



## AUDIT AND GOVERNANCE COMMITTEE

Monday, 14 December 2020

### CAPITAL STRATEGY 2021/22 TO 2024/25

#### EXECUTIVE SUMMARY

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. Section 2 of the Strategy outlines the planned Capital Programme 2021/22 to 2024/25 and the way in which it is to be financed. Including the Revised 2020/21 Capital Programme, overall planned expenditure is £254.39 million (General Fund £189.44 million and HRA £64.95 million) over 2020/21 to 2024/25. In 2021/22, there is planned capital expenditure of £68.22 million.
3. The Council has made provision for a Capital Investment loan of £10m in 2021/22 to the Councils Local Authority Trading Company which is included within the Councils Capital Programme for 2021/22.
4. 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.
5. Section 4 covers Treasury Management, including both borrowing and investment. Treasury Management is a well-established Council activity that operates within a tightly controlled framework. Borrowing levels are expected to remain comfortably within the Council's pre-set limits throughout the duration of the Strategy.
6. Section 5 presents the Council's approach to Service Investments and its ongoing joint venture commitments with the Norse Group for a package of services including Refuse Collection, Cleansing and Maintenance.
7. Section 6 sets out the position on Commercial Investment and the way in which an increase in commercial investment and trading by the Council is set to build on current levels of activity. This represents a 'mixed delivery approach' – combining in-house/direct and arm's length delivery (through a local authority trading company) –for a range of commercial activities.
8. Section 7 explores the Council's other financial liabilities, both in terms of existing commitments (e.g. the Pension Fund deficit) and guarantees.

9. Section 8 explores the in-built revenue implications within the Capital Programme, its financing costs and evaluates its overall “prudence, affordability and sustainability”.
10. Section 9 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.
11. The Strategy concludes in Sections 10 and 11. This includes an explicit statement by the Interim CFO 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.

<b>Is the report Open or Exempt?</b>	Open
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<b>Wards Affected:</b>	All
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<b>Cabinet Member:</b>	Councillor Maurice Cook Cabinet Member with responsibility for Resources
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<b>Supporting Officer:</b>	Brian Mew Interim Chief Finance Officer 01394 444571 <a href="mailto:brian.mew@eastsoffolk.gov.uk">brian.mew@eastsoffolk.gov.uk</a>
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**1 HOW DOES THIS RELATE TO EAST SUFFOLK BUSINESS PLAN?**

1.1 The Capital Strategy is a critical component in the delivery of many ambitions included within the Business Plan. It is not only essential to achieving one of the three overarching strategic priorities of the Plan (“Financial Self-Sufficiency”) but is also vital in the delivery of a vast range of service development and delivery initiatives.

**2 FINANCIAL AND GOVERNANCE IMPLICATIONS**

2.1 All Financial and Governance implications are covered in the Capital Strategy (**Appendix A**).

**3 OTHER KEY ISSUES**

3.1 There are no other key issues arising from this report. Equality, (environmental) Sustainability and Partnership issues are considered as part of individual Capital Programme bids.

**4 CONSULTATION**

4.1 Professional guidance has been received (and followed) from the Council’s Treasury Management advisors (Arlingclose).

**5 OTHER OPTIONS CONSIDERED**

5.1 There are no alternative options.

**6 REASON FOR RECOMMENDATION**

6.1 To enable Scrutiny Committee to review the Capital Strategy, including obtaining a recommendation for approval to Cabinet and Full Council.

**RECOMMENDATION**

That the Audit & Governance Committee reviews, comments upon, and recommends the Capital Strategy 2021/22 to 2024/25 to Full Council for approval.

**APPENDICES**

**Appendix A**

**Capital Strategy 2021/22 to 2024/25**

**BACKGROUND PAPERS – none**

**East Suffolk Council**  
**Capital Strategy 2021/22 – 2024/25**

**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 2019/20 Statement of Accounts:

- [Note 1 \(o\)](#)

2.1.3 In 2021/22, East Suffolk Council is planning total capital expenditure of £68.22 million (and £222.70 million over the next four years) as summarised in Table 1 below:

*Table 1: Prudential Indicator: Estimates of Capital Expenditure*

	<b>2020/21 budget</b>	<b>2021/22 budget</b>	<b>2022/23 budget</b>	<b>2023/24 budget</b>	<b>2024/25 budget</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
General Fund Services	27,162	45,511	32,727	37,589	46,454
Council Housing (HRA)	4,534	22,712	13,312	12,193	12,200
<b>TOTAL</b>	<b>31,696</b>	<b>68,223</b>	<b>46,039</b>	<b>49,782</b>	<b>58,654</b>

2.1.4 The main General Fund capital projects scheduled for 2021/22 are as follows:

- *Lowestoft Flood Risk Management/Tidal Barrier (£17.35 million)* – currently the highest value scheme that the Council has with a budget allocation of £9.96 million included for Phase 1 works (Tidal Walls, Pluvial and Fluvial) and £12.36 million for Phase 2 works (the Tidal Gate);
- *Commercial Investment LATCO (£10 million)* – as part of the Councils commercial portfolio a £10 million investment into the newly created LATCO will provide a steady revenue income stream over the longer term.

- *Former Deben High School Project (£2.60 million)* – major investment and redevelopment for the former Deben High School for Leisure Services and Housing.
- *Lowestoft Beach Hut Replacement (£1 million)* – phase 2, replacement of beach huts following the demolition, reconstruction of the Cliff face and installation of beach hut frame.
- *Post Office London Road North Lowestoft (£1 million)* -Redevelopment of the purchased vacant Post Office site in London Road North Lowestoft.
- *Public Conveniences – (£1 million) – enhancement programme of district wide public conveniences.*
- *Railway Building, Lowestoft (£1.5 million)* – Purchase and development of building contained within the Railway site.
- *Southwold Caravan Site (£1 million)* – redevelopment and enhancement of Caravan site.
- *Felixstowe South - seafront work and Martello Café (£1 million)* - Development of South Seafront area and Martello Café Felixstowe

2.1.4 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 £40.02 million allocated to the New Build Programme over the (four-year) forecast period, which is expected to deliver around 200 new homes.

2.1.5 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 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

	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
	£000's	£000's	£000's	£000's	£000's
External sources (Grants)	10,852	22,469	18,347	28,189	37,102
Revenue resources	9,575	24,073	12,692	10,693	10,152
Debt	11,269	21,681	15,000	10,900	11,400
<b>TOTAL</b>	<b>31,696</b>	<b>68,223</b>	<b>46,039</b>	<b>49,782</b>	<b>58,654</b>

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 use of capital receipts are presented in Table 3 below.

Table 3: Replacement of Debt Finance

	2020/21 Actual	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
	£000's	£000's	£000's	£000's	£000's
Minimum Revenue Provision (MRP)	820	1,196	1,627	1,941	2,014

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 £11.269 million in 2020/21 and £21.681 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)

	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
	£000's	£000's	£000's	£000's	£000's
General Fund services CFR	48,493	70,174	95,460	106,360	117,760
Council housing (HRA) CFR	77,550	77,550	67,264	67,264	67,264
<b>TOTAL CFR</b>	<b>126,043</b>	<b>147,724</b>	<b>162,724</b>	<b>173,624</b>	<b>185,024</b>

### 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. The Council is also permitted to spend capital receipts on service transformation projects until 2022/23 (in line with its “Flexible Use of Capital Receipts Policy”). Repayments of loans and investments also generate capital receipts. Table 5 below summarises the overall budget projections for capital receipts.

Table 5: Capital Receipts

	2020/21	2021/22	2022/23	2023/24	2024/25
	£000's	£000's	£000's	£000's	£000's
Asset sales	-	-	-	-	-
Loans repaid	160	10,446	160	160	160
<b>TOTAL</b>	<b>160</b>	<b>10,446</b>	<b>160</b>	<b>160</b>	<b>160</b>

3.2.2 The Council operates a deliberately prudent policy of not assuming future capital receipts within its capital income projections. The most significant capital receipt likely to be received during the timescale of this Strategy relates to the disposal of the former headquarters of Suffolk Coastal District Council at Melton Hill, Woodbridge and the value of capital receipts assumed within the Capital Programme will be updated to reflect this when they are realised.

3.2.3 The Council’s Flexible Use of Capital Receipts Policy will form part of the General Fund Budget & Council Tax Report to Council on 24<sup>th</sup> February 2021.

## 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 (30<sup>th</sup> November 2020) has borrowing of £77.25 million at an average interest rate of 4.39% and £179 million in treasury investments at an average consolidated rate of 0.77%. The investment amount at the end of November includes a total of £45 million in relation to Covid19 grant money provided by MHCLG. £35 million is due to be repaid to MHCLG in respect of grants relating to the first

national lockdown and £10 million is currently being distributed to eligible business in respect of the second national lockdown.

## 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 cheap short-term loans (currently available at around 0.25%) and long-term fixed rate loans where the future cost is known but higher (currently 2.50%).

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

	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
	£000's	£000's	£000's	£000's	£000's
Debt (incl. leases)	94,601	105,536	119,954	130,350	141,221
Capital Financing Requirement	126,043	147,724	162,724	173,624	185,024

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 £30 million at each year-end (five times the Councils General Fund balance). The Liability Benchmark is currently £77.253 million and is forecast to decrease to £66.327 million over the next four years due to the estimated use of resources in lieu of borrowing.

Table 7: Borrowing and the Liability Benchmark

	31.3.2021 forecast	31.3.2022 forecast	31.3.2023 forecast	31.3.2024 forecast	31.3.2025 forecast
	£000's	£000's	£000's	£000's	£000's
Outstanding Borrowing	88,522	99,757	114,597	125,337	136,577
Liability Benchmark	77,253	66,807	66,647	66,487	66,327

4.2.5 Table 7 above shows that the Council expects to remain borrowed above its Liability Benchmark due to the borrowing requirement of the capital programme.

### 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

	2020/21 limit	2021/22 limit	2022/23 limit	2023/24 limit	2024/25 limit
	£000's	£000's	£000's	£000's	£000's
Authorised limit – borrowing	148,380	148,380	148,380	148,380	148,380
Authorised limit – leases	6,620	6,620	6,620	6,620	6,620
Authorised limit – total external debt	155,000	155,000	155,000	155,000	155,000
Operational boundary – borrowing	146,380	146,380	146,380	146,380	146,380
Operational boundary – leases	6,620	6,620	6,620	6,620	6,620
Operational boundary – total external debt	153,000	153,000	153,000	153,000	153,000

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 From 2020/21, the Council plans to operate a more diverse strategy than in the past for longer-term funds, which will be invested more widely, including into bonds, loans, property and shares; this will better balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

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

Table 9: Treasury Management Investments

	2020/21 current	2021/22 forecast	2022/23 forecast	2023/24 forecast	2024/25 forecast
	£000's	£000's	£000's	£000's	£000's
Near-term investments	112,000	102,000	89,000	79,000	68,000
Longer-term investments	15,000	15,000	15,000	15,000	15,000
<b>TOTAL</b>	<b>127,000</b>	<b>117,000</b>	<b>104,000</b>	<b>94,000</b>	<b>86,000</b>

### 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 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, Cleansing and Maintenance whereby the Council has entered into joint ventures with the Norse Group. Given its public service objectives, the Council is willing to take more risk than with treasury investments, nevertheless the arrangements feature cost reduction incentives, from which the Council benefits in the form of Management Fee reductions.
- 5.2 As at 31<sup>st</sup> March 2020, the Council held net investments of £329,000 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 31<sup>st</sup> March 2020 was (£130,000); 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 31<sup>st</sup> March 2020 was £459,000.

### Governance

- 5.3 Decisions on service investments are made by the Council's Cabinet and require the support of a full business case. The Council is also represented on the boards of both Norse joint venture companies.

## **6) Commercial Investments**

### **6.1 Current Investments**

- 6.1.1 In recent years, the Council has invested in commercial property in the district on a selective basis, usually where there is a fit with corporate priorities and a positive financial return that can be used to contribute towards the protection of local services. As at 31<sup>st</sup> March 2020, the commercial property portfolio comprised three shop units in Lowestoft with an estimated Fair Value of £2.9 million. Estimated net return (after all costs) for 2020/21 is expected to be £172,000 (0.6%).

### **6.2 Commercial Investment Strategy**

- 6.2.1 In recognition of the continued shortfall in local government funding and commitments made in the East Suffolk Business Plan (2015-23), the Council adopted a draft Commercial Investment Strategy (CIS) in September 2017 with a view to achieving a step change increase in commercial investment and trading by the Council.
- 6.2.2 The CIS has been developed into a business case advocating a commercial investment and trading delivery approach, including the creation of a local authority trading company (LATCO). Adopted in January/February 2019, and being progressively phased in during 2021/22 (following the development and approval of a full business case in support of each commercial activity), it is a mixed delivery approach covering the following activities:
- In-House
    - Commercial Property Investment
    - Commercial Property Development
  - LATCO
    - Residential Property Investment
    - Residential Property Development
    - Property Management Services
    - Construction Services (initially Roofing and Scaffolding)
    - Leisure Services (e.g. Holiday Lets and Beach Huts).

- 6.2.3 With regard to Commercial Property Investment, CIPFA expressed concern in October 2018 at what they perceive to be the increasing risk taken on by local authorities following a sharp increase in Public Works Loan Board (PWLB) borrowing by councils to invest in commercial property. Both CIPFA and MHCLG have made changes in recent years to codes of practice and statutory guidance in response to increased investment in property. This includes revisions to the CIPFA Prudential Code for Capital Finance in Local Authorities; the CIPFA Treasury Management in the Public Services: Code of Practice; and MHCLG Statutory Investment Guidance. MHCLG have indicated that there is unlikely to be any radical change to the current Statutory Investment Guidance.
- 6.2.4 CIPFA recently issued guidance on Prudential Property Investment in November, following circulation of draft guidance for consultation in June. The CIPFA Guidance expresses three main areas of concern:
- whether legal powers exist that permit local authorities to borrow to invest in property.
  - whether the risks of incurring certain borrowing costs in exchange for uncertain investment returns are fully understood; and
  - that ever-increasing purchases of commercial property funded by borrowing places a strain on the credibility of the prudential framework that could lead to statutory intervention.
- 6.2.5 Although not statutory in nature, the Council’s approach will incorporate the CIPFA guidance; this will enhance the other risk management features that are being developed; this includes a strict governance framework, the use of real estate investment experts and diversified portfolios. The aim is to offset principle risks such as falling capital values and voids. However, (within a tightly controlled framework) the Council ultimately accepts a higher risk on commercial investments compared to treasury investments.

## **6.3 Governance**

- 6.3.1 Governance arrangements for commercial investment and trading continue to be developed. Tailored arrangements will be required for both the in-house and LATCO elements of the commercial investment and trading approach. Thus:
- *In-House* – Commercial Property Investment is an activity that requires quick decisions to be made if good commercial investment opportunities are to be realised. However, the requirement for speed must not be at the expense of professional expertise (e.g. on real estate investment) and strong oversight. Draft proposals include an officer “Property Acquisitions Group” - with provision for investment expertise – to consider and make recommendations on investment opportunities, overseen by a “Property Acquisitions Sub-Committee” with delegated decision-making powers; and
  - *LATCO* – the arm’s length delivery of commercial investment and trading dictates a need for an appropriate balance between allowing the LATCO sufficient operational freedom to think and act with a commercial mind-set, but at the same time ensuring effective Governance arrangements are in place so that the strategic objectives of the Council are met and their general interest protected. Draft proposals include an independent LATCO Board with freedom to make day-to-day operational decisions, overseen by a Shareholder Committee appointed by Cabinet, being responsible for “reserved matters” (major decisions).

## **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 20-year period from 2013 to 2033). The deficit was valued at £54.45 million as at 31<sup>st</sup> March 2020, from 2020/21 the deficit payment will be incorporated into the primary employers' pension contribution rate rather than an annual lump sum payment; and
- The Council has also set aside £6.11 million (as at 31<sup>st</sup> 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 (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).
- 7.2.2 A 30-year Business Plan for the Council’s HRA has been developed, which is currently generating 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 timeframe). 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 31<sup>st</sup> March 2020 was £71 million.

## 7.3 Governance

- 7.3.1 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.

## 8) Revenue Implications

### 8.1 Financing Cost

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

	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
	£000's	£000's	£000's	£000's	£000's
Financing Costs (£m)	1,350	1,726	2,157	2,472	2,544
Proportion of Net Revenue Stream	1.47%	3.70%	5.31%	6.23%	6.29%

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

	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
	£000's	£000's	£000's	£000's	£000's
Financing Costs (£m)	3,653	9,868	7,559	5,798	6,622
Proportion of Net Revenue Stream	17.62%	46.73%	35.07%	26.30%	29.09%

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.

## 8.2 “Prudence, Affordability and Sustainability”

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

### Prudence

- 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. The projected indicator profile is relatively flat from 2020/21, remaining well below 10% at all times.
  - *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 ‘revenue consequences’ of the Capital Programme (£8.899 million over four years) have been included in the draft 2021/22 Budget and Medium-Term Financial Strategy (MTFS), extending to 2024/25; 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/generate income 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 Leisure Centre Development Programme (driving up usage, enabling Management Fee reductions) and Commercial Investment (e.g. generating rental income from commercial property investments).
- 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.

## **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 Interim 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); and
- *Property* – the Asset and Investment Manager (AIM) – a qualified (MRICS) surveyor, with many years of experience – is responsible Asset Management within the Council. The Asset Management department is well resourced and comprises the Estates Management, Building Services 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 Member of the Chartered Institute of Builders). As with Finance, the Council is strongly committed to supporting both professional and wider staff development within its Asset Management function, with the number of qualified RICS surveyors continuing to increase in recent years. The AIM will also play a key role in the Council’s approach to commercial investment and trading (highlighted above in Section 6).

9.1.2 The Council also 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 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.

### **9.3 Councillors**

9.3.1 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, newly elected East Suffolk councillors with Treasury Management responsibilities will receive tailored training sessions from the Council’s Treasury Management advisors (Arlingclose).

## **10) Interim CFO Statement on the Capital Strategy**

### **10.1 Prudential Code**

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

10.1.2 Accordingly, it is the opinion of the CFO 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 2.1) is supported by a robust and resilient MTFs extending through until 2024/25 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 new Asset Management Strategy is taking a strategic longer-term (i.e. beyond 2024/25) 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
- *Commercial Investment* – as presented above (in Section 6.2) the primary aim of the Strategy long-term is income generation to replace the shortfall in Government funding. The Strategy is progressing positively towards the delivery stage and its success will be critical to the long-term affordability of the Capital Strategy.

## **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* – the Council is in the process of formally approving its 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 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 2021/22 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
- *Commercial Activities* – as noted above (in Paragraph 6.2) the Council is committed to expanding the scale of its commercial activities in the medium-term as part of its Commercial Investment Strategy. It is recognised and accepted that increased commercial activity brings additional risk. The Strategy is therefore being developed in accordance with contemporary best practice. This includes 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 both in-house and arm’s length trading activities, strictly in accordance with HM Treasury’s ‘five-case model’ (“The Green Book: Central Government Guidance on Appraisal and Evaluation”).

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

## **11) Capital Strategy Updates**

11.1 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 31<sup>st</sup> 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 2021/22 will not be subject to a charge until 2022/23.