

# Capital Strategy Statement

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Eastbourne Borough Council

2024/25+

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# Capital Strategy

## 1) Introduction

- 1.1 This Capital Strategy provides high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in Eastbourne Borough Council (EBC), 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, and the key objectives are to deliver a capital programme that:
- Ensure the Council's capital assets are used to support the Council's vision;
  - Reduce ongoing commitments/schemes;
  - Reduce the current and projected level of borrowing;
  - Reduce borrowing impacts on the Council's revenue budget;
  - Increase capital programme partnership/support opportunities;
  - Links with the Council's asset management/disposal plan;
  - Is affordable, financially prudent and sustainable;
  - Ensure the most cost-effective use of existing assets and new capital investment.
- 1.2 The Capital Strategy is a 'living document' and will be periodically, usually annually, updated to reflect changing local circumstances and other significant developments. The Strategy outlines the council's approach to capital investment, ensuring that it is in line with the council's corporate priorities. It is good practice that capital strategy and asset management/disposal plans are regularly reviewed and revised to meet the changing priorities and circumstances of the Council.
- 1.3 The strategy provides an important link between the ambitions set out in the Council's longer-term vision and Council Plan and the important investment in infrastructure that will help turn that vision into a reality. There are economic and financial challenges post Covid-19. However, the Council is committed to investing now for the longer term and financing that commitment will be made possible by the Council's financial resilience that continue to be developed through various themes and ongoing initiatives, including –
- Recovery and Reset Programme, Best use of Assets review, Stability and Growth;
  - Medium Term Financial Strategy;
  - Prudential Code and Treasury Management Code

## 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 a de-minimis level are not capitalised and are charged to revenue in year.
- 2.1.2 Further details on the capitalisation policy can be found in the Council's Statement of Accounts.

2.1.3 In 2024/25, the Council is planning capital expenditure of £30.8 million (and £75.5m over the following three years) as summarised in Table 1 below:

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

Capital Expenditure	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£000	£000	£000	£000	£000
General Fund	17,572	14,381	5,664	2,604	2,415
Housing Revenue Account (HRA)	17,141	15,418	12,276	25,420	25,884
Service Investments - Loans (including subsidiary companies)	2,944	1,016	680	560	-
Commercial Investments	-	-	-	-	-
Service Investments	295	-	-	-	-
<b>TOTAL</b>	<b>37,952</b>	<b>30,815</b>	<b>18,620</b>	<b>28,584</b>	<b>28,299</b>

2.1.4 The main General Fund capital projects scheduled for 2024/25+ are as follows:

- Levelling Up Fund – Black Robin Farm, Victoria Place Pedestrianisation, Towner Centenary Project
- Bandstand and Promenade
- Redoubt
- Sovereign Centre
- Coast Defences and Beach Management

The main Service Investment capital projects scheduled for 2024/25+ are as follows:

- Hampden Retail Park
- Loans to Subsidiary Companies - Housing and Waste

2.1.5 Commercial Investments are primarily for financial return. Service Investments are taken or held primarily and directly for the delivery of public services rather than commercial gain. Some projects may include elements of both purposes, so a judgment is made on the primary purpose.

2.1.6 The 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 £26m allocated to the New Build & Acquisitions programme and £53m to Major Improvements over 2024/25 – 2027/28 forecast period.

## 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 added 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).

2.2.2 The draft Capital Programme is subject to formal scrutiny prior to setting the budget (and 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 Sources*

	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£000	£000	£000	£000	£000
External sources (Grants and Contributions)	15,956	11,331	4,540	1,754	3,567
Own resources (Capital Receipts, MRR, Reserves, Revenue)	11,667	8,306	7,745	9,761	9,630
Borrowing	10,329	11,178	6,335	17,069	15,102
<b>TOTAL</b>	<b>37,952</b>	<b>30,815</b>	<b>18,620</b>	<b>28,584</b>	<b>28,299</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: Repayment of Debt Finance*

	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£000	£000	£000	£000
MRP	1,537	1,924	2,203	2,412

2.3.3 The Council's annual MRP statement can be found within the Treasury Management Strategy Statement.

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 £9.3m in 2024/25 (£2.7m GF and £6.6m HRA). 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 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£000	£000	£000	£000
General Fund	144,052	146,731	146,768	145,766
HRA	53,524	60,099	64,194	79,853
<b>TOTAL</b>	<b>197,576</b>	<b>206,830</b>	<b>210,962</b>	<b>225,619</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 in a rapidly changing operational and technological backdrop. Consequently, at the time of preparing this Capital Strategy, a new Asset Management Strategy (AMS) is being developed. Led by the Asset Management team and backed by a comprehensive review of Council assets, the AMS will take 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 (flexible use) on service transformation projects. Repayments of capital grants, loans and investments also generate capital receipts. The Council takes a prudent approach of assuming future capital receipts only when there is a high probability of realisation.

### **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 not cash rich as it utilises all its available cash before borrowing which in the current climate is more economic.

4.1.2 As at 31 December 2023, the Council had long term borrowing of £112.6m, short term borrowing (less than 1 year) of £65.0m and cash investments of £4.9m.

#### **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 short-term loans (less than one year) (currently around 5.6%) which could be replaced at a lower rate (if base rates were to fall) and long-term fixed rate loans where the future cost is known but higher (e.g. 5.0% for a 25 year term).

4.2.2 Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below in **Table 5**, compared with the Capital Financing Requirement (Table 4 above).

*Table 5: Prudential Indicator: Estimates of Gross Debt and the Capital Financing Requirement*

	<b>2023/24 Forecast</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Debt	178,910	185,532	189,627	205,286
CFR	197,576	206,830	210,962	225,619

- 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 5**, the Council expects to comply with this in the medium term.

*Affordable Borrowing Limit*

- 4.2.4 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 6: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt*

	<b>2023/24 Forecast</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Authorised Limit	242,590	253,810	258,870	276,570
Operational Boundary	232,210	242,950	247,810	264,760

- 4.2.5 Further details on borrowing are contained in the Treasury Management Strategy.

**4.3 PWLB Borrowing**

- 4.3.1 The government recognises the valuable contribution that local authorities make to the social and economic infrastructure and supports local investment in part by offering low cost loans to local authorities through the Public Works Loan Board (PWLB).

- 4.3.2 In compliance with the HM Treasury guidance, the Council need to ensure that the capital programme/investments are compliant with the ongoing access to the PWLB lending terms, which include an assurance from the Chief Finance Officer (Section 151 Officer) that the Council is not borrowing in advance of need and does not intend to buy investment assets primarily for yield.

- 4.3.4 The purpose of the PWLB is to offer long-term, affordable loans to support local authority investment in the following areas –

- Service spending, i.e. activities that would normally be captured in the following areas in the DLUHC Capital Outturn Return (COR): culture & related services, environmental & regulatory services, etc.
- Housing, i.e., activities normally captured in the HRA and General Fund housing sections of the COR, or housing delivered through a local authority housing company.
- Regeneration projects would usually have one or more of the following characteristics:

- the project is addressing an economic or social market failure by providing services, facilities, or other amenities;
  - the Council is making a significant investment in the asset beyond the purchase price:
  - the project involves or generates significant additional activity that would not otherwise happen without the Council's intervention;
  - the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services.
- Preventative action with the following characteristics - intervention that prevents a negative outcome, there is no realistic prospect of support from a source other than the Council; has an exit strategy, and does not propose to hold the investment for longer than is necessary; the intervention takes the form of grants, loans, sale and leaseback, equity injections, or other forms of business support that generate a balance sheet asset.
  - Treasury management covers refinancing or extending existing debt from any source, and the externalisation of internal borrowing.
- 4.3.5 Individual projects and schemes may have characteristics of several different categories. In these cases, the CFO would use professional judgment to assess the main objective of the investment and consider which category is the best fit.
- 4.3.6 If the Council wishes to on-lend money to deliver objectives in an innovative way, the government expects that spending to be reported in the most appropriate category based on the eventual use of the money. The Council must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans.
- 4.3.7 Under the prudential code, the Council cannot borrow from the PWLB or any other lender for speculative purposes, and must not use internal borrowing to temporarily support investments purely for yield, which would usually have one or more of the following characteristics:
- buying land or existing buildings to let out at market rate;
  - buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification;
  - buying land or existing buildings other than housing which generate income and are intended to be held indefinitely.
- 4.3.8 The decision over whether a project complies with the terms of the PWLB is for the Chief Finance Officer. This decision will be final unless the Treasury has concerns that issuing the loan is incompatible with HM Treasury's duty to Parliament to ensure that public spending represents good value for money to the Exchequer and aligns with relevant legislation. In practice such an eventuality is highly unlikely and would only occur after extensive discussion with the local authority in question – but a safeguard is necessary to protect the taxpayer.



#### **4.4 Investments**

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

4.4.2 The Council's Investment Strategy is to prioritise security and liquidity over yield and social/ethical impact, focussing on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely in selected high-quality banks, to minimise the risk of loss.

#### **4.5 The Eastbourne Biodiversity Strategy and The Climate Emergency Strategy**

4.5.1 In 2019 the council declared a climate emergency and committed to deliver a carbon neutral town by 2030. Nature-based solutions are at the heart of delivering against this target and work programmes are aligned to climate resilience and improving local biodiversity, through:

- the adoption of a pollinator strategy and pesticide policy in 2019.
- ongoing projects to increase valuable ecological habitats through better mowing regimes and tree and hedge planting where feasible.
- continual reviews of management and contracts for council-owned land and property.

4.5.2 The council is committed to supporting measures to help arrest biodiversity losses, restore habitats and species and work for climate resilience to promote healthy and thriving communities. This is recognised through this strategy, with the need to protect and maintain as well as enhance and increase biodiversity and nature across Eastbourne. The vision for biodiversity set out in 'Eastbourne Carbon Neutral 2030 - A plan for action' is: Existing green spaces, the coast and the sea have been protected and enhanced where appropriate and new protected spaces have been created to enable animal and plant life to flourish.

4.5.3 The Council broad key aims can be summarised as follows:

- To maintain and increase biodiversity on council-owned and managed land.
- To engage and enable community-led nature-based projects and to be involved in partnerships that promote natural capital and biodiversity across the borough.
- To ensure that all developments maximise the opportunities for well-considered gains in biodiversity.

4.5.4 The EBC Climate Emergency Strategy contains eight themes, which can be accessed through the link below and the strategy provides the background information on emissions for the Council and the borough. The Council will use these to measure our progress towards Eastbourne Carbon Neutral 2030.

#### **4.6 The Council's Approach to Ethical Investments**

4.6.1 Ethical investing is a term used to describe an investment process which takes environmental, social and governance (ESG) or other ethical considerations into account and is a topic of increasing interest within treasury management. Investment guidance, both statutory and from CIPFA, makes clear however that all investment must adopt the principals of security, liquidity, yield and that ethical issues must play a subordinate role to those priorities.

- 4.6.2 Furthermore, the council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values. This would include avoiding direct investment in institutions with material links to:
- Human rights abuse (e.g. child labour, political oppression);
  - Environmentally harmful activities (e.g. pollutions, destruction of habitat, fossil fuels);
  - Socially harmful activities (e.g. tobacco, gambling).
- 4.6.3 The investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities. Link is looking at ways to incorporate these factors into their creditworthiness assessment service, but with a lack of consistency, as well as coverage, Link continue to review the options and will update the Council as progress is made.

#### **4.7 Governance**

- 4.7.1 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. Quarterly performance reports are also submitted to Cabinet.

#### **5. Investments for Service Purposes**

- 5.1 Investments for service purposes' (or service investments) are taken or held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services.
- Service investments may or may not involve financial returns; however, obtaining those returns will not be the primary purpose of the investment.
  - For local authorities, service investments will normally constitute capital expenditure, and it may be appropriate to borrow to finance service investments.
- 5.2 The Council will sometimes make investments for service delivery purposes where there is a strategic case for doing so. 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 will benefit.
- 5.3 Examples would include the purchase of office blocks, retail units or other assets inside of the local authority area.
- 5.4 Decisions on service investments are made by the Council's Cabinet and require the support of a full business case.

## **Investments for Treasury Management purposes**

- 5.5 Investments for treasury management purposes' (or treasury management investments) are those investments that arise from the Council's cash flows or treasury risk management activity, and ultimately represent balances that need to be invested until the cash is required for use in the course of business.
- Treasury investments may include an allowance for a reasonable level of short-term treasury investments to provide access to liquidity.
  - Treasury investments may also include the investment of borrowing proceeds where it has been prudent for an organisation to borrow in advance of the need for cash, e.g. in order to reduce financing and interest rate risks.
  - Treasury investments may also arise from other treasury risk management activity that seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.
  - Treasury management investments should always be on commercial terms and will rarely constitute capital expenditure for local authorities.
  - For authorities with long-term surplus cash, this category may include long-term investments such as equities, bonds and property, whether accessed through a fund or directly, but unless there is a link to cash flow management or treasury risk management activity, it is likely that such investments would be for commercial purposes, i.e. primarily for financial return.

## **6. Commercial Investments**

- 6.1.1 Commercial in this context refers to the purpose of the investment. Commercial investments are not taken to meet treasury management cash flow needs, and do not result from treasury risk management activity to prudently manage the risks, costs or income from existing or forecast debt or treasury investments. They are additional investments voluntarily taken primarily in order to generate net financial return or profit.
- 6.1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both incomes driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition. In the context of the Capital Strategy, the council is using capital to invest in property to provide a positive surplus/financial return.
- 6.1.3 Local authorities will be prohibited from accessing the PWLB if they plan debt-for-yield commercial investments in any of the three years. Commercial activity must be secondary priority to economic regeneration and housing provision. There will be more monitoring of what it is that local authorities are delivering by way of a capital scheme and Section 151 officers are required to formally validate those policies to HM Treasury/PWLB.
- 6.1.4 The Council can fund the purchase of investment property through various means **excluding borrowing** money, normally from the Debt Management Office as part of HM Treasury. The rental income paid by the tenant/annual surplus then supports the council's budget position and enables the council to continue to provide services for local people. The reasons for buying and owning property investments are primarily:

- Financial returns to fund services to residents
- Market and economic opportunity.
- Economic development and regeneration activity in the district.

6.1.5 Historically, property has provided strong investment returns in terms of capital growth generation of stable income. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. The strategy makes it clear that the council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process.

6.1.6 An example would be the purchase of assets, such as a retail unit, outside of the local authority area.

6.1.7 In May 2018, the Council's wholly owned the Investment Company Eastbourne Limited (ICE) entered into a deal with a private company, Infrastructure Investments Leicester Ltd (IIL), in respect of a property in Leicester. ICE is acting as the principal guarantor of a £48m refinancing loan to a private company, with the Council being the ultimate guarantor. ICE is also providing a rental guarantee in respect of shortfalls of rental income, again with the Council being the ultimate guarantor. In return for providing this guarantee, ICE has received an initial guarantee fee and will receive an annual guarantee fee.

## **6.2 Current Investments**

6.2.1 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.

## **6.3 Commercial Investment Strategy**

6.3.1 However, in recognition of the continued shortfall in local government funding and commitments, Council's could look to a Commercial Investment Strategy to support and achieve a step change increase in commercial investment and trading.

6.3.2 CIPFA has made clear that Councils should not borrow to invest commercially, and their Capital Investment Strategy must make it clear as to where they depart from this principle and why. However, it has been recognised that local investments that are primarily designed for regeneration or service delivery purposes and which have a knock-on positive impact to the revenue budgets are not intended to be covered by this principle.

6.3.3 Councils must demonstrate that such investments are "proportionate" to their resources. The Council's approach will incorporate the revised CIPFA guidance when it is published; this will enhance the other risk management features that are being developed, which 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 its prudent treasury investment that has primarily focused to date on protecting the principal.

6.3.4 The Council considers investing in housing properties and commercial properties within the District to be related to its temporary accommodation strategy and local regeneration. It will invest commercially but in relation to the services it provides or to build and strengthen the local economy, with the related benefit of increased business rates.

## **6.4 Governance**

6.4.1 Governance arrangements would need to be stipulated within a Commercial Investment Strategy.

### **6.4 Deciding whether investments are for treasury, service or commercial purposes**

6.4.1 It is the purpose of an investment that identifies whether it is for treasury management, service or commercial purposes. Any individual investment or class of investments can be in any of these three categories. The chief finance officer will need to make a professional judgement about which category a given investment falls into.

6.4.2 For example, pooled investment funds are widely used for treasury management purposes to invest sums until the time required to meet future cash flows. But if they were to be used by authorities that have a borrowing need as long-term investments primarily for the purpose of earning a profit above the cost of borrowing, they should be classed as investments for commercial purposes. The authority would be borrowing in order to invest primarily for financial return.

6.4.3 The boundary between treasury management use of pooled funds and commercial use of pooled funds is for the chief finance officer and treasury teams to judge. For example, it might be appropriate for an authority to hold a low-risk, short-duration bond fund, even if it forecasts a likely need to borrow within the duration of the fund, as part of its liquidity strategy, with limited risk to capital and no net cost to the revenue account. As part of a short-to-medium-term treasury management strategy to manage the authority's liquidity needs and borrowing costs, such investments might be considered to be treasury investments.

6.4.4 A truly long-term fund, for example of equities or property, is unlikely to meet this purpose for a borrowing authority, as the risks to capital are too high to make sense as part of liquidity management. The authority's investment strategy could set out the reasoning for judging such funds to be for treasury management purposes rather than being primarily for financial profit.

## **7. Other Liabilities**

### **7.1 Outstanding Commitments**

7.1.1 The Council also has the following outstanding commitments:

- The Council has also set aside £0.39m at 31<sup>st</sup> March 2023 to cover the financial risk associated with Business Rates appeals lodged with the Valuation Office Agency (VOA).

### **7.2 Guarantees**

7.2.1 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. 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 current balance on HRA debt is £50.9m comprising PWLB loans.

### 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 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 (excluding investment income receivable). The annual charge is known as financing costs and this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general Government grants.

*Table 7a: Prudential Indicator: Estimate of Proportion of Financing Costs to Net Revenue Stream (General Fund)*

	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Financing Costs (£000)	5,945	6,452	5,719	5,834
Proportion of Net Revenue Stream %	35.6%	34.4%	29.2%	29.0%

*Table 7b: Prudential Indicator: Estimate of Proportion of Financing Costs to Rental Income (HRA)*

	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Financing Costs [including depreciation] (£000)	6,983	7,775	8,099	8,770
Proportion of Rental Income %	44.0%	43.6%	44.3%	46.5%

*Table 7c: Prudential Indicator: Proportion of Net Income to Net Revenue Stream (Commercial & Service)*

	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Net Income (£000)	2,717	2,799	2,882	2,969
Proportion of Net Revenue Stream %	16.3%	14.9%	14.7%	14.7%

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 years into the future.

## **8.2 Prudence, Affordability and Sustainability**

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

### Prudence

- Prudential indicators presented above (Paragraph 8.1.1) are within expected and controllable parameters. Thus:
  - *Prudential Indicator (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 (HRA) - Proportion of Financing Costs to Net Revenue Stream* – the indicator profile mirrors the HRA 30-Year Business Plan.
- *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 (£106 million over four years) have been included in the 2024/25 Budget and Medium-Term Financial Strategy (MTFS), extending to 2027/28; and
- The MTFS includes 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.
- As explained in Section 3.1 above, the Asset Management Strategy will represent 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. Prioritisation Principles and Obligations to deliver a scheme**

9.1 The capital investment process is to ensure that money available for capital expenditure is prioritised in the way that best meets the Council's objectives and must be achieved within the constraints of the capital funding available. The Council need to demonstrate that it uses a clear, understandable method of comparing projects in order to prioritise expenditure and continue to allow schemes to be ranked according to Council’s need, while ensuring the best allocation of the Council scarce resources in the most efficient/sustainable way and thus ensuing value for money.

9.2 Therefore, it is important that there is a strict definition of what is included within the scheme. Demand for capital resources to meet investment needs and aspirations will exceed the resources available to the Council and rolling programme items are the first call on available resources to ensure that existing approved service levels can continue to be delivered. New resource development bids will need to be prioritised as follows:

<b>Projects Prioritisation for Capital Programme Inclusion</b>	
<b>Priority 1</b>	Projects which enable compliance with Health & Safety and the Council's legal/statutory duties including projects which address any infrastructure deficits related to statutory compliance.
<b>Priority 2</b>	Projects that generate revenue savings through the delivery of a new business strategy or service transformation proposals or invest to save and cost avoidance.
<b>Priority 3</b>	Projects where a major proportion of the capital funding from external sources will be lost if the project fails to go ahead but subject to consideration of future revenue requirements.
<b>Priority 4</b>	Projects that contribute to the delivery of a smaller property portfolio through increased co-location or space utilisation or adaptation of new ways of working.
<b>Priority 5</b>	Projects that facilitate improvement, economic development, regeneration and housing growth
<b>Priority 6</b>	Projects that address cross-cutting issues, facilitate joint-working with partners or generate new/additional income.

9.3 The Council's financial and service planning process need to ensure decisions about the allocation of capital and revenue resources are taken to achieve a corporate and consistent approach. The funding of capital schemes is via the following hierarchy:

- External grants and contributions;
- Capital receipts from the disposal of fixed assets;
- Leasing finance; (where applicable);
- Revenue contributions;
- External Borrowing.

9.4 The strategy will be to employ 'Whole Life Costing' that will demonstrate the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset, i.e., encourages decision-making that takes account of the initial capital cost, running cost, maintenance cost, refurbishment requirements and disposal cost.



## **10. Knowledge and Skills**

### **10.1 Officers**

10.1.1 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) and Deputy Chief Finance Officer (DCFO) are qualified (ACCA/ CIPFA) accountants with many years of public and private sector experiences. The Council sponsors junior staff to study for relevant professional qualifications including AAT, CIPFA and ACCA. The Council also supports training courses and conferences across all aspects of accounting.
- *Property* – the Head of Property and Asset Management (HPAM) – a qualified property professional - is responsible for Asset Management within the Council. It comprises Asset Development, Building and Maintenance, Corporate Landlord and development functions of the Council. Each area has appropriately qualified professionals within their individual specialism. The HPAM post plays a key role in the Council’s approach to any commercial investment and trading (highlighted above in Section 6).

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

### **10.2 External Advisors**

10.2.1 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 Link Asset Services as advisers, and the Asset Management team will commission advisors as appropriate (e.g. development managers, valuers) to support their work where required to ensure that the Council has access to knowledge and skills commensurate with risk.

### **10.3 Councillors**

10.3.1 Elections were held in May 2023 and treasury training was provided in November 2023. May 2027 is the next date for district council elections. Duly elected councillors will receive training appropriate to their role in the new Council.

10.3.2 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 Eastbourne councillors with Treasury Management responsibilities will receive tailored training sessions from the Council’s Treasury Management advisors (Link Asset Services).

## **11. CFO Statement**

### **11.1 Prudential Code**

11.1.1 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”.

11.1.2 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.

## 11.2 Affordability

11.2.1 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) a new Asset Management Strategy is under development, which is taking a strategic longer-term (i.e. beyond 2025/26) 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 will be 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.
- *Commercial Investment* – as presented above (in Section 6.3) the Commercial Investment Strategy is also under development. 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.

## 11.3 Risk

11.3.1 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 will formally approve the Treasury Management Strategy for 2024/25, at the Eastbourne Borough Council – Full Council meeting on 21 February 2024, in accordance with CIPFA's "Treasury Management in the Public Services: Code of Practice 2021".

That Strategy was developed by the Council's (professionally qualified and experienced) Finance team and informed by specialist advisors Link Asset Services and other relevant and extant professional guidance.

- *Investment Strategy* – the Council will also formally approve an Investment Strategy for 2024/25, at the Full Council meeting on 19 February 2024, in accordance with DLUHC's "Statutory Guidance on Local Government Investments (3rd Edition) 2021". As with the Treasury Management Strategy, the Investment Strategy was developed by the Finance team and informed by specialist advisors Link Asset Service and other relevant and extant professional guidance.
- *Commercial Activities* – as noted above (in paragraph 6.3) the Council could significantly expand the scale of its commercial activities in the medium-term as part of a Commercial Investment Strategy. It is recognised and accepted that increased commercial activity brings with its additional risk. A Strategy should be developed in accordance with contemporary best practice. This includes the engagement of professional advisors on the commercial, financial and legal aspects of a 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").

## **12.0 Capital Programme Oversight Board**

### **12.1 Objectives**

- The Capital Programme Oversight Board (CPOB) will provide strategic direction, oversight and corporate assurance for the General Fund capital programme and Housing Revenue Account (HRA) Business Plan across Eastbourne Borough and Lewes District Councils;
- The CPOB will have an oversight and stewardship role for the delivery of both Councils Capital expenditure including, the Council General Fund Capital Plan, the Council's Housing Capital (HRA), Commercial Activities/non-commercial investments and capital financing/funding;
- The CPOB is also responsible for addressing programme issues and reviewing risk and financial implications for LECs;
- The CPOB will drive through the Assurance Review recommendations in respect of the capital programme and move towards a fully sustainable capital programme and asset release.

### **12.2 Responsibilities**

The responsibilities of the CPOB are to:

- Be responsible and accountable for feeding into the annual Service & Financial Planning process;
- Establish and embed a robust and effective governance framework through which all Councils capital projects will be evaluated, prioritised for development and delivery, subject to Member approval;
- Provide oversight of the capital programme and the Housing Revenue Account (HRA) Business Plan;
- Agree recommendations to relevant Committee(s), as required, to ensure the programme achieves its objectives in-line with initial proposals, Business Cases and options appraisals assessed through PRSOP and RAMP;
- Scrutinise and challenge programmes and projects at a strategic level in relation to budgets, actual spend, timing, and overall financial strategy;
- Monitor the achievement of the capital programme's core aims and objectives;
- Monitor the HRA Business Plan assumptions in line with Section 76 of the Local Government and Housing Act 1989;
- Continually monitor any potential impacts upon the HRA as they evolve i.e., Social Housing White Paper, post Covid-19;
- Monitor the critical path for delivery across the capital programme;
- Take timely decisions as the capital programme evolves;
- Ensure the capital programme is delivered in a joined-up way across Council departments;
- Assist with resolving issues across Council departments;
- Ensuring appropriate resources, capacity and capability are in place to deliver the capital programme across LECs, and where necessary, commit resources as required;
- Ensure risks are being effectively managed and updated, and mitigations are identified appropriately required.