priority is given to schemes yielding savings and/or generating income as well as meeting a Council priority). Proposals are shaped by senior managers in consultation with councillors and considered at the Head of Service budget meetings (in October/November each year) which also includes the Strategic Director responsible for the service area, the Chief Finance Officer (CFO) and relevant members of the finance team. The Head of Housing budget meeting also considers the HRA capital programme.

2.2.2 The draft Capital Programme is then subjected to formal Scrutiny prior to setting the budget followed by 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

	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's	2027/28 £000's
External sources (Grants/Contributions)	24,136	54,454	48,838	90,016	2,371
Revenue Resources	20,132	28,149	16,959	11,359	10,473
Borrowing	16,485	23,059	36,799	26,635	1,105
Total	**60,753**	**105,662**	**102,596**	**128,010**	**13,949**

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).

Table 3: Replacement of prior years' Debt Finance

	2023/24 Actual £000's	2024/25 budget £000's	2025/26 budget £000's	2026/27 budget £000's	2027/28 budget £000's
Minimum Revenue Provision (MRP)	1,722	2,011	2,405	2,962	2,386

2.3.3 The Council's annual MRP statement can be found at Annex A 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. The CFR is expected to increase by £77.83m between 2023/24 and 2027/28 which is due to capital projects being financed through borrowing. 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)

	2023/24 Actual £000's	2024/25 budget £000's	2025/26 budget £000's	2026/27 budget £000's	2027/28 budget £000's
General Fund services CFR	85,034	106,082	150,476	174,149	172,868
Council housing (HRA) CFR	59,440	59,440	49,440	49,440	49,440
TOTAL CFR	**144,474**	**165,522**	**199,916**	**223,589**	**222,308**

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 especially against a rapidly changing operational and technological backdrop. Enhancing the management of the Council's existing asset base and looking beyond the traditional medium-term financial planning horizon is a major priority. An updated Asset Management Strategy (AMS) was approved in July 2019, broken down into four key components:

- Administrative Improvements.
- Compliance and Sustainability.
- A strategic approach to assets; and
- Reducing expenditure and increasing income.

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, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and
- Plans for individual assets.

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 to repay debt. Repayments of loans and investments also generate capital receipts. Table 5 below summarises the overall budget projections for capital receipts and loan repayments.

Table 5: Capital Receipts

	2023/24 Actual	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**	**2027/28 budget**
	£000’s	**£000’s**	**£000’s**	**£000’s**	**£000’s**
General Fund Asset sales	-5,599	0	0	0	0
HRA Asset Sales	-1,860	-7,055	-1,543	-616	-675
TOTAL	**-7,459**	**-7,055**	**-1,543**	**-616**	**-675**
General Fund Loans repaid	160	1,200	160	160	160
HRA Loans repaid	0	960	0	10,000	0
TOTAL	**160**	**2,160**	**160**	**10,160**	**160**

3.2.2 The Council operates a deliberately prudent policy of not assuming future capital receipts within its General Fund capital income projections.

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 November 2023) has borrowing of £65.49m at an average interest rate of 4.44% and £123.89min treasury investments at an average consolidated rate of 4.88%.

4.2 Borrowing

4.2.1 The Council's main objective 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 short-term loans (currently available at around 5.69%) and long-term fixed rate loans where the future cost is likely to be higher than the current 5.49%.

4.2.2 Projected levels of the Council's total outstanding debt (which comprises borrowing, leases and transferred debt) are shown below in Table 6, compared with the Capital Financing Requirement (Table 4 above).

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

	2023/24 budget £000's	2024/25 budget £000's	2025/26 budget £000's	2026/27 budget £000's	2027/28 budget £000's
Debt (incl. leases)	88,158	108,688	144,912	161,387	162,332
Capital Financing Requirement	144,474	165,522	199,916	223,589	222,308

4.2.3 Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from Table 6, the Council expects to comply with this in the medium term.

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 minimum liquidity level. This assumes that cash and investment balances are kept to a minimum level of £10 million at each year-end. The Liability Benchmark shows that based on the current capital plans there is no requirement to borrow in 2023/24, however based on the current budgets the Council will need to borrow in 2024/25 to 2027/28 due to the reduction in financial resources available.

Table 7: Borrowing and the Liability Benchmark

	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Loans CFR	148.78	192.82	228.75	310.52	305.41
Less: Balance sheet resources	-176.80	-176.80	-176.80	-181.70	-181.70
Net loans requirement	-28.02	16.02	51.95	128.82	123.71
Plus: Liquidity allowance	10.00	10.00	10.00	10.00	10.00
Liability benchmark	**-18.02**	**26.02**	**61.95**	**138.82**	**133.71**

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 sets as a warning level should debt approach the limit.

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

	2023/24 limit	**2024/25 limit**	**2025/26 limit**	**2026/27 limit**	**2027/28 limit**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Authorised limit – borrowing	168,380	168,380	168,380	168,380	168,380
Authorised limit – leases	6,620	6,620	6,620	6,620	6,620
Authorised limit – total external debt	175,000	175,000	175,000	175,000	175,000
Operational boundary – borrowing	166,380	166,380	166,380	166,380	166,380
Operational boundary – leases	6,620	6,620	6,620	6,620	6,620
Operational boundary – total external debt	173,000	173,000	173,000	173,000	173,000

4.2.7 Further details on borrowing are contained in the Treasury Management Strategy

4.3 Investments

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.

(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 or selected high-quality banks, to minimise the risk of loss.

4.3.3 Table 9 below summarises the Council's current and forecast treasury investments.

Table 9: Treasury Management Investments

	2023/24 current	**2024/25 forecast**	**2025/26 forecast**	**2026/27 forecast**	**2027/28 forecast**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Near-term investments	115,000	100,000	100,000	100,000	100,000
Longer-term investments	20,000	20,000	20,000	20,000	20,000
TOTAL	**135,000**	**120,000**	**120,000**	**120,000**	**120,000**

4.4 Risk Management

4.4.1 The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

4.5 Governance

4.5.1 Treasury management decisions are made daily and are therefore delegated to the CFO, 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 Audit and Governance Committee), whereas mid-year updates are reported exclusively to the Audit and Governance Committee.

5) Investments for Service Purposes

5.1 As published in the Councils Draft Statement of Accounts 2022/23 at 31st March 2023, the Council held net investments as follows:

- Suffolk Coastal Norse Limited - the Council has held a 20% equity share since April 2009. The Council's share of Net Assets / (Liabilities) at 31st March 2023 was £2,169,000; and
- Waveney Norse Limited – the Council has held a 19.9% equity share since April 2008. The Council's share of Net Assets / (Liabilities) at 31st March 2023 was £600,000.

Governance

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

5.1.2 The Council exercised its right not to renew the contract with Norse for the provision of operational services, with the contract ceasing on the 30th June 2023.

5.1.3 East Suffolk Services, a Local Authority Trading Company (LATCo) operate as an 'arms-length' commercial business, separate to the Council, following the conclusion of the Norse contract. The Council has made a loan provision of £1.8m to East Suffolk Services and holds 100 shares at £1 each.

6) Other Liabilities

6.1.1 Outstanding Commitments

6.1.2 The Councils draft 2022/23 Statement of Accounts does include any outstanding commitments.

6.2 Guarantees

6.2.1 The Council became "self-financing" in respect of its retained housing stock (in the former Waveney district) from April 2012. The self-financing regime applied to all authorities and replaced the former housing subsidy system whereby the Council made annual subsidy 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).

6.2.2 A 30-year Business Plan for the Council's HRA was previously developed, which generated sufficient rental income each year to run an efficient and effective housing management service, whilst at the same time servicing the outstanding debt (which is scheduled for repayment in full by March 2042 i.e., within the 30-year period). However, if the HRA is unable to repay the outstanding debt at any point in the future, the Council (through its General Fund) is liable to repay any remaining balance. The remaining balance on HRA debt as at 31st March 2023 was £60.40 million. The HRA business plan is currently being re-refreshed to provide the most update position.

6.3 Governance

6.3.1 Decisions on incurring new discretionary liabilities are taken by Directors and Heads of Service in consultation with the CFO. For example, in accordance with the Financial Procedure Rules (Part 3 of the Constitution, Paragraph 2.1.25)**,** credit arrangements – such as leasing agreements – cannot be entered into without the prior approval of the CFO.

7) Revenue Implications

7.1 Financing Cost

7.1.1 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 10: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (General Fund)

	2023/24 budget	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**	**2027/28 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Financing Costs (£m)	1,923	2,212	2,606	3,163	2,587
Proportion of Net Revenue Stream	5.10%	11.06%	10.09%	12.42%	11.24%

Table 11: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (HRA)

	2023/24 budget	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**	**2027/28 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Financing Costs (£m)	4,281	6,001	4,016	3,560	3,300
Proportion of Net Revenue Stream	14.78%	23.07%	14.57%	13.00%	12.30%

7.1.2 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.

7.2 "Prudence, Affordability and Sustainability"

7.2.1 The CFO is satisfied that the proposed Capital Programme (Section 2) is prudent, affordable, and sustainable based on the following:

<u>*Prudence*</u>

- Prudential indicators 10 and 11 presented above (Paragraph 8.1.1) are within expected and controllable parameters. Thus:
  - *Prudential Indicator 10 (General Fund) - 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.
  - *Prudential Indicator 11 (HRA) - Proportion of Financing Costs to Net Revenue Stream* – the indicator profile mirrors the HRA 30-Year Business Plan, which is a fully-costed strategy that will see all outstanding debt repaid by 2042/43.
- *Underlying Prudent Assumptions* – a prudent set of assumptions have been used in formulating the Capital Programme. This is illustrated in the approach to capital receipts whereby the

proceeds are not assumed within projections until the associated sale is completed and the money received by the Council; and

- *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 (£11.49 million over five years) have been included in the draft 2023/24 Budget and Medium-Term Financial Strategy (MTFS), extending to 2027/28; and
- The MTFS is underpinned by a Reserves Strategy, which includes contingency funds in the event that projections are not as expected (further supported by CFO 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 and regenerate the area are given due priority. For example, the Lowestoft Tidal Barrier (unlocking brownfield development sites and providing a boost to future income from Business Rates and Council Tax), the Towns Fund Project which will look to regenerate Lowestoft Town Centre and seek to attract external interest and investment in the Town.
- As explained in Section 3.1 above, the Asset Management Strategy 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) Knowledge and Skills

8.1 Officers

8.1.1 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 Chief Finance Officer (CFO) is a qualified (CIPFA) accountant with many years of experience. The Council sponsors junior staff to study for relevant professional qualifications including AAT, CIPFA and ACCA. The Council also pays for (and ensures attendance on) training courses and conferences across all aspects of accounting, including (especially) Treasury Management to keep professional client status under "MIFID II" (the "Markets in Financial Instruments Directive", incorporated into UK law in November 2017).
- *Property* –The Asset Management service comprises of, and performs the Estates Management, Building Services, Resorts, Capital Projects, and Development functions of the Council. Each function is headed by an appropriately qualified professional within their individual specialism (e.g., the Building Services team is led by a MRICS Building Surveyor). As with Finance, the Council is strongly committed to supporting both professional and wider staff development within its Asset Management function, with a number of staff on the pathway to becoming qualified RICS surveyors and with apprentice opportunities within the Asset Management team.

8.1.2 The Council also has a separate Housing team that is responsible for overseeing social housing developments within the district.

8.2 External Advisors

8.2.1 Where the Council does not have the relevant knowledge and skills required, judicious use is made of external advisers and consultants that are experts/specialists in their field. The Council currently employs Arlingclose Limited as Treasury Management advisers, and the Asset Management team will appoint property advisors (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.

8.3 Councillors

8.3.1 Specifically with regard to Treasury Management, the Council acknowledges the importance of ensuring that members have appropriate capacity, skills, and information to effectively undertake their role. To this end, a training session was delivered on the 19th June 2023 by the Councils external Treasury Advisors, Arlingclose which all East Suffolk councillors were invited to.

9) CFO Statement on the Capital Strategy

9.1 Prudential Code

9.1.1 Paragraph 24 of the Prudential Code determines that….” the Chief Finance Officer should report explicitly on the affordability and risk associated with the Capital Strategy”.

9.1.2 Accordingly, it is the opinion of the CFO that the Capital Strategy as presented is affordable, and associated risks have been identified and are adequately managed.

9.2 Affordability

9.2.1 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 2.1) is supported by a robust and resilient MTFS extending through until 2027/28 that contains adequate revenue provision, including sufficient reserves in the event that plans and assumptions do not materialise as expected.
- *Asset Management* – as presented above (in Section 3.1) the Asset Management Strategy is taking a strategic longer-term (i.e., beyond 2054/26) view 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 is reflected in its component parts including strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and

9.3 Risk

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

- *Treasury Management Strategy* – the Council is in the process of formally approving its Treasury Management Strategy for 2024/25 in accordance with CIPFA’s “Treasury Management in the Public Services: Code of Practice 2017”. That Strategy was developed by the Council’s (professionally qualified and experienced) Finance team and informed by specialist advisors Arlingclose and other relevant and extant professional guidance.

- *Investment Strategy* – the Council is also formally approving an Investment Strategy for 2024/25 in accordance with MHCLG's "Statutory Guidance on Local Government Investments (3rd Edition) 2018". As with the Treasury Management Strategy, the Investment Strategy was developed by the Finance team and informed by specialist advisors Arlingclose and other relevant and extant professional guidance; and

9.3.2 In addition, the CFO is satisfied that there are no major omissions – in terms of financial liabilities – from the Capital Programme in the medium-term.

9.4 Capital Strategy Updates

9.4.1 The Capital Strategy is a 'living document' and will be periodically – usually annually – updated to reflect changing local circumstances and other significant developments.

Annex A

Annual Minimum Revenue Provision Strategy

1. 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 for Housing, Communities and Local Government's Guidance on Minimum Revenue Provision.

2. The broad aim of the Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

3. The Guidance requires the Council to approve an Annual MRP Statement each year and recommends several options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

4. For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant Public Works Loan Board rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

5. Capital expenditure incurred during 2024/25 will not be subject to a charge until 2025/26.