

APPENDIX A: JOINT CAPITAL STRATEGY 2022/23

1. Introduction

- 1.1 This Joint Capital Strategy for 2022/23 gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these often-technical areas.
- 1.2 Decisions made this year on capital and treasury management will have financial consequences for the Councils for many years into the future. They are therefore subject to both a national regulatory framework and a local policy framework, summarised in this report.
- 1.3 The strategy demonstrates that the Councils take capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability.

2. Capital Expenditure and Financing

- 2.1 Capital expenditure is where the Councils spend money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy or enhance assets.
- 2.2 The Councils have some limited discretion on what counts as capital expenditure; for example, individual assets costing below £10k are not capitalised and are charged to revenue in the year.

Governance: Capital Expenditure

- 2.3 Proposed capital projects are appraised by the Senior Leadership Team based on a comparison of service priorities against financing (even if the project is fully financed from external funds) before being included in the Councils' capital programmes.
- 2.4 Full details of the Councils' capital programmes are included initially in the Budget reports, that were presented to Overview and Scrutiny Committees in January 2022 and will go onto Cabinet and the Full Council meetings in February 2022.

Estimated Capital Expenditure

- 2.5 The actual capital spend for 2020/21, the forecast outturn for 2021/22, the budget for 2022/23 and forecast from 2023/24 to 2025/26, for the General Fund and the Housing Revenue Account (HRA) as per the 2022/23 budget report is summarised as follows:

Table 1: Prudential Indicator: Estimated Capital Expenditure

| Capital Expenditure | | | | | | |
|----------------------------------|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Babergh District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | ** £m | £m | £m | £m |
| General Fund | 4.06 | 5.42 | 17.70 | 1.65 | 1.77 | 1.54 |
| Capital Investments | 19.44 | 0.17 | 4.80 | 4.89 | 3.81 | 0.06 |
| Total General Fund | 23.50 | 5.59 | 22.50 | 6.54 | 5.58 | 1.60 |
| | | | | | | |
| Council Housing (HRA) | 12.57 | 20.96 | 18.64 | 8.15 | 6.57 | 7.32 |
| Total Capital Expenditure | 36.07 | 26.55 | 41.14 | 14.69 | 12.15 | 8.92 |

| Capital Expenditure | | | | | | |
|----------------------------------|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Mid Suffolk District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | ** £m | £m | £m | £m |
| General Fund | 7.55 | 9.68 | 9.32 | 1.83 | 1.57 | 1.57 |
| Capital Investments | 21.32 | 4.11 | 19.72 | 5.25 | 3.50 | 0.00 |
| Total General Fund | 28.87 | 13.79 | 29.03 | 7.08 | 5.07 | 1.57 |
| | | | | | | |
| Council Housing (HRA) | 11.15 | 18.06 | 39.13 | 25.75 | 10.76 | 6.44 |
| Total Capital Expenditure | 40.01 | 31.85 | 68.17 | 32.83 | 15.82 | 8.01 |

** Including carry-forward from 2021/22

General Fund Capital Expenditure

- 2.6 The main General Fund projects included in the Capital Programme for Babergh over the period 2022/23 to 2025/26 are Replacement Refuse Freighters (£2.3m), Belle Vue, Sudbury (£2m), Housing grants (£3.8m), Community Grants (£0.5m), and ICT hardware/software (£1.2m).
- 2.7 The main General Fund projects included in the Capital Programme for Mid Suffolk over the period 2022/23 to 2025/26 are Replacement Refuse Freighters (£2.3m), Housing grants (£3.1m), Community Grants (£0.8m), business hub in Eye (£0.3m) and ICT hardware/software (£1.2m).

The Housing Revenue Account (HRA) Capital Expenditure

- 2.8 The HRA is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes purchasing houses from the private sector to increase the housing stock as well as new build schemes and maintenance to existing homes over the forecast period.

Capital Investments Capital Expenditure

- 2.9 There are two types of Capital investment. They are made:
- to support local public services by lending to or buying shares in other organisations (service investments), and

- to earn investment income (known as investment for yield where this is the main purpose).

These will relate to non-financial assets that the Councils hold primarily or partially to generate income and will contribute towards service delivery objectives.

- 2.10 The capital investments included in the 2022/23 budget for Babergh are the former Council Offices in Hadleigh (£3.2m) and developments by the Growth company (£0.5m) for housing; Borehamgate (£0.06m), a workspace development in Hadleigh (£1.3m), and further strategic investments (£9.2m) are all for regeneration purposes. Included in the forecast outturn for 2021/22 are completion of the solar carports (£0.7m), improvements at the leisure centres (£1.0m) and the purchase of vehicles and plant (£0.7m) for the public realm team (for the service being brought in house).
- 2.11 The main capital investments for Mid Suffolk included in the 2022/23 budget are developments by the Growth company (£4.3m) and the former Council Offices at Needham Market (£0.2m) for housing; Gateway 14 (£15.3m) and further strategic investments (£3m) for regeneration purposes. Included in the forecast outturn for 2021/22 are the former Council Offices at Needham Market (£2.1m) and Gateway 14 (£2m).
- 2.12 Further details on the Councils' capital investments can be found in section 3 and 4 of the Joint Investment Strategy in Appendix B.

Capital Financing

- 2.13 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Councils' own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

Table 2: Capital financing

| Capital Financing - General Fund | | | | | | |
|-----------------------------------|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Babergh District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | £m | £m | £m | £m |
| Capital Receipts | 0.01 | 0.00 | 1.10 | 0.00 | 0.00 | 0.00 |
| Revenue Reserves | 0.28 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Grants | 0.96 | 1.71 | 1.51 | 0.76 | 0.76 | 0.76 |
| External Contributions | 0.43 | 0.48 | 0.00 | 0.00 | 0.00 | 0.00 |
| Borrowing | 21.82 | 3.41 | 19.89 | 5.78 | 4.82 | 0.84 |
| Total GF Capital Financing | 23.50 | 5.59 | 22.50 | 6.54 | 5.58 | 1.60 |

| Capital Financing - HRA | | | | | | |
|------------------------------------|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Babergh District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | £m | £m | £m | £m |
| Capital Receipts | 6.92 | 4.54 | 2.44 | 1.00 | 0.40 | 0.71 |
| Revenue Contributions | 0.00 | 2.90 | 2.63 | 2.36 | 0.69 | 0.00 |
| Revenue Reserves | 4.32 | 13.00 | 10.59 | 4.54 | 4.53 | 4.53 |
| Grants | 1.22 | 0.52 | 0.00 | 0.00 | 0.00 | 0.00 |
| Borrowing | 0.12 | 0.00 | 2.98 | 0.25 | 0.95 | 2.08 |
| Total HRA Capital Financing | 12.57 | 20.96 | 18.64 | 8.15 | 6.57 | 7.32 |
| Total ALL Capital Financing | 36.07 | 26.56 | 41.14 | 14.69 | 12.15 | 8.92 |

| Capital Financing - General Fund | | | | | | |
|-----------------------------------|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Mid Suffolk District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | £m | £m | £m | £m |
| Capital Receipts | 0.05 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue Contributions | 0.44 | 1.82 | 0.01 | 0.00 | 0.00 | 0.00 |
| Revenue Reserves | 5.54 | 1.98 | 3.29 | 0.00 | 0.00 | 0.00 |
| Grants | 0.69 | 2.17 | 0.93 | 0.70 | 0.70 | 0.70 |
| Borrowing | 22.14 | 7.83 | 24.80 | 6.38 | 4.37 | 0.87 |
| Total GF Capital Financing | 28.87 | 13.79 | 29.03 | 7.08 | 5.07 | 1.57 |

| Capital Financing - HRA | | | | | | |
|------------------------------------|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Mid Suffolk District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | £m | £m | £m | £m |
| Capital Receipts | 4.82 | 3.27 | 4.44 | 6.22 | 2.36 | 2.00 |
| Revenue Contributions | 1.22 | 1.60 | 1.27 | 1.33 | 0.00 | 0.00 |
| Revenue Reserves | 3.92 | 8.58 | 4.64 | 4.45 | 4.75 | 4.45 |
| Grants | 0.93 | 0.36 | 0.95 | 0.95 | 0.00 | 0.00 |
| External Contributions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Borrowing | 0.25 | 4.26 | 27.84 | 12.82 | 3.65 | 0.00 |
| Total HRA Capital Financing | 11.15 | 18.06 | 39.13 | 25.76 | 10.76 | 6.44 |
| Total ALL Capital Financing | 40.01 | 31.85 | 68.17 | 32.84 | 15.82 | 8.01 |

Capital Receipts

- 2.14 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 capital grants, loans and investments also generate capital receipts.
- 2.15 Capital receipts are either used to finance capital expenditure in the year the asset is sold, put into a capital reserve and used for later capital expenditure or used to repay debt. Capital receipts are expected to be used as follows:

Table 3: Capital receipts used

| Capital Receipts | | | | | | |
|--------------------------------------|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Babergh District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | £m | £m | £m | £m |
| General Fund | 0.01 | 0.00 | 1.10 | 0.00 | 0.00 | 0.00 |
| General Fund Capital Loan Repayments | 0.14 | 0.21 | 0.23 | 2.22 | 5.69 | 4.02 |
| Council Housing (HRA) 1-4-1 Receipts | 1.74 | 3.34 | 1.37 | 1.00 | 0.40 | 0.71 |
| Council Housing (HRA) Other | 5.18 | 1.20 | 1.07 | 0.00 | 0.00 | 0.00 |
| Total Capital Receipts | 7.07 | 4.75 | 3.77 | 3.22 | 6.09 | 4.73 |

| Capital Receipts | | | | | | |
|--------------------------------------|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Mid Suffolk District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | £m | £m | £m | £m |
| General Fund | 0.05 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| General Fund Capital Loan Repayments | 0.14 | 0.21 | 0.23 | 16.91 | 24.64 | 16.71 |
| Council Housing (HRA) 1-4-1 Receipts | 2.22 | 3.03 | 2.03 | 2.17 | 2.01 | 2.00 |
| Council Housing (HRA) Other | 2.60 | 0.24 | 2.41 | 4.05 | 0.36 | 0.00 |
| Total Capital Receipts | 5.00 | 3.48 | 4.68 | 23.13 | 27.00 | 18.71 |

Repayment of Debt

- 2.16 Debt is only a temporary source of finance, since loans and leases must be repaid. Capital receipts may be used to replace debt finance, but usually debt is repaid over time from revenue, which is known as minimum revenue provision (MRP).
- 2.17 The Councils planned MRP and repayment of borrowing charged to revenue are as follows:

Table 4: Repayment of debt from revenue

| Repayment of Debt Finance | | | | | | |
|---|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Babergh District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | £m | £m | £m | £m |
| Repayment of Borrowing from HRA Revenue | 0.40 | 0.15 | 0.00 | 0.00 | 0.00 | 0.00 |
| Minimum Revenue Provision | 1.08 | 1.22 | 1.71 | 1.96 | 2.08 | 2.18 |
| | | | | | | |
| Total Repayment of Debt Finance | 1.48 | 1.37 | 1.71 | 1.96 | 2.08 | 2.18 |

| Repayment of Debt Finance | | | | | | |
|--|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Mid Suffolk District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | £m | £m | £m | £m |
| Minimum Revenue Provision | 1.18 | 1.30 | 1.56 | 1.78 | 1.82 | 1.85 |
| | | | | | | |
| Total Repayment of Debt Finance | 1.18 | 1.30 | 1.56 | 1.78 | 1.82 | 1.85 |

- 2.18 The Councils' full minimum revenue provision statement is shown in Appendix H.

Capital Financing Requirement

- 2.19 The underlying need to borrow for capital purposes is measured by the capital financing requirement (CFR). The CFR, together with usable reserves, is one of the core drivers of both Councils' treasury management activities.
- 2.20 The CFR represents the cumulative outstanding amount of debt finance. It increases with new debt-financed (borrowing/leases) capital expenditure and reduces with MRP and capital receipts used to repay debt.
- 2.21 Babergh's CFR is expected to increase by £1.82m and Mid Suffolk's by £10.57m during 2021/22. Based on the above figures for expenditure (Table 1), financing (Table 2), and debt repayment (Table 4), the Councils estimate that their CFR will be as follows:

Table 5: Prudential Indicator: Estimates of Capital Financing Requirement

| Cumulative Capital Financing Requirement (CFR) | | | | | | |
|--|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Babergh District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | £m | £m | £m | £m |
| General Fund | 18.27 | 20.28 | 34.16 | 36.85 | 39.53 | 38.12 |
| Capital Investments | 53.78 | 53.73 | 57.80 | 56.71 | 51.09 | 47.13 |
| Total General Fund | 72.04 | 74.01 | 91.96 | 93.56 | 90.62 | 85.25 |
| Council Housing (HRA) | 88.17 | 88.02 | 91.00 | 91.25 | 92.20 | 94.28 |
| Total CFR | 160.21 | 162.03 | 182.96 | 184.81 | 182.81 | 179.53 |

| Cumulative Capital Financing Requirement (CFR) | | | | | | |
|--|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Mid Suffolk District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | £m | £m | £m | £m |
| General Fund | 22.83 | 26.08 | 29.60 | 28.95 | 28.00 | 27.03 |
| Capital Investments | 72.18 | 75.25 | 94.73 | 83.07 | 61.93 | 45.22 |
| Total General Fund | 95.01 | 101.32 | 124.33 | 112.02 | 89.94 | 72.25 |
| Council Housing (HRA) | 88.76 | 93.02 | 120.86 | 133.68 | 137.32 | 137.32 |
| Total CFR | 183.77 | 194.34 | 245.19 | 245.70 | 227.26 | 209.57 |

3. The Prudential Code

- 3.1 The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal.
- 3.2 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the Councils.
- 3.3 The Prudential Code requires both Councils to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the Councils. Effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.
- 3.4 The Prudential Indicators included in the Joint Capital Strategy, (Appendix A Tables 1, 5, 6, 8 and 9) illustrate the affordability and impact of capital expenditure decisions and set out both Councils overall capital and treasury framework.
- 3.5 Effective management and decisions on funding ensure both Councils comply with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget. Using borrowing powers to undertake investment in line with the Joint Corporate Plan priority outcomes and generate a rate of return to produce additional income in order to address the funding pressures that both Councils face over the next 4 years.

4. Treasury Management

4.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Councils' 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 Councils are 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. Appendix F shows the current position.

4.2 As at 30 November 2021:

- Babergh has £118.67m total borrowing at an average interest rate of 2.56% and £21.63m of treasury investments at an average rate of 2.59%.
- Mid Suffolk has £132.88m total borrowing at an average interest rate of 2.37% and £19.75m treasury investments at an average interest rate of 2.84%.

Borrowing strategy:

4.3 The Councils' main objectives when borrowing are to achieve a low but certain cost of finance whilst retaining flexibility if plans should change in the future. These objectives are often conflicting, and the Councils therefore seek 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 around 1.0% to 2.0%).

4.4 The forecast movement in the CFR in coming years is one of the Prudential Indicators. The movement in actual external debt and usable reserves combine to identify the Councils' borrowing requirement and potential treasury management investment strategy in the current and future years.

4.5 The Councils' projected levels of total outstanding debt (borrowing and leases) are shown below and compared with the capital financing requirement (in paragraph 2.21, Table 5 above).

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

| Gross Debt and Capital Financing Requirement | | | | | | |
|--|---------------------|----------------------------------|---------------------|-----------------------|-----------------------|-----------------------|
| Babergh District Council | 31.3.2021 Actual | 31.3.2022 Forecast Outturn | 31.3.2023 Budget | 31.3.2024 Forecast | 31.3.2025 Forecast | 31.3.2026 Forecast |
| | £m | £m | £m | £m | £m | £m |
| Outstanding Borrowing (Debt) | (127.09) | (133.79) | (138.73) | (141.75) | (140.84) | (138.99) |
| Capital Financing Requirement | 160.21 | 162.03 | 182.96 | 184.81 | 182.81 | 179.53 |
| Headroom | 33.12 | 28.24 | 44.23 | 43.06 | 41.97 | 40.54 |

| Gross Debt and Capital Financing Requirement | | | | | | |
|--|---------------------|----------------------------------|---------------------|-----------------------|-----------------------|-----------------------|
| Mid Suffolk District Council | 31.3.2021 Actual | 31.3.2022 Forecast Outturn | 31.3.2023 Budget | 31.3.2024 Forecast | 31.3.2025 Forecast | 31.3.2026 Forecast |
| | £m | £m | £m | £m | £m | £m |
| Outstanding Borrowing (Debt) | (142.57) | (161.11) | (199.90) | (205.38) | (185.10) | (174.06) |
| Capital Financing Requirement | 183.77 | 194.34 | 245.19 | 245.70 | 227.26 | 209.57 |
| Headroom | 41.20 | 33.23 | 45.29 | 40.32 | 42.16 | 35.51 |

- 4.6 Statutory guidance says that debt should remain below the CFR, except in the short-term. As can be seen from Table 6 above, both Councils expect to comply with this in the medium-term.

Liability benchmark:

- 4.7 The Councils can internally borrow when they have generated a cash surplus on their revenue activities, for example from council tax, business rates, etc received in advance of use. This is known as a working capital surplus and can be used, in the short term, to finance capital expenditure meaning that there is not an immediate requirement to borrow from third parties.
- 4.8 Cash held within the Councils' reserves also reduces the requirement to borrow from third parties, until the reserves are used for their intended purpose.
- 4.9 To compare the Councils' actual borrowing against the lowest risk level of borrowing, a liability benchmark has been calculated. This gives an indication of the minimum amount of external borrowing required to meet the borrowing need (CFR) assuming that the Councils internally borrow up to the level of their estimated reserves balance and projected working capital surplus, whilst maintaining cash and investment balances at a minimum of treasury investments for each Council over the medium-term (the lowest level being £13.0m).
- 4.10 This benchmark is currently £147.82m for Babergh and £158.88m for Mid Suffolk for 2021/22 and is forecast to increase to £169.59m and £179.78m respectively over the next four years.

Table 7: Borrowing and the Liability Benchmark

| Borrowing and Liability Benchmark | | | | | | |
|-----------------------------------|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Babergh District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | £m | £m | £m | £m |
| Liability Benchmark | 129.53 | 147.82 | 174.84 | 174.81 | 173.80 | 169.59 |
| Outstanding Borrowing (Debt) | (127.09) | (133.79) | (138.73) | (141.75) | (140.84) | (138.99) |
| | 2.44 | 14.04 | 36.12 | 33.06 | 32.96 | 30.60 |

| Borrowing and Liability Benchmark | | | | | | |
|-----------------------------------|-------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Mid Suffolk District Council | 2020/21 Actual | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| | £m | £m | £m | £m | £m | £m |
| Liability Benchmark | 142.15 | 158.88 | 215.34 | 216.46 | 198.00 | 179.83 |
| Outstanding Borrowing (Debt) | (142.57) | (161.11) | (199.90) | (205.38) | (185.10) | (174.06) |
| | -0.43 | -2.23 | 15.44 | 11.08 | 12.90 | 5.77 |

The detailed calculation of the Liability Benchmark is shown in Appendix C Table 2.

Authorised limit for external debt:

- 4.11 The Councils are legally obliged to set an authorised limit for external debt each year and to keep it under review. In line with statutory guidance, a lower “operational boundary” is also set and acts as a warning that action may be required to ensure that debt does not breach the authorised limit.
- 4.12 The operational boundary is set equal to the Councils’ CFR, which represents the total borrowing need resulting from capital expenditure. The Councils have set an authorised limit of £15m above the operational boundary for each year to allow for working capital fluctuations or borrowing in advance of planned capital expenditure.

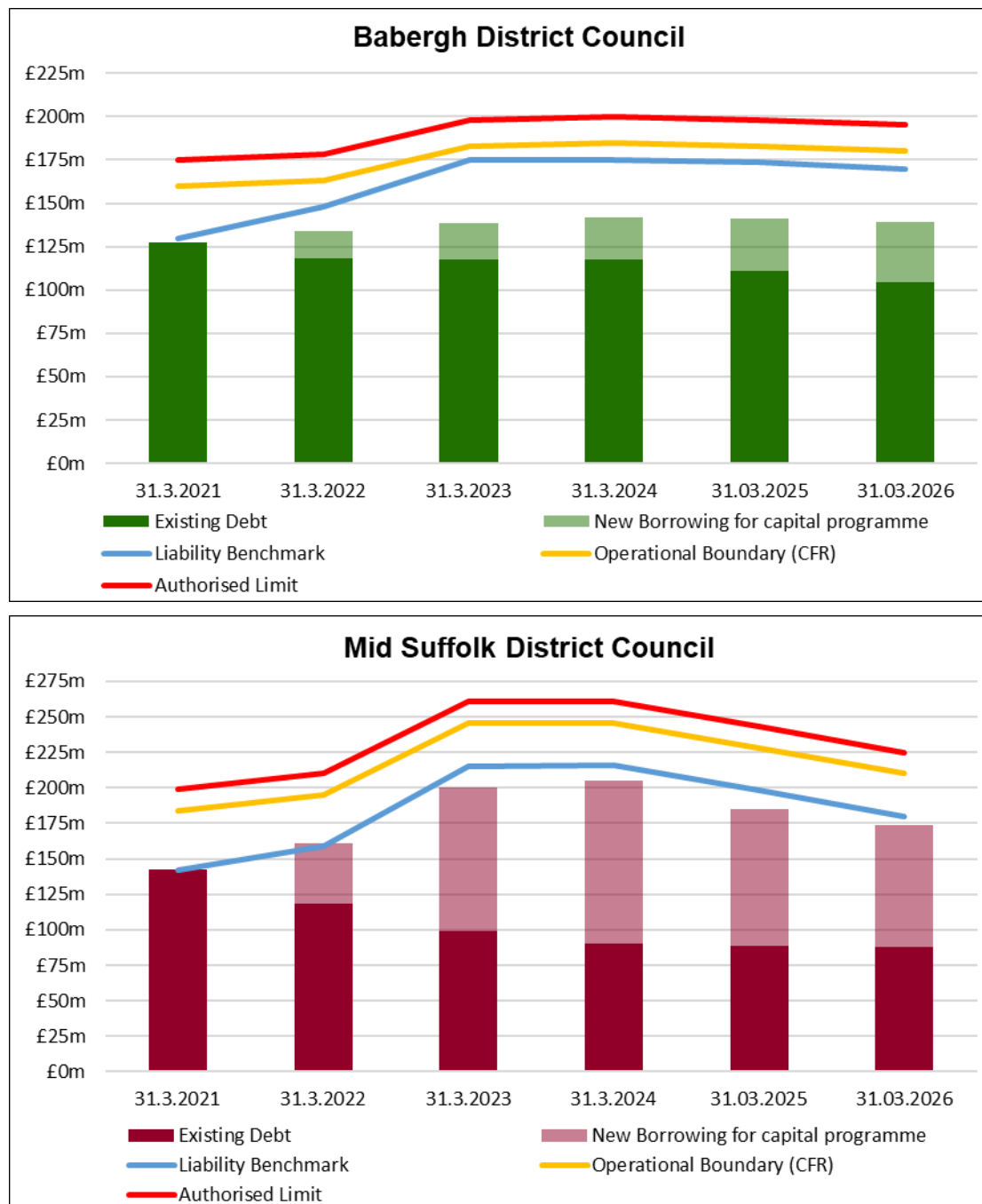
Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

| Operational Boundary & Authorised Limit | | | | | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| Babergh District Council | 2021/22 Limit £m | 2022/23 Limit £m | 2023/24 Limit £m | 2024/25 Limit £m | 2025/26 Limit £m |
| Operational Boundary | 163 | 183 | 185 | 183 | 180 |
| Authorised Limit | 178 | 198 | 200 | 198 | 195 |
| | % | % | % | % | % |
| Ratio of Debt to Authorised Limit | 71.40 | 64.4 | 73.4 | 73.16 | 73.84 |

| Operational Boundary & Authorised Limit | | | | | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| Mid Suffolk District Council | 2021/22 Limit £m | 2022/23 Limit £m | 2023/24 Limit £m | 2024/25 Limit £m | 2025/26 Limit £m |
| Operational Boundary | 195 | 246 | 246 | 228 | 210 |
| Authorised Limit | 210 | 261 | 261 | 243 | 225 |
| | % | % | % | % | % |
| Ratio of Debt to Authorised Limit | 67.89 | 61.73 | 76.59 | 84.52 | 82.27 |

- 4.13 The charts that follow illustrate how outstanding debt is expected to remain below the liability benchmark, operational boundary and authorised limit for both Councils.

Chart 1: Borrowing compared to CFR, liability benchmark, operational boundary and authorised limit



- 4.14 Further details on borrowing are shown in Appendix C section 4 of the Joint Treasury Management Strategy.

Joint Treasury Investment Strategy:

- 4.15 Treasury investments arise from receiving cash before it is paid out again. The Councils hold several long-term investments as a result of this. These and all other treasury management activities are set out in the Joint Treasury Management Strategy in Appendix C. The Councils planned spend on the capital programme has an impact on the amount of surplus cash available for treasury investments and, as explained in paragraph 4.4 above, this results in the Councils need to borrow.

- 4.16 Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management. These are explained further in the Joint Investment Strategy in Appendix B.

4.17 **Risk management:**

The effective management and control of risk are prime objectives of the Councils' treasury management activities. The Joint Treasury Management Strategy in Appendix C sets out various Prudential 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.

4.18 **Governance:**

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Assistant Director, Corporate Resources (the S151 Officer) and staff, who must act in line with the treasury management strategy approved by full Council. Half yearly reports on treasury management activity are presented to the Joint Audit and Standards Committee (JASC) who is responsible for scrutinising treasury management decisions.

5. Investments for Service Purposes

- 5.1 Service investments are where the Councils can support the provision of local public services by lending to or buying shares in other organisations.
- 5.2 The Councils do not have, nor currently have any plans to make, any investments in organisations to assist in the provision of local public services over the medium-term.

6. Liabilities:

- 6.1 In addition to debt of £133.79m for Babergh and £161.11m for Mid Suffolk, as detailed in Table 6 above for 2021/22, the Councils are committed to making future payments to cover their pension fund deficits. At 31 March 2021 Babergh's deficit was valued at £28.756m and Mid Suffolk's was £40.664m, with contributions of £0.53m for Babergh and £0.84m for Mid Suffolk due in 2021/22.

Governance:

- 6.2 Reports are taken to Cabinet as part of the budget monitoring process.

7. Revenue Budget Implications

- 7.1 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 for the General Fund and housing rents for the Housing Revenue Account (HRA).

- 7.2 For Babergh the maximum return (net income) is 4.05% in 2022/23 and for Mid Suffolk it is 13.12% in 2022/23 for the General Fund, as shown in Table 9 below. For the HRA the levels (net costs) are higher due to the link to the debt associated with the Councils' housing stock.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

| Proportion of Net Financing Costs to Net Revenue Stream | | | | | |
|---|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Babergh District Council | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| General Fund - | | | | | |
| Net Financing costs / (Income) £m | (1.12) | (0.56) | (0.21) | 0.01 | 0.21 |
| Proportion of net revenue stream % | -8.63% | -4.05% | -1.59% | 0.08% | 1.50% |
| Council Housing (HRA) - | | | | | |
| Net Financing costs £m | 3.15 | 3.16 | 3.02 | 3.02 | 2.88 |
| Proportion of net revenue stream % | 18.26% | 17.44% | 15.65% | 14.87% | 14.21% |

| Proportion of Net Financing Costs to Net Revenue Stream | | | | | |
|---|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Mid Suffolk District Council | 2021/22 Forecast Outturn | 2022/23 Budget | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
| General Fund - | | | | | |
| Net Financing costs / (Income) £m | (2.24) | (2.19) | (1.54) | (2.01) | (2.49) |
| Proportion of net revenue stream % | -13.56% | -13.12% | -9.76% | -12.66% | -15.65% |
| Council Housing (HRA) - | | | | | |
| Net Financing costs £m | 2.96 | 3.44 | 5.08 | 6.33 | 7.36 |
| Proportion of net revenue stream % | 19.17% | 21.45% | 29.24% | 32.91% | 38.11% |

- 7.3 In addition to capital receipts, grants and borrowing the housing capital programme is partly financed by income received from housing rents. Table 10 shows these contributions and associated costs as an equivalent average weekly rent.

Table 10: Impact of Capital Decisions on HRA Rents

| Babergh District Council | 2021/22 Forecast Outturn £ | 2022/23 Budget £ | 2023/24 Forecast £ | 2024/25 Forecast £ | 2025/26 Forecast £ |
|----------------------------------|-------------------------------------|------------------------|--------------------------|--------------------------|--------------------------|
| Increase in average weekly rents | 16.10 | 14.41 | 12.83 | 3.96 | 0.36 |

| Mid Suffolk District Council | 2021/22 Forecast Outturn £ | 2022/23 Budget £ | 2023/24 Forecast £ | 2024/25 Forecast £ | 2025/26 Forecast £ |
|----------------------------------|-------------------------------------|------------------------|--------------------------|--------------------------|--------------------------|
| Increase in average weekly rents | 9.73 | 9.16 | 9.93 | 2.72 | 2.73 |

- 7.5 The setting of rent levels has been determined separately through the 30-year business model and any surplus or deficit on the HRA is transferred to or from Reserves.

- 7.6 Further details of the revenue implications of capital expenditure are included in the Budget Report that will be presented to the next Cabinet meetings and then onto the Full Council meetings in February 2022.

8. Sustainability

- 8.1 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Assistant Director – Corporate Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable over the medium term. This is due to the fact that debt remains below the CFR, (see Table 6), below the liability benchmark (see Table 7), and below the operational boundary and authorised limits (see Table 8), as well as an acceptable level of financing costs proportionate to the net revenue stream (see Table 9).

9. Knowledge and Skills

- 9.1 The Councils employ professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Assistant Director - Corporate Resources is a CIPFA qualified accountant with 30 years' experience and the Corporate Manager – Finance, Commissioning and Procurement an ACCA qualified accountant with over 20 years' experience. The Council employs an Assistant Director – Assets and Investments, who is a qualified chartered surveyor (MRICS) of 23 years' experience in both the private and public sector. The Council pays for staff to study towards relevant professional qualifications in finance such as the ICAEW, CIPFA and AAT.
- 9.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Councils currently employ Arlingclose Limited as treasury management advisers.
- 9.3 Other advisers include Jones Lang Lasalle (JLL) as property consultants, Carter Jonas for development appraisal and Browne Jacobson for legal support. For the development of the council offices Purcell Architects, Lawson Planning Partnership, Hoggarth Cooke and Morley Riches and Ablewhite were appointed. This approach is more cost effective than employing such staff directly and ensures that the Councils have access to knowledge and skills commensurate with its risk appetite.
- 9.4 Both Councils are working with Norse Group Holdings Ltd to complete the developments at the sites of the former council offices, in Hadleigh and Needham Market, through the Councils' trading companies, Babergh Growth Ltd and Mid Suffolk Growth Ltd. Mid Suffolk is working with JAYNIC Properties Ltd on the development of the Gateway 14 site.
- 9.5 The Councils have a Learning and Development programme for staff which includes access to internal and externally provided training including attaining full professional qualifications.