

## **CAPITAL INVESTMENT STRATEGY SUMMARY**

2021/22 to 2025/26

JULY 2020

---

### **INDEX**

- 1. Introduction**
- 2. Baseline Capital Asset Position**
- 3. Strategic Direction: Corporate Plan 2025**
- 4. Capital Expenditure Plans**
- 5. Debt, Borrowing & Treasury Management**
- 6. Affordability, Delivery & Risk**
- 7. Equalities Impact Assessment**
- 8. Scrutiny**
- 9. Consultation**

### **APPENDICES**

1. Commercial Governance Framework
2. Medium Term Financial Plan 2021/22 to 2025/26
3. Commercial Asset Strategy
4. Accounting Policies
5. 5.1 Framework for Investment Decisions  
5.2 Property Investment Decisions Checklist
6. Capital Investment Strategy - Annual Report Template
7. Capital Programme 2020/21 to 2024/25
8. Flexible Use of Capital Receipts Strategy
9. Risk Management
10. Asset Condition Assessment

# 1. Introduction

Capital expenditure mainly relates to buying, constructing or improving physical assets such as buildings, land and vehicles, plant and machinery. It may also include grants and loans made to private or public sector organisation for capital purposes. In order to count as capital expenditure assets must have a life of more than one year.

All capital expenditure must be financed, either from external sources (grants and other contributions), from the Council's own resources (revenue, reserves and capital receipts) or through debt (borrowing or leasing).

The CIPFA Prudential Code for Capital Finance in Local Authorities ('the Code') was updated in 2018 and requires all local authorities to prepare a 'Capital Strategy'. The Council's first Capital Strategy was reported in 2019. This latest version reflects the development work that has been undertaken over the past year.

The intention of the Code is that the Capital Strategy should provide an overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of council services and how associated risk is managed.

This Capital Strategy ('the Strategy') therefore builds upon the Council's emerging Commercial Strategy and Treasury Management Strategy in order to:

- Set the **long-term context** in which capital expenditure and investment decisions are made in a sustainable way.
- Set the basis upon which **risk and reward** and **priority outcomes** are considered as part of capital decisions.
- Set the context within which capital decision making is consistent with the concepts of **value for money, public stewardship and prudence**.
- Report explicitly on the deliverability, affordability and risk associated with Capital Strategy.

This Strategy tells the story of how this Council prioritises capital expenditure, sets capital budgets, decides on how much it can afford to spend (and borrow) and how it manages risk - through robust governance and performance monitoring.

It is intended to provide a framework for ongoing decisions and provide a useful strategic link to other interrelated Council strategies which are impacted by capital decision making - including the Corporate Plan, Medium Term Financial Plan and Treasury Management Strategy. The period covered is aligned with these interrelated Strategies.

This Strategy covers the following:

- **Section 2: Baseline Capital Asset Position**
- **Section 3: Strategic Direction** - sets out in summary terms the Council's long-term strategic context, in terms of its Corporate Plan 2025. It sets out how these translate to

priorities when making capital decisions. It also sets out the Council's objectives in terms of debt levels and asset management.

- **Section 4: Capital Expenditure** - sets out the Council's priorities and principles when making capital investment decisions. It also sets out the control framework, the current Capital Programme and how this impacts upon the Council's revenue budget.
- **Section 5: Debt and Borrowing & Treasury Management** - sets out the impact of the Capital Strategy on the Council's debt and borrowing position.
- **Section 6: Deliverability, Affordability & Risk** - the Code requires the Council's Chief Finance Officer (Head of Finance) to explicitly report on these matters.
- **Sections 7, 8 and 9:** cover arrangements for equalities, scrutiny and consultation

#### COVID-19 Pandemic – Extraordinary Circumstances

The extended deadline for publication of the Statement of Accounts for 2019/20 as a consequence of the COVID-19 pandemic also means that a small number of 2019/20 figures were not available at the time of preparing this report. The final position will be reported later this year.

## 2. Baseline Capital Asset Position

This section sets out the Council's baseline capital asset position in terms of:

- The value of its Capital assets at 31 March 2019 as reported in the Council's accounts
- The Council's commercial assets and other assets which generate a return and the projected income they generate per annum.
- How the condition of the assets is assessed
- How current assets have been funded.

### Analysis of Capital Assets (source: Draft Statement of Accounts 2019/20)

The tables below summarise the Council's asset position in terms of the 'book value' in the latest draft of the Council's 2019/20 accounts.

**Table 1: Council Assets by Accounting Classification**

Description	Value at 31.3.2020 £m
Property Plant & Equipment	129.287
Heritage Assets	0.948
Investment Property	44.917
<b>Total</b>	<b>175.152</b>

Source: Valuation for 2019/20 Statement of Accounts

**Table 2: Significant Assets at March 2020**

Asset Name	Asset Type	Valuation 2019/20 Accounts £m
Redhill Distribution Centre, Salfords	Commercial	15.882
Offices, Regent House, Redhill	Commercial	15.298
Donyngs Sports Centre	Leisure	22.870
Land & Premises, Marketfield Way, Redhill	Under Construction	12.656 <sup>1</sup>
Banstead Sports Centre	Leisure	19.057
Horley Sports Centre	Leisure	13.500
Supermarket / library / theatre, Warwick Quadrant, Redhill	Commercial	6.315
Offices, Beech House, Reigate	Commercial	5.709
Offices, Forum House	Commercial	5.472
Hotel, Redhill	Commercial	6.336
Retail/Gym, Linden House, 51b High Street, Reigate	Commercial	4.783
Harlequin Theatre, Redhill	Cultural	7.997
Priory Park, Reigate	Other Land & Buildings	2.924
Offices, Gloucester Road, Redhill	Commercial	2.382
Madeira Walk, Sandpit	Other Land & Buildings	2.061
Industrial, Reading Arch Road, Redhill	Commercial	1.850

<b>Asset Name</b>	<b>Asset Type</b>	<b>Valuation 2019/20 Accounts £m</b>
Town Hall Main Building	Other Land & Buildings	3.863
Gloucester Road Car Park, Redhill	Other Land & Buildings	1.828
Bell Street Car Park, Reigate	Other Land & Buildings	1.445
Vitoria Road Horley	Commercial/Other	1.280
Retail/Residential, 1-4 Quarrydene Parade, 1-10 Hearthstone, Merstham	Commercial/Residential	1.147
Bancroft Road Car Park. Reigate	Other Land & Buildings	2.211
61E, Albert Road North	Commercial	0.959

Source: Valuation for 2019/20 Statement of Accounts  
Note 1: Historic valuation – redevelopment in progress

## Property Assets

The property asset base is categorised in accordance with CIPFA guidelines:

- Operational property
- Non-operational property
- Investment property
- Community assets
- Properties held for disposal.

The full list of assets is published annually, in accordance with the Local Government Transparency Code, on the Council's website

<http://www.reigate-banstead.gov.uk/downloads/download/582/assetregisterdataset>

### Operational Assets

The strategic objectives for operational assets are that they should be:

- Able to allow customers to access the service and any other related services of partners (where co-located) and suitable for staff to deliver these services;
- In good condition to the extent that services can be provided from them in a comfortable environment for both staff and customers without interruption;
- Suitable and fit for the purpose for which they are being used in terms of size, type and layout of accommodation – including accessible to people with disabilities;
- Flexible to the extent that they can be adapted economically to adjust to changing service needs, including sharing with partners in service delivery;
- Able to achieve a balance between efficiency in operation, running costs and long-term sustainability;
- Able to contribute positively to the immediate environment, particularly where there is a need for physical regeneration of the locality; and
- Maintained in such a way so as to minimise reactive maintenance and risk by improving planned maintenance arrangements.

The Council aims to deliver the best financial value from its portfolio by using property to deliver service efficiencies and reduce running costs.

### Non-Operational Assets

The strategic objectives for non-operational assets are that they should be:

- Able to make the maximum contribution to service revenue budgets in terms of rental income at the minimum risk and expenditure; or
- Able to make a positive contribution to the social wellbeing of the community either through its presence as a heritage asset or through use by others such as voluntary groups, charity organisations or small businesses; or
- Acquired, disposed of or developed for reasons of strategic importance, such as to influence the physical and economic regeneration of the Borough.

### Lettings & Disposals

S123 of the Local Government Act 1972 is a statutory requirement that requires the Council, except in limited circumstances, to obtain best consideration for lettings or disposals. Accordingly, all third-party lettings are on market terms. If financial assistance is provided it is done so through the Council's rental grant subsidy system and is therefore a transparent means of supporting qualifying organisations.

### Investment Property

These assets are generally let on full repairing and insuring terms with the Council collecting the income, but either having no liability for repairs and maintenance, or recovering the expenditure via a service charge.

**Table 3: Council Assets: Commercial Returns 2019/20**

Asset Name	Asset Type	Price Paid £m/Year	Valuation 2019/20 Accounts £m	Rent £m	Gross Yield (Inc/Val)
Units 1-5 Redhill Distribution Centre, Salfords	Industrial / warehousing	£15m (2018)	15.8	0.833	5.27%
Regent House, Redhill	Offices	£15.35m (2018)	15.3	0.950	6.21%
Travelodge, Redhill	Hotel	£5.0m (2017)	6.3	0.317	5.03%
Warwick Quadrant, Redhill	Retail / Library / Theatre	£2.4m for other half-share of freehold (2005)	6.3	0.300	4.76%
Beech House, Reigate	Offices	£6m (2017)	5.7	0.400	7.02%
Forum House, Redhill	Offices	£5.53m (2017)	5.5	0.415	7.55%
Linden House, Reigate	Retail / gym	£4.7m (2014)	4.8	0.334	6.96%
*Crown House, Gloucester Road, Redhill	Offices	£2.15m (2017)	2.4	0.175	7.29%
1,3,4,6,14-16 and 20 Reading Arch Road, Redhill	Industrial	£0.045m for larger site including these properties (1972)	1.8	0.097	5.39%
1-4 Quarrydene Parade/Hearthstone, Merstham	Retail / residential	£0.017mk for larger site including this property (1950)	1.2	0.086	7.17%
55-63 Victoria Road, Horley	Restaurant / library / retail	Leaseback from TVHA following sale in 2013 of former Council-owned office building (2015)	1.3	0.100	7.69%
61E Albert Road North	Industrial / warehousing	£0.950m (2018)	0.9	0.097	10.78%

\*held by Greensand Holdings Limited

### Community Assets

These include community centres, parks/open spaces and pavilions. Some are let to community groups such as scouts or football clubs. The net income received from these assets is minimal and the Council often has responsibility for repair and maintenance of the building or land.

### Properties Held for Disposal

These assets are held for disposal because they are surplus to operational or community requirements. In being held for disposal they will be assessed for realising the best capital receipt whether that is for example from a straight disposal, disposal with conditions or disposal with overage conditions. Prior to disposal the asset will be assessed for opportunities around capital receipt for example obtaining a relevant planning consent or resolution.

## Asset Performance/Condition

The Council's approach to condition assessment is summarised at Appendix 10.

### Land & Buildings

The most recent survey was carried out in 2017/18 and forms the basis of the rolling capital programme for property maintenance that was approved in February 2020. The survey focussed on the main operational and commercial assets.

Generally, the assets surveyed at that time were found to be in reasonable condition with no health & safety or structural issues. The priority areas for attention related to mechanical and engineering works such as boiler replacements and lift refurbishments, and civil engineering works to Council car parks. Examples of works that are scheduled include replacing the boilers in the main building at the Town Hall (£0.090m) in 2020/21 and refurbishing the Town Hall Middle Block roof (£0.240m) in 2021/22. Work is also underway in 2020/21 to replace a lift at Bancroft Road Car Park (£0.190m) and Clarendon Road lifts will be completed in 2021/22 (£0.190m).

### Vehicles

During 2018, existing and future fleet vehicle requirements were reviewed. The outcome of this review was included in a capital growth bid during the service & financial planning 2020/21 process. Procurement and delivery are now underway.

**Table 4: Vehicles & Plant**

Description	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Refuse Vehicle Replacement	1.620	1.620	-	-	-	<b>3.240</b>
Vehicles & Plant	1.542	0.846	0.846	0.846	0.846	<b>4.926</b>

## Capital Asset Funding at 31 March 2020

Assets have historically been funded through use of capital receipts, capital grants and drawing on available balances (internal borrowing). At 31 March 2020, the Council still had no long-term external borrowing.

The Treasury Management Strategy for 2020/21 was approved in April 2020 and includes authority to borrow up to £161.5m (Authorised Limit) to fund delivery of the approved Capital Programme 2020/21 to 2024/25.

### 3. Strategic Direction: Corporate Plan 2025

This section sets out in summary the Council's long-term strategic context - in terms of its Corporate Plan and Commercial Strategy. It explains how these translate to priorities when making capital decisions. It also sets out the Council's objectives in terms of debt levels and asset management.

Reigate & Banstead 2025 is the Council's Corporate Plan for the period 2020-2025. It sets out the Council's priorities and explains how we will focus resources and deliver services to those living, working and spending time in Reigate & Banstead.

The plan sets a vision that the Council will:

- deliver quality services and support;
- provide value for money;
- make the borough a great place to live, work in, do business and visit;
- be proactive about tackling climate change and reducing our environmental impact; and
- be flexible and sustainable, responding to the needs and demands of our borough, residents and businesses.

It includes objectives in relation to Housing, Vulnerable Residents, Communities & Community Safety, Leisure & Wellbeing, Towns & Villages, Economic Prosperity, Shaping our Places, Clean & Green Spaces, Environmental Sustainability, Financial Sustainability, Funding our Services, Operational Assets and Skills & Great People.

It also includes a set of 'cross-cutting commitments' describing how the Council will deliver services, covering aspects such as communications, customer contact, partnership working and financial efficiency.

This Capital Investment Strategy has been developed to align with the Plan vision and priorities.

#### **Partnership Working**

The Council has a strong track record of working in partnership with others to benefit the residents of the borough. The Council will continue to identify joint working opportunities if they contribute to overall council priorities. Such partnerships may relate to delivery of individual capital schemes or be more strategic and long term in nature.

#### **Priority Areas**

The Capital Strategy aims to deliver against the vision as set out in the Corporate Plan and emerging Commercial Strategy. Specifically, the Council's priorities in terms of its capital spend can be summarised as follows:

- The prosperity of the borough: investment that will stimulate **economic growth**.
- Income and efficiency: investment which promotes the **financial stability** of the Council.

- Supporting delivery of **core Council services**: investment that will empower our staff to deliver and improve the efficient and effective delivery of services to our community.
- Building Community assets: investment that will benefit our **communities**.
- Ensuring the **environmental quality and sustainability** of the borough: investment that will make the borough a more attractive place to live, work and visit or deliver wider environmental benefits.

## **Medium Term Financial Plan**

The Medium-Term Financial Plan (MTFP) is summarised at Appendix 2. Costs of financing assets (borrowing) are reflected in MTFP budget forecasts.

## **Asset Funding**

The Council has not historically had any need to borrow to fund its capital expenditure.

However, going forward it is recognised that significant capital expenditure (including commercial acquisition opportunities) will be necessary to meet Corporate Plan objectives, generate income and stimulate the local economy; and that this will require the Council to borrow.

The Council aims to balance risks and rewards when making decisions regarding the development of its Capital Programmes such that its levels of borrowing remain affordable, prudent and sustainable - both over the medium and the long-term.

Policies and procedures are in place to ensure that capital decisions are sound and overall debt levels remain proportionate and affordable.

This is under-pinned by the Treasury Management Strategy which helps ensure that annual borrowing limits that are affordable, prudent and sustainable.

## **Asset Management**

Effective asset management is important to the Council. The condition of the Council's asset base will be monitored and maintained. Asset disposals will be considered in light of Council priorities, finances and risk.

## **Commercial Strategy**

The Commercial Strategy is currently in development and will set out what commercialisation means to this Council, including:

- Income generation for reinvestment into Council frontline services;
- Creating a culture that encourages skills that support an enhanced approach to commercial work, including a positive culture and behaviours;

- Providing a response to reduction of Government grant and the increased need to be financially self-sustaining, whilst creating opportunity to change and supplement existing activities;
- Allowing optimisation of income and identifying new revenue opportunities that fit the remit and ambition of this Council;
- Using resources in an agile fashion to meet changing needs of residents; and
- Promoting internal efficiency and effectiveness when approaching commercial activities;

The Commercial Strategy will set out key deliverables and performance indicators for commercial projects and activities including:

- financial and time targets
- officer and Member engagement; and
- positive public perception.

## **Summary**

The Capital Strategy aims to deliver against the Council's vision as set out in its Corporate Plan and Commercial Strategy

All capital decisions are considered in light of this vision and the Council sets priorities for capital spend accordingly.

The Council recognises that capital expenditure (including commercial acquisition opportunities) that meet its objectives, generate income and stimulate the local economy should be considered and that this will require the Council to borrow to fund it.

The Council aims to balance the risks and rewards when making decisions regarding the development of its Capital Programmes such that its levels of borrowing remain affordable, prudent and sustainable - both over the medium and the long term.

The condition of the Council's asset base will be monitored and maintained. Asset disposals will be considered in light of Council priorities, finances and risk.

## 4. Capital Expenditure Plans

This section sets out the Council's priorities and principles when making capital decisions. It covers the control framework, the current Capital Programme and how this impacts on the Council's revenue budget.

### Capital Expenditure

Capital expenditure mainly relates to buying, constructing or improving physical assets such as buildings, land and vehicles, plant and machinery. It may also include grants and loans made to private or public sector organisation for capital purposes. In order to count as capital expenditure assets must have a life of more than one year.

All capital expenditure must be financed, either from external sources (grants and other contributions), from the Council's own resources (revenue, reserves and capital receipts) or through debt (borrowing or leasing).

### Priority Areas for Investment 2020/21 to 2024/25

The Council's priorities in terms of its capital spend can be summarised as follows:

- The prosperity of the borough: investment that will stimulate **economic growth**.
- Income and efficiency: investment which promotes the **financial stability** of the Council.
- Supporting delivery of **core Council services**: investment that will empower our staff to deliver and improve the efficient and effective delivery of services to our community.
- Building Community assets: investment that will benefit our **communities**.
- Ensuring the **environmental quality and sustainability** of the borough: investment that will make the borough a more attractive place to live, work and visit or deliver wider environmental benefits.

### Principles

In order to deliver against these priorities, capital decisions will apply the following principles:

- A clear business case is in place which is affordable and links to Council priorities. The Council's Commercial Governance Framework is set out at Appendix 1.
- Revenue consequences of capital decisions are identified and accounted for and must be affordable. The Medium-Term Financial Plan is summarised at Appendix 2; it reflects forecast borrowing costs.
- Sound asset management planning is applied to ensure maintenance of appropriate asset condition.

- Taking steps to maximise and leverage external funding wherever possible.
- Ensuring that decisions to invest in assets that generate a return consider relative risk and reward and are taken in line with the Council's Commercial Strategy, including the associated due diligence and governance checks (Appendices 1 and 5).
- Ensuring that all capital investment decisions are proportionate and risks are robustly managed. This may include spreading the risk by working in partnership with partners.
- Considering current condition, cost of maintenance and sustainability considerations when making asset disposal decisions along with capital receipt achievability and the opportunity cost of continued investment in the asset (as opposed to investing funds elsewhere).
- The contribution the asset makes to delivery of Council priorities.
- Broader risk management considerations - including any benefits/disbenefits associated with increasing/decreasing the Council's asset base in any particular area or sector.

### **Capital Investment Business Cases**

Service Teams bid to include projects in the Capital Programme as part of the service & financial planning process in preparation for setting the Revenue Budget and Capital Programme and Medium-Term Financial Plan each year.

The Corporate Management Team appraises all bids and makes recommendations to the Executive. The recommended Capital Programme is then presented to Executive in January and to Council for approval in February each year.

Additional capital requirements and opportunities identified through the year are considered on their merits in line with the above governance controls. Any in year changes to the capital budget will be made in accordance with the constitution, including appropriate approval by Executive and/or Council.

### **Policies and Classification Controls**

The Council sets aside prudent provision for the repayment of debt where borrowing or credit arrangements have been used to finance capital expenditure. This is known as the Minimum Revenue Provision (MRP). Business cases for capital investment therefore include not only the interest costs of any associated borrowing but also the costs of repayment of any debt. In order to ensure that borrowing levels are affordable over the long term a prudent assessment of asset life is made within the MRP thereby ensuring that any borrowing is fully provided for and repaid over the life of the asset.

The definition of which expenditure is classified as capital (as opposed to revenue) expenditure is subject to robust control via the Finance Team.

Further detail on capitalisation policies is set out at Appendix 4.

## **Commercial Assets and Due Diligence**

The Council may target asset acquisitions that benefit, improve and/or develop the area and also generate new ongoing income streams.

The approach is explained at Appendix 3 which sets out the control framework around decisions on acquisition of assets which generate a return.

These controls include the role of the Commercial Ventures Executive Sub-Committee which approves new investment opportunities.

Other controls include adopting a robust approach to due diligence and financial appraisal, further details of which are set out at Appendix 5.

## **Governance**

The Capital Programme is monitored by the Finance Team, the Corporate Governance Group (comprising the Chief Executive, Directors and Statutory Officers) and through quarterly financial monitoring reports that are presented to the Executive after review by the Overview & Scrutiny Committee.

The Commercial Ventures Executive Sub-Committee provides a check and challenge for proposals relating to acquisitions or disposal of land and property and commercial development opportunities on new or existing sites.

## **Reporting**

Going forward a Capital Strategy - Annual Outturn Report will be produced every year as part of the quarter 4 performance report and will assess how the Capital Strategy has been implemented over the previous financial year - and how capital expenditure and capital financing has contributed to the provision of council services. It will also summarise how associated risks has been managed, identifying any key issues to be considered over both the medium and the longer term.

An outline template for this report is set out at Appendix 6.

## **The 2020/21 to 2024/25 Capital Programme:**

The current projected Capital Programme and financing is explained below. The planned use of resources is in line with the Medium-Term Financial Plan.

## **Capital Expenditure**

Capital expenditure forecasts to 2024/25 were approved by Council in February 2020 and are included in detail at Appendix 7. They are summarised in the table below:

**Table 5: Capital Programme 2020/21 to 2024/25**

<b>CAPITAL PROGRAMME 2020/21 to 2024/25 by SERVICE</b>	<b>2020/21 Projected £m</b>	<b>2021/22 Projected £m</b>	<b>2022/23 Projected £m</b>	<b>2023/24 Projected £m</b>	<b>2024/25 Projected £m</b>	<b>TOTAL £m</b>
<b>ORGANISATION SERVICES:</b>						
Strategic Property	4.385	1.332	1.658	1.374	1.258	<b>10.007</b>
IT Services	0.225	0.425	0.375	0.385	0.325	<b>1.735</b>
Organisational Development	0.280	0.260	0.260	0.260	0.260	<b>1.320</b>
<b>PEOPLE SERVICES:</b>						
Housing	16.990	11.405	11.334	1.334	1.334	<b>42.400</b>
Wellbeing & Intervention	0.140	0.040	0.040	0.040	0.040	<b>0.300</b>
Community Partnerships	0.030	0.030	0.030	0.030	0.030	<b>0.150</b>
<b>PLACE SERVICES:</b>						
Neighbourhood Operations	3.927	2.822	1.202	1.202	1.202	<b>10.353</b>
Place Delivery	20.021	24.442	15.100	0.000	0.000	<b>59.563</b>
Economic Prosperity	0.100	0.100	0.100	0.100	0.100	<b>0.500</b>
<b>CORPORATE:</b>						
Commercial Investment Strategy	50.000	0.000	0.000	0.000	0.000	<b>50.000</b>
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>96.100</b>	<b>40.856</b>	<b>30.099</b>	<b>4.725</b>	<b>4.549</b>	<b>176.328</b>

<b>CAPITAL PROGRAMME 2020/21 to 2024/25 by INVESTMENT TYPE</b>	<b>2020/21 Projected £m</b>	<b>2021/22 Projected £m</b>	<b>2022/23 Projected £m</b>	<b>2023/24 Projected £m</b>	<b>2024/25 Projected £m</b>	<b>TOTAL £m</b>
Regeneration Schemes	20.021	24.442	15.100	-	-	59.563
Commercial Assets	53.333	401	0.637	0.431	0.431	55.233
Housing Delivery	15.689	10.101	10.030	0.030	0.030	35.880
Vehicles & Plant	3.512	2.466	0.846	0.846	0.846	8.516
Disabled Facilities	1.304	1.304	1.304	1.304	1.304	6.520
Operational Assets	0.750	0.740	0.665	0.652	0.605	3.412
Community Assets	0.703	0.471	0.461	0.411	0.527	2.573
ICT Assets	0.225	0.425	0.375	0.385	0.325	1.735
Car Parks	0.190	0.195	0.190	0.195	0.170	0.940
Tenanted Properties	0.100	0.100	0.100	0.100	0.100	0.500
Economic Prosperity	0.100	0.100	0.100	0.100	0.100	0.500
Leisure Centres	0.030	0.030	0.210	0.190	0.030	0.490
Other	0.144	0.081	0.081	0.081	0.081	0.466
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>96.100</b>	<b>40.856</b>	<b>30.099</b>	<b>4.725</b>	<b>4.549</b>	<b>176.328</b>

The approved Capital Programme includes significant growth:

**Table 6: Capital Growth 2020/21 to 2024/25**

Service Area	Capital Growth
<b>ORGANISATION</b>	
Strategic Property	<ul style="list-style-type: none"> <li>Investment in building maintenance for the Council's tenanted and commercial properties including leisure centres, pavilions and infrastructure assets – scheme details to be confirmed following condition surveys that are being commissioned</li> <li>Re-profiling of some elements of the November 2019 growth proposals following further assessments of priorities</li> </ul>
Organisational Development	<ul style="list-style-type: none"> <li>Investment in IT facilities to support the development and adaptability of the Council's workforce to meet changing service needs</li> </ul>
Commercial Investment Strategy	<ul style="list-style-type: none"> <li>Allocation of capital funding for future investment in new development and commercial assets and activities that, in addition to local regeneration and place-shaping benefits, deliver a sustainable net income stream to the revenue budget.</li> <li>Following the allocation of £25m in the 2019/20 Capital Programme a further £50m is recommended for investment in 2020/21 onwards, funded through prudential borrowing.</li> </ul>
<b>PEOPLE SERVICES:</b>	
Wellbeing & Intervention	<ul style="list-style-type: none"> <li>Initial capital funding allocation of £0.100m to support future development of facilities at the Harlequin theatre over the next five years – this is a provisional figure, details to be articulated through more detailed Business Cases following agreement of new Vision and Objectives for the facility</li> </ul>
Housing Delivery Strategy	<ul style="list-style-type: none"> <li>Investment of £30 million over the three years 2020/21 to 2022/23, funded in part through the allocation of resources equivalent to the value of New Homes Bonus receipts.</li> <li>Updated funding allocation for the Lee Street Bungalows scheme to reflect the updated specification.</li> </ul>
<b>PLACE SERVICES:</b>	
Place Delivery	<ul style="list-style-type: none"> <li>Preston Regeneration – confirmation of ongoing capital investment requirements – to be funded through a CIL allocation as part of the Strategic Infrastructure Plan (SIP).</li> </ul>
<b>CORPORATE:</b>	
Commercial Investment Strategy	<ul style="list-style-type: none"> <li>Allocation of capital funding for investment in corporate priorities that also realise new income-generating opportunities.</li> <li>Following the allocation of £25m in the 2019/20 Capital Programme a further £50m is recommended for investment in 2020/21 onwards, funded through prudential borrowing.</li> </ul>

This results in an underlying total borrowing requirement of £151.5 million which (after applying internally available funding) translates to an estimated £137.7 million in external borrowing by 2024/25. Further details of capital financing and borrowing are set out in section 5.

### **Revenue Budget Impact of Capital Spending**

The revenue budget impact of capital decisions is subject to ongoing review as part of the service & financial planning cycle.

It is important that the Council continues to model and monitor the revenue implications of its capital decisions. This will also form part of the annual reporting outlined above.

Further details are set out in Section 5 below.

### **Modelling the Impact of Additional Capital Spend**

The approved Capital Programme (as set out above) is subject to change and amendment in line with the priorities set out above and an assessment of risk and reward.

The risk and rewards of new investment opportunities will be fully-assessed. The revenue impact of these and any other options/opportunities will be considered, as will the implications for Council borrowing limits and affordability.

### **Summary**

The Council has set its priorities for capital spend and principles which will be applied when making capital decisions.

The Council has robust controls in place to manage capital spend which include capital bids and business cases, clear policies and classification controls, a Commercial Asset Strategy, due diligence, governance and reporting arrangements.

The approved Capital Programme (as modelled above) is subject to change and amendment in line with the priorities set out above and an assessment of risk and reward.

## 5. Debt, Borrowing and Treasury Management

This section sets out the impact of the Capital Strategy on the Council's debt and borrowing position.

### Methods of Funding Capital Expenditure

There are a range of methods of funding capital expenditure as follows:

- **Government grants** and non-government contributions. Where there is a requirement to make an application to an external agency for external funding and, when appropriate, to commit Council resources as matched funding to any bid for external resources, a business case must be presented to the Executive (and full Council if insufficient capital budget exists) for approval.
- **Prudential borrowing**. The Council will investigate opportunities to resource capital projects using prudential borrowing where plans are sustainable, affordable and prudent. Full appraisal will take place to ensure that, where appropriate, sufficient revenue returns are generated to cover the cost of borrowing.
- **Capital receipts**. Where the sale of an asset leads to the requirement to repay grant, the capital receipt will be utilised for this purpose. Once this liability has been established and provided for, capital receipts will be available to support the Capital Programme as a corporate resource. Commercial asset capital receipts here will be used to support the sustainability of the Council's Commercial Asset Strategy.
- **Revenue contributions**. Revenue budgets or reserves could be used to support the financing of a capital project.
- Use of **Leasing**. Some of the assets used by the Council are financed by a lease arrangement, for example vehicles. There may be instances where leasing could offer value for money and it will remain a consideration when options are being appraised.
- **Section 106 Agreements** (Town and Country Planning Act 1990). In considering an application for planning permission, the Council may seek to secure benefits to an area or restrict uses or activities related to a proposed development through the negotiation of a 'planning obligation' with the developer.

### Treasury Management

CIPFA defines treasury management as:

*"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

One of the main functions of treasury management (the other being cash-flow management) is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations.

The Capital Strategy and Treasury Management strategy are therefore closely linked as the Capital Programme determines the borrowing need of the Council.

The Council is required to annually approve a Treasury Management Strategy that, in light of the Council's approved budget, establishes investment and borrowing policies for the Council for the current and future financial years.

In compliance with the requirements of the Prudential and Treasury Codes, the following section looks at the Council's capital financing and treasury management activity.

### The Capital Financing Requirement

The table below sets out the Council's Capital Financing Requirement (CFR). The CFR represents total historic outstanding capital expenditure which has not yet been financed from either revenue or capital resources.

**Capital Financing.** The table below summarises the capital expenditure plans and how they are to be financed through use of existing capital or revenue resources. Any shortfall of resources results in a borrowing requirement.

**Table 7: Capital Financing**

CAPITAL FINANCING	2018/19	2019/20	2020/21	2021/22	2022/23	2023/2024	2024/25
	Actual £m	Budget £m	Projected £m	Projected £m	Projected £m	Projected £m	Projected £m
Capital Grants <sup>1</sup>	3.966	1.679	1.843	1.600	1.187	1.187	1.187
Capital Receipts	20.133	-	8.806	24.489	26.778	-	-
Revenue Contributions	0.090	0.213	-	-	-	-	-
New Homes Bonus	-	-	10.000	7.000	-	-	-
Local Enterprise Partnership (LEP) Funding	-	2.570	-	-	-	-	-
<b>Total Financing</b>	<b>24.189</b>	<b>4.462</b>	<b>20.649</b>	<b>33.089</b>	<b>27.965</b>	<b>1.187</b>	<b>1.187</b>
Net Borrowing Requirement	15.046	43.090	75.890	7.768	2.134	3.538	3.362
<b>Total Expenditure</b>	<b>39.235</b>	<b>47.552</b>	<b>96.539</b>	<b>40.857</b>	<b>30.099</b>	<b>4.725</b>	<b>4.549</b>

NOTE 1: A review of historic allocations of Section 106 funds to the Capital Programme is planned during year-end closedown for 2019/20 to confirm that the funds allocated reconcile to Planning team records. The outcome will be reported in the Statement of Accounts for 2019/20 and the Mid-Year Treasury Management Report 2020/21.

**Table 8: Cumulative Projected Capital Financing Requirement**

CAPITAL FINANCING REQUIREMENT	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £m	Budget £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Brought Forward CFR	3.953	18.999	61.922	137.493	144.769	146.155	148.731
Carried forward CFR	18.999	61.922	137.493	144.769	146.155	148.731	151.204
<b>Movement in CFR</b>	<b>15.046</b>	<b>42.923</b>	<b>75.571</b>	<b>7.276</b>	<b>1.386</b>	<b>2.576</b>	<b>2.473</b>

### Assessment of External Borrowing

The table below analyses the need to borrow externally (being the difference between the Council's CFR and its internally available funds).

**Table 9: Cumulative External Debt**

CUMULATIVE EXTERNAL DEBT	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £m	Budget £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
<b>Gross Debt at 1 April</b>	-	12.000	55.090	130.980	133.748	133.748	134.420
Expected Change in Debt	15.046	43.090	75.452	2.768	-	0.672	3.362
Other Long-Term Liabilities	-	-	-	-	-	-	-
Expected Change in Other Long-Term Liabilities	-	-	0.438	-	-	-	-
<b>Sub Total</b>	<b>15.046</b>	<b>43.090</b>	<b>75.890</b>	<b>2.768</b>	<b>-</b>	<b>0.672</b>	<b>3.362</b>
<b>Gross Debt at 31 March</b>	<b>12.000</b>	<b>55.090</b>	<b>130.980</b>	<b>133.748</b>	<b>133.748</b>	<b>134.420</b>	<b>137.782</b>
The Capital Financing Requirement	18.999	61.922	137.493	144.769	146.155	148.731	151.204
<b>Under/ (Over) Borrowing</b>	<b>6.999</b>	<b>6.832</b>	<b>6.513</b>	<b>11.021</b>	<b>12.407</b>	<b>14.311</b>	<b>13.423</b>

The above table shows that the Council is forecast (based on its current Capital Programme) to borrow up to £137.7 million by 2024/25. This is within the Operational Limit of £151.5 million and the Authorised Borrowing limit of £161.5 million in the approved Treasury Management Strategy.

**Ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

It is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

The financing costs are the interest payable on borrowing, finance lease or other long-term liabilities and the amount defined by statute which needs to be charged to revenue to reflect the repayment of the principal element of borrowing. Any additional payments in excess of the statutory amount or the cost of early repayment or rescheduling of debt would be included within the financing cost. Financing costs are expressed net of investment income.

The net revenue stream is defined as the amount required to be funded from Government Grants and local taxpayers, in effect the budget requirement. Estimates of the ratio of financing costs to net revenue (or budget requirement) are as follows:

**Table 10: Financing Cost as Percentage of Net Revenue Stream**

FINANCING COSTS AS % OF NET REVENUE STREAM	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £m	Budget £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Net Revenue stream	21.403	16.294	25.438	20.003	20.803	21.636	28.829
Net Financing costs	(0.851)	(0.413)	0.021	0.550	1.009	1.013	1.013
%	(3.98%)	(2.53%)	0.08%	2.75%	4.85%	4.68%	3.51%

The estimates of financing costs include current commitments and the proposals in the 2019/20 Budget Report.

## **Flexible Use of Capital Receipts**

As part of the Local Government Finance Settlement in March 2016, the Secretary of State for Housing, Communities and Local Government provided Local Authorities with the opportunity to use capital receipts to fund the revenue costs of transformation. This flexibility was then extended to 2021/22.

The Council's Flexible Use of Capital Receipts Strategy is included at Appendix 8.

## **Monitoring Borrowing Limits**

The Council monitors cashflows and borrowing to ensure it complies with the limits set out by the Treasuring Management Strategy.

## **Policy on Borrowing in Advance of Need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through mid-year or annual Treasury Management reporting.

### PWLB Consultation 2020

The Government is currently consulting on intervention to address the issue of 'debt-for-yield'. It proposes:

- Requiring authorities that wish to access the Public Works Loans Board (PWLB) for funding to confirm that they do not plan to buy investment assets primarily for yield;
- Publishing guidance defining the activity that the PWLB will no longer support, with clear protections for service delivery, regeneration, housing, and the refinancing of existing debt;
- Standardising the information currently gathered through the application process for the PWLB Certainty Rate and using this as the primary way to confirm with authorities that their plans conform with the guidance. Authorities that wish to buy investment assets primarily for yield would remain free to do so but would not be able to take out new loans from the PWLB in the year in which they have bought the asset.

## **Governance**

The Overview & Scrutiny Committee is responsible for scrutiny and governance of Treasury Management within the Council. It reviews the Treasury Management policy and procedures and all Treasury Management reports.

The Capital Programme is monitored by Executive who also review all Treasury Management reports. Council approve the Treasury Management Strategy each year along with the half-year performance report.

Throughout the year, the Overview & Scrutiny Committee receives Treasury Management updates and an Annual Treasury Management Outturn Report is reported to Executive and Council.

The Treasury Management function is subject to regular internal and external audit reviews.

Further detail can be found in the Treasury Management Strategy 2020/21 – 2024/25.

## 6. Affordability, Delivery & Risks

The Prudential Code states that it is the responsibility of the Council's Chief Finance Officer (Head of Finance) to explicitly report on the affordability, delivery and the risks associated with this Strategy. This section reports on these matters.

### **Affordability (and Proportionality)**

As set out in Section 4, affordability is a key criterion when considering whether a project should be approved for inclusion within the Capital Programme. Before any decisions are made, new schemes are considered by the relevant officer Boards and Member meetings which consider business cases and capital bids.

All projects must also have a clearly identified capital funding source with a definite commitment of financial support if external funding, such as an external grant, is to be used. On-going revenue costs associated with a capital asset must be provided for within the revenue budget.

Where borrowing is to be used, interest and repayment costs (the MRP charge) are accounted for within revenue budgets. MRP is matched to a prudent asset life. Any income streams put forward to fund an asset must be sustainable.

In terms of assets which generate a return, due diligence arrangements are in place to stress test key assumptions and demonstrate affordability.

Annual borrowing costs (interest costs and MRP) are monitored in the context of the Council's overall budget and the income generated from assets. These measures are set out in section 4 and remain affordable.

In accordance with MHCLG guidance the Council's processes highlighted above ensure that the Council's level of debt and aggregate risk remains proportionate.

### Return on Investment

This is a business case measure of the expected percentage return after taking account of original acquisition costs plus the cost of construction or other enhancement and all associated fees. It will take account of whether the proposal would be attractive in the marketplace and whether it secures value for money.

### Impact of Investment

Capital investment will be undertaken primarily to secure change; to make a positive difference to the Borough, its residents, businesses and visitors. This cannot only be evaluated in financial terms therefore outcomes will be determined that are to be achieved by the investment and also the degree of certainty attached to them. Outcomes for this purpose will vary depending on the nature of the investment.

### **Delivery**

Capital Programme delivery is monitored on a monthly basis at officer level and quarterly by Executive and Overview & Scrutiny.

The Capital Strategy - Annual Outturn report (referenced in Section 4) will assess how the Capital Strategy has been implemented over the previous financial year - and how capital expenditure and capital financing has contributed to the provision of council services.

## **Risk Management**

The Council is exposed to a range of risks with regard to the continued affordability and delivery of it's the Capital Programme including:

- Financial risks related to the investment of the Council's assets, cash flow and market volatility;
- Macroeconomic risks related to the growth or decline of the local economy, interest rates, inflation and the wider national and global economy;
- Reputational risks related to the Council's dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception; and
- Governance risks related to ensuring that prudence and careful consideration are prominent in the Council's decision-making.

It is important to recognise that there are always risks associated with a large Capital Programme and associated borrowing, but these can be mitigated and indeed are mitigated. A summary of key risks is set out at Appendix 9.

Governance is addressed through transparent reporting and the oversight provided by Executive, Overview & Scrutiny and the Commercial Ventures Executive Sub-Committee.

Due diligence is undertaken on acquisitions and external advice is sought wherever necessary.

There are clear links from the Capital Strategy to the Treasury Management Strategy, prudential indicators, authorised borrowing limits and the revenue budget. These are also subject to review and oversight by Members Audit and Risk Committee, Executive and Council.

New borrowing will increase the Council's annual level of fixed interest and repayment costs which is subject to ongoing review within budgetary reporting and quarterly Treasury Management updates reports.

The Council makes 'prudent' provision for debt repayment which broadly reduces indebtedness in line with each asset's life and so charges the economic consumption of capital assets as they are used.

Investment properties carry a different type and level of risk relating to variations in income streams (tenant non-renewal etc.) and from asset values (impact of economic conditions and sector trends etc.). The Council has established a clear strategy, criteria and a governance process around such investment purchases to minimise the risk and to balance risk and reward.

When making decisions - particularly around assets which generate a return - due diligence processes include second opinion on asset values, site visits, surveys and market intelligence. They also include risk analysis and sensitivity analysis in order to model how affordability is impacted by stress testing key underlying assumptions. Consideration is also made to the profile of the Council's asset base - and how effectively risk is spread across different asset types and sectors. Further detail on the management of this specific risk is set out at Appendix 9.

## COVID-19

The COVID-19 pandemic has resulted in significant new risks and uncertainties for local authorities many of which cannot yet be quantified over the medium to long term. These include potential delays to capital programme delivery due to lockdown and supply chain disruption. Also impacts of a downturn in the economy resulting in reduced asset values, lower capital receipts and lower than forecast income streams from assets. To date there has not been any significant disruption to delivery of schemes that are currently in progress. The ongoing impacts on the Council's capital investment plans will be subject to review over the course of the year.

## **Knowledge & Skills**

The Finance Team has responsibility for preparing and on-going management of the capital and treasury management strategies and Capital Programme. The team is staffed by professionally qualified accountants with extensive local government finance experience. Team members attend all relevant training courses, workshops and events to ensure that their knowledge and skills are up to date and the Council is in a position to address all new technical developments. The overall responsibility for capital and treasury activities lies with the Council's Chief Finance Officer (Head of Finance) who, in accordance with statute, is professionally qualified and is suitably experienced to hold the post.

The Council provides training to Members on an annual basis, which is delivered by Council Officers and external advisors. Members are updated on developments and any issues of significance throughout the year with information presented to the Audit Committee, Overview & Scrutiny Committee, Executive (responsible for the Capital Programme), Member Panels and at Member briefings.

The Council uses Link Asset Services, Treasury Solutions as its external Treasury Management advisors and recognises that that it is essential to engage with external providers of expertise in order to acquire access to specialist skills and resources.

When looking at commercial activity transactions, officers from relevant professional disciplines from across the Council are involved in conducting due diligence exercises. Alongside the internal teams the Council also uses where appropriate external advisors to complete the due diligence process.

## **Internal Audit**

Independent assurance as to the effectiveness of controls in this area is also provided as part of the Council's risk-based Internal Audit Plan.

## **Summary**

The Council's Chief Finance Officer (Head of Finance) has reported explicitly on the deliverability, affordability and risk associated with Capital Strategy as set out above.

## **7. Equalities Impact Assessments**

The annual service & financial planning reports include information about the implications of budget proposals, including capital investment plans. Where new service changes, projects or policies are proposed, equalities impact assessments will be carried out by the responsible officers.

## **8. Scrutiny**

The annual draft budget proposals are considered by the Budget Scrutiny Panel of the Overview & Scrutiny Committee in December and the conclusions and recommendations of the Panel and the Committee are reported to the Executive for consideration when the final budget proposals are presented to them in January.

Treasury Management reports are considered by the Overview & Scrutiny Committee and their feedback and questions are reported to Executive.

## **9. Consultation**

The Capital Investment Strategy is published on the Council's website.

The annual budget proposals, including the Capital Programme, are circulated to the business community via the Business e-bulletin (which has in excess of 1,500 recipients).

## Appendices

1. Commercial Governance Framework
2. Medium Term Financial Plan 2021/22 to 2025/26
3. Commercial Asset Strategy
4. Accounting Policies
5. 5.1 Framework for Investment Decisions  
5.2 Property Investment Decisions Checklist
6. Capital Investment Strategy - Annual Report Template
7. Capital Programme 2020/21 to 2024/25
8. Flexible Use of Capital Receipts Strategy
9. Risk Management
10. Asset Condition Assessment

# Commercial Governance Framework 2019

## Background

1. This Framework is the distillation of lessons learnt from a review of commercial governance arrangements undertaken by a Member Task Group in 2018-19. The objective of this Framework is to set out a best practice template for the set up and delivery of commercial ventures and companies by the Council in future.

## Approach

2. The Framework is structured to follow the lifecycle stages of a commercial venture, with elements applying to each stage – initiation: planning: execution: closure.
3. The Framework provides a structured approach against which individual proposals can be assessed on a “**comply or explain**” basis – ie. each element must be followed, unless there is a sound and well explained justification for doing otherwise.

Figure 1: Framework overview



## Scope

4. This Framework applies to any commercial venture (eg limited company or LLP in which the Council is a shareholder), or another internal or external structure whose impact on the Council is potentially similar to a commercial entity, where the Council's actual cumulative exposure (by combination of nominal value of ordinary or preference share capital, loan commitments, payments/remuneration to partners and other exposures) exceeds £100,000 (net of projected income).
5. For as long as the venture is of smaller scale than this threshold (which may be a result of the Council being a minority shareholder) or in a trial phase, discretion can be applied in how the Framework is applied.

## Framework: Golden Rules

6. A number of key principles inform the Council's approach to the set up and delivery of commercial ventures. These principles (known as Golden Rules) should be applied before any such ventures are approved on a "comply or explain" basis. Explanations for any non-compliance should be recorded and scrutinised before the venture is approved.
  - (i) The shareholder function for all ventures will be exercised by a single, properly constituted Commercial Ventures Executive Sub-Committee. This may be supported by Member/Officer advisory group(s) where appropriate, for specific ventures, but the Sub-Committee will be the route for all formal reporting and decision making (except where items are taken directly to the Executive or to Full Council).
  - (ii) The structure chosen and related elements (eg shareholdings, employment contracts, other incentives, lines of accountability) must be considered as a whole by the Executive to ensure that there is alignment between incentives of the commercial venture /company and the Council's objectives.
  - (iii) The allocation of Council resources to a venture by the Executive will only occur on the basis of a report containing a completed version of the Initiation and Planning Checklist (Figure 2), with supporting documents as appropriate. Such resources will then only be transferred following execution of appropriate agreements (eg loan agreements).
  - (iv) The Sub-Committee will receive updates from ventures, based on the Execution and Closure Checklist (Figure 3) on a quarterly basis (the level of detail of such updates being proportionate to the scale of each venture). Reporting should capture reasons for decisions and the underlying supporting evidence relied upon.
  - (v) Internal financial reporting (ie. to the Council's finance function) will be undertaken monthly, with reconciliation of cross charges and intragroup balances.
  - (vi) Any material changes to the business plan for any venture will be reported to and agreed by the Executive Sub-Committee.
  - (vii) There will be strong controls over, and transparency relating to, potential conflicts of interest and related party transactions – covering officers, members, other shareholders, customers and suppliers. The highest risk applies to s151 Officer, Monitoring Officer, Head of Paid Service and Executive members and therefore there is a presumption against the appointment of any of these postholders to a Director role.
  - (viii) Business plans will require the early appointment of a Non-Executive Director (or

equivalent independent member).

- (ix) Appointment to all roles will be skills led, informed by a documented skills audit.
- (x) The Local Authorities (Companies) Order 1995 sets out the rights for an authority and individual member to receive company specific information. In applying the reasonableness test the Council will apply a presumption in favour of sharing relevant information with individual members. The presumption (to be confirmed as part of the initial business case/approval) should be that companies should file full accounts to the Council and publicly (on a voluntary basis if other criteria require a lesser form of reporting).

### Commercial Governance Checklist

7. A practical checklist is set out below, which is based on the suite of Key Lines of Enquiry (KLOE) which were used in the Task Group's review of past commercial ventures and is therefore grounded in the Council's practical experience. For each line of enquiry it records evidence of compliance (or the rationale for non-compliance).
8. The Checklist has two parts, covering different stages of the lifecycle and therefore to be used at different stages and, most likely, to different governance bodies:
  - **Initiation and Planning:** to be presented to the Executive when a request is made to approve the venture, and hence provides a reference point against which the operation of the venture can be measured.
  - **Execution and Closure:** to be presented to the Executive Sub-Committee on a regular (at least annual) basis, to enable it to discharge its role in monitoring delivery of the venture against the business plan.

Figure 2: Checklist - Initiation and Planning

Requirement	Evidence of compliance (or explanation for non-compliance)
<b>Initiation</b>	
a. How does the project fit with the Council's vision?	
b. What are the objectives of the venture?	
c. What is the Council's appetite for each of the risks involved with the venture? Do we understand the risks?	
d. What are the pros and cons of potential delivery vehicles? Why do we need a corporate entity (if that is what is recommended)?	
e. Why is this the preferred delivery vehicle?	
f. What is the structure of the proposed corporate entity? <ol style="list-style-type: none"> <li>i. Structure (limited company, LLP, other).</li> <li>ii. Other shareholders/partners involved.</li> <li>iii. Capital structure (equity, debt, other).</li> </ol>	
g. What actions have been taken to obtain Member buy in?"	
h. What actions have been taken to obtain officer buy in?"	
i. Is the Council's role in commercial decision-making clear?	
<b>Planning</b>	
a. Does the assessment cover relevant criteria including costs, complexity, risks, return on investment?	

Requirement	Evidence of compliance (or explanation for non-compliance)
<p>b. Is there a robust business case (to a comparable standard to that which an external investor would require)? Does the business case adequately cover?:</p> <ul style="list-style-type: none"> <li>i. Projected income and expenditure, over a reasonable time horizon.</li> <li>ii. A clear view of the amount of financing required from the Council, and other parties, over the same time horizon.</li> <li>iii. A range of scenarios covering both optimistic and pessimistic outcomes, showing the financial impact on the Council in each.</li> <li>iv. Success/outcome measures, translated into KPIs which will be reported regularly to the Executive Sub-Committee.</li> <li>v. Any other requirements on the Council, eg staff time, office space, or use of other Council assets.</li> <li>vi. Potential tax (corporation tax, VAT, other) and other liabilities arising.</li> <li>vii. How any unexpected losses would be absorbed.</li> <li>viii. Market and other research on which the financial forecasts are based.</li> <li>ix. Any Intellectual Property already possessed or expected to be developed as part of the venture, and clarity over its ownership.</li> <li>x. Resolution/shutdown plans/exit strategy in the event of a significant adverse event.</li> </ul> <p>c. What is the proposed governance model?</p> <ul style="list-style-type: none"> <li>i. Role of Chairman of the Board (or equivalent).</li> <li>ii. Composition of the Board (or equivalent), including Non-Executive Director(s).</li> <li>iii. The proposed measures for training and evaluation of performance of the Board.</li> <li>iv. Arrangements for reporting back to the Council: <ul style="list-style-type: none"> <li>i. To officers.</li> <li>ii. To the Commercial Ventures Executive Sub-Committee.</li> <li>iii. To the Overview &amp; Scrutiny Committee.</li> </ul> </li> <li>v. Potential constraints on sharing of information with the Council, and ways of addressing them (eg if there is to be a minority shareholder, ensuring that the Articles of Association and/or other documentation allow for full information flow to the Council).</li> <li>vi. Any other governance mechanisms proposed, eg advisory board, stakeholder committee.</li> </ul>	

Requirement	Evidence of compliance (or explanation for non-compliance)
<p>d. Who are the key people involved and how have we satisfied ourselves that their skills and experience are relevant and sufficient?</p> <ul style="list-style-type: none"> <li>i. Identities, skills and experience of key personnel (covering people management, leadership, financial and commercial skillsets).</li> <li>ii. Results of due diligence on key personnel.</li> <li>iii. Assessment of potential conflicts of interest – including any current or expected involvement of related parties/companies.</li> </ul>	
<p>e. What controls will be in place to minimise/mitigate risk?</p> <ul style="list-style-type: none"> <li>i. Procurement and fraud controls.</li> <li>ii. Financial controls (within the Council) to ensure funds advanced are in line with approved limits.</li> <li>iii. Financial controls (within the company/venture) including authorisation of expenditure.</li> <li>iv. Controls relating to other risks arising from the venture.</li> </ul>	

Figure 3: Checklist – Execution and Closure

Requirement	Evidence of compliance (or explanation for non-compliance)
<b>Execution</b>	
a. Is performance, resource and financial information being adequately tracked?	
b. Is the delivery of the project being tracked and monitored and early action being taken to address risks?	
c. What business management reporting processes are in place?	
d. What processes are in place to manage income/sales and to confirm compliance with the agreed business case?	
e. Is financial forecasting reviewed and managed to ensure adequate funding and cashflow available to confirm compliance with the business case? Is there a clear separation between the reports from the company/venture and the covering analysis by the Council's officers?	
f. What financial controls are in place to ensure expenditure complied with the agreed business case? Have the directors attested that these controls have been complied with during the previous reporting period?	
g. Are processes in place for agreeing changes to the business case (services delivered/sold/finances and resources required)?	
h. Is there assurance that no project creep is occurring? What change control processes are in place?	
i. Have all contracts entered into (since the previous review) been checked for any conflicts of interest, and if any such conflicts arise, have these been resolved and/or made transparent?	

j. What corporate actions/filings have been reported to Companies House since the previous report?	
k. What are the results of the most recent evaluation of Board performance?	
<b>Closure</b>	
a. Was the agreed exit strategy (as set out in the Planning stage) followed? If not, why not?	
b. Has there been a review of the venture, appropriate to the scale of the venture and involving all relevant stakeholders?	
c. Are lessons learnt being captured and implemented?	

## Review

9. The Framework and its implementation shall be reviewed regularly and initially no later than 12 months after its adoption to ensure that it is meeting its objective and that lessons learnt drive improvement.

## MEDIUM TERM REVENUE BUDGET FORECAST 2021/22 to 2025/26

MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2020/21	Cumulative Impact 2021/22	Cumulative Impact 2022/23	Cumulative Impact 2023/24	Cumulative Impact 2024/25	Cumulative Impact 2025/26
	£m	£m	£m	£m	£m	£m
<b>20/21 Budget Requirement</b>	<b>24.600</b>					
LESS: one off pension payment in 20/21	(6.200)					
<b>20/21 Adjusted Budget Requirement</b>	<b>18.400</b>					
Pressure <ul style="list-style-type: none"> <li>Reversal of one-off use of Reserves in 2020/21</li> </ul>		1.256	1.256	1.256	1.256	1.256
Pressure <ul style="list-style-type: none"> <li>Pay cost inflation/contractual increases</li> </ul>		0.710	1.420	2.130	2.840	3.550
Pressure <ul style="list-style-type: none"> <li>Additional borrowing costs for previously approved Capital Programme commitments</li> </ul>		0.500	1.000	1.000	1.000	1.000
Pressures <ul style="list-style-type: none"> <li>Service budget growth</li> <li>Investment in new Corporate Plan priorities and COVID-19 Recovery</li> <li>COVID-19 ongoing impacts on income budgets</li> </ul>		<i>To be confirmed as part of service &amp; financial planning</i>				
Opportunities <ul style="list-style-type: none"> <li>Employer Pension Contribution - one-off reduction in 2021/22</li> </ul>		(0.400)	(0.400)	(0.400)	(0.400)	(0.400)
Opportunities <ul style="list-style-type: none"> <li>Service efficiencies and other budget savings</li> <li>Commercial Strategy - new income streams</li> </ul>		<i>To be confirmed as part of service &amp; financial planning</i>				
Council Tax <ul style="list-style-type: none"> <li>Assumed 1.99% pa. increase plus 1.0% taxbase growth</li> </ul>		(0.400)	(0.820)	(1.260)	(1.710)	(2.170)
NNDR <ul style="list-style-type: none"> <li>Reflects loss of 'Negative RSG' grant in 2021/22 and Business Rates Reset in 2022/23</li> </ul>		0.200	1.500	1.900	2.300	2.300
<b>Forecast Gap Compared to 2020/21 Budget</b>	<b>0.000</b>	<b>1.866</b>	<b>3.956</b>	<b>4.626</b>	<b>5.286</b>	<b>5.536</b>
Annual Increase in Gap		1.866	2.090	0.670	0.660	0.250
Gap as % of 2020/21 budget requirement	-	10.1%	21.5%	25.1%	28.7%	30.1%

## Commercial Asset Investment Strategy

### Introduction

The Council has for several years had a Strategy, targeted towards investment in assets that generate new ongoing income streams in support of achieving the Council's ambition of being financially self-sufficient.

### Strategic Context

The Council's Corporate Plan 2025 sets out our priorities for the next five years and explains how we will focus our resources and deliver services to those living, working and spending time in Reigate & Banstead. This includes aims to achieve financial sustainability by maximising income and efficiency opportunities. This includes developing our existing land, commercial properties and acquisitions that generate new additional income that will contribute to the local economy.

The Council recognises that asset management and investment is critical to the delivery of efficient and effective services. The effective use of Council-owned property and assets can contribute to the local economy and act as a catalyst for investment and strengthen the prosperity of the borough.

This Commercial Asset Investment Strategy focuses on investment acquisitions and development and underpins the framework for how the Council will manage use of its assets into the future. It sets out the organisational arrangements for implementing and developing the Strategy.

### Aims and Objectives

The aim of this strategy is to realise the benefits of the effective management of investments, which include:

- Creating a balanced portfolio of assets that minimises management costs and resources.
- Increasing returns and creating new revenue income streams.
- Adopting an approach of balancing risk and reward.
- Supporting delivery of the Council's objective to ensure financial self-sufficiency
- Supporting the local economy.

### Governance

This strategy will form the basis on which any investment decisions are made; the summary below sets out the decision-making process.

- |         |   |
|---------|---|
| Stage 1 | Initial assessment of investment opportunity by officers overseen by Commercial Ventures Officer Board. |
| Stage 2 | Recommendation for decision to proceed to offer to Commercial Ventures Executive Sub-Committee.         |
| Stage 3 | Negotiation and full due diligence.   |
| Stage 4 | Final recommendation to Commercial Ventures Executive Sub-Committee.                                    |

The Commercial Ventures (officer) Board will carry out an initial high-level assessment and desk top valuations of any investment opportunity. Key criteria for the assessment will include:

- The investment will help deliver against the Council Plan objectives;
- Acquisition type: Good quality commercial property in traditional sectors, i.e. retail office and industrial, to ensure a mixed portfolio is achieved. Also, housing where it supports Corporate Plan objectives and delivers the target return.
- Location: priority to investments within the boundary of the borough or within the surrounding areas of economic benefit.

The assessment will cover an initial financial appraisal, any legal constraints and use of any market intelligence available.

The Commercial Ventures Board will receive proposals and act as a catalyst for making recommendations to proceed to offer to the Commercial Ventures Executive Sub-Committee.

Following a positive decision, an offer will be made to the property owners/agents subject to checks being carried out e.g. disclosure of freehold title, the property being clear of any onerous restrictions, full structural, mechanical and electrical surveys.

### **Strategic alignment with other Council policies**

As with any strategy, there is a need to be mindful of other work-streams and Council priorities. These include:

- Medium Term Financial Plan, Revenue Budget and Capital Programme
- Treasury Management Strategy - will ensure compliance with approved borrowing levels.
- Capital Strategy - will set the long-term context in which capital expenditure and investment decisions are made in a sustainable way.
- Commercial Strategy
- Housing Delivery Strategy
- Environmental Sustainability Strategy

### **Scope**

This strategy will apply to all acquisitions of land and property. An acquisition is defined as acquiring a legal interest in land and property by the taking of a freehold, leasehold or license in land and property for investment purposes.

### **Performance**

The Council is committed to understanding how the performance of its assets contributes to satisfaction levels of its customers. It will use this information to ensure that assets remain fit for purpose and continue to deliver accessible services that meet the needs of the community. This is against a background of changing service requirements and rising levels of public expectation.

### **Value for Money**

The Council will ensure that any acquisitions deliver value for money in terms of service benefit, operating costs and financial return from its assets. The Council will continually challenge whether its assets are required, are fit for purpose, and contribute to the delivery of the Council's priorities.

### **Innovation**

The creative use of Council assets can act as an effective driver for change. The Council has an excellent track record of delivering through a partnership approach and continues to seek new opportunities for collaboration with other public authorities, third sector and private sector.

By attracting private sector financing and sharing some of the risks, these innovative ways of working may allow the Council to progress ambitious, large scale plans that were previously considered unaffordable or too long-term.

### **Data Management**

In all cases where an acquisition occurs, arrangement will be made to ensure that details are recorded in the Council's asset management and financial records. Where appropriate the Council's business rate liabilities and insurance requirements will be updated.

### **Compliance**

The Council will ensure that all acquisitions are safe and they fully comply with all statutory obligations, e.g. health and safety (including asbestos and water safety).

The Council will endeavour to ensure that it complies with its leasehold obligations, including building repairs. It will be pragmatic in its approach and seek to ensure value for money in all the work undertaken.

### **Environmental Sustainability**

The Council is keen to minimise the adverse impact, and maximise the positive impact, that its activities may have on the environment. It is committed to reducing energy consumption and carbon emissions from acquisitions and any developments adopting sustainable forms of construction.

### **Disposal**

Linked to the acquisitions is the potential for disposal of assets, the key drivers include:

- Obtaining capital receipts, which can be reinvested in new acquisitions.
- Clearly defining surplus and under-used property and asset rationalisation.
- Identification of potential development and disposal opportunities that may deliver wider redevelopment benefits and/or capital receipts or revenue. This may include working in partnership with a developer partner.
- Pro-active disposal of small landholdings that may be a maintenance liability, provided that the proposed uses are in line with the Local Plan.

### **Summary**

This Strategy reflects the latest guidance and past performance on delivering against the Council's Asset Strategy. Going forward the Strategy will focus on acquisitions, development of existing assets and reviewing the long-term future of legacy assets and provide a framework for managing the use of Council assets into the future. It will be subject to regular review to ensure it remains current.

## Accounting Policies

The Accounting Policies which inform the Financial Statements of the Council are in accordance with statutory provisions and the Code of Practice on Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which adopts relevant International Financial Reporting Standards (IFRS).

The key accounting policies applicable to this authority, and any specific policies adopted where local discretion can be applied are subject to approval by Audit Committee.

The full accounting policies are contained within the notes to the Core Financial Statements to the Final Accounts. Those policies related to the recording and financing of capital expenditure are reproduced from the 2018/19 Accounts below.

### Capital Grants and Contributions

Where no grant conditions exist or conditions have been met, capital grants and contributions are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the Capital Grants Unapplied Account via the Movement in Reserves Statement. The amount of the grant or contribution that has been used to finance expenditure is transferred to the Capital Adjustment Account via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account when they have been applied to fund capital expenditure.

Where grant conditions exist and have not initially been met, the grant is recognised in the Capital Grants Receipts in Advance Account. When grant conditions have been met, the grant is then recognised in the Comprehensive Income and Expenditure Statement and transferred via the Movement in Reserves Statement to the Capital Adjustment Account. If the grant conditions are not and/or are unlikely to be met then the grant will be repaid.

### Grants and Contributions Attributable to Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

### Heritage Assets

The Council's heritage assets consist of paintings (oil and watercolour) and marble sculptures which have been donated to the Council and are held in the Town Hall, and the mayor's regalia.

These items are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are updated on an annual basis. The collection is relatively static with donations being rare. Where they do occur, donations are recognised at valuation.

The Council also hold land and historical structures such as the Reigate Heath Windmill and the caves in the castle grounds.

## **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## **Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

## **Non-Current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the

carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts which is credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **Property, Plant and Equipment (PPE)**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

### **De-Recognition of Property, Plant and Equipment**

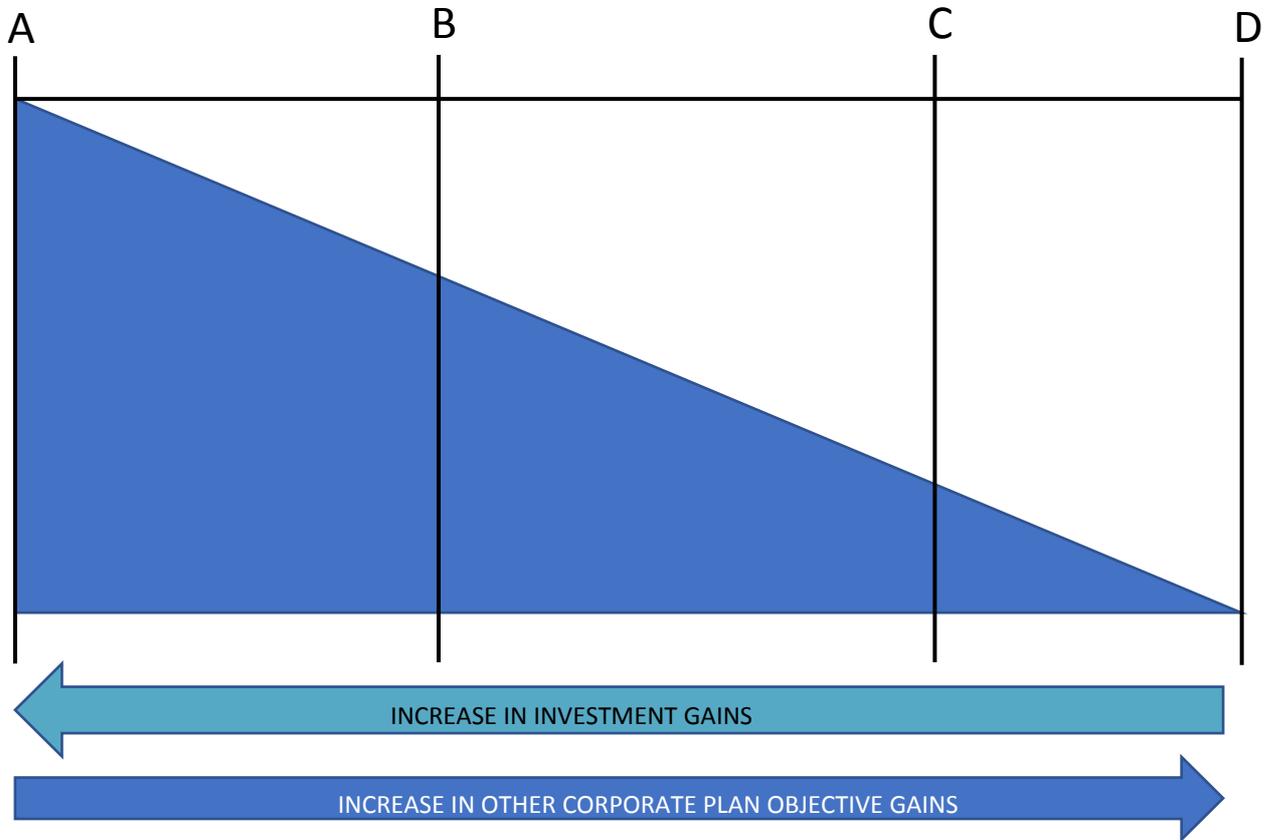
An item of property, plant or equipment is derecognised by disposal or when no future economic benefit or service potential is expected from its use. The carrying amount of the asset in the balance sheet is written off to Other Operating Expenditure within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Sale proceeds from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal. Any revaluation gains on the Revaluation Reserve, for assets disposed of or decommissioned, are transferred to the Capital Adjustment Account.

Income from asset disposals in excess of £10,000 is classed as capital receipts. The balance of capital receipts is credited to the Capital Receipts Reserve and used to fund new capital expenditure or repay debt. The written off value of disposals is reversed through the Movement in Reserves Statement to the Capital Adjustment Account.

### **Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Revenue Expenditure Funded from Capital under Statute (REFCUS) is expenditure of a capital nature that does not result in the creation of a long-term asset on the balance sheet. These are generally grants and expenditure on property not owned by the Council. Expenditure is charged to the surplus/deficit on the Provision of Services as the expenditure is incurred. This is reversed out through the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

## FRAMEWORK FOR INVESTMENT DECISIONS



**What's the primary purpose?**

- A - Shorter-term financial benefits
- B - Longer-term overall financial benefits
- C - Mainly other Corporate Plan objective benefits/some financial benefits
- D - Only other Corporate Plan benefits

## Property Investment Decisions - Checklist

Criteria	Measure		
<b>Financial</b>			
Price	Comparison with Red Book value		
Purchase Costs	Within industry norm		
Financial return on total investment cost	>5%	>2.5% and strongly supports corporate plan objectives	<2.5%
Return over short to medium term	Negative inflow (net income stream)		Positive inflow (net cost)
Net Present Value	>3.5% above cost of capital	<3.5% over cost of capital + significant contribution to corporate objectives	<3.5% over cost of capital
Internal Rate of Return (over the long-term life of the asset)	<10 years	10-20 years	>20 years
Payback	<15 years	15-20 years	>20 years
Stress test/tipping point	>50% value of covenant	<50% but >30%	<30%
Impact on MTFP (£)	Annual impact on MTFP funding gap (net cost or income)		
Financial Standing/appraisal of company financial health	>60%	50-60% with <12m+ covenant	<50%
Credit Score	No significant issues identified (Dun & Bradstreet or equivalent)		
<b>Treasury Management</b>			
Complies with 'Borrowing in Advance of Need' test	Complies		
<b>Impact on Corporate Cash Flows</b>			
Within Operational Boundary	Complies		
Within authorised limit	Complies		
Liquidity concerns	None		
Exit Strategy	Does not add new risks to MTFP forecasts		
Lease accounting classification	Operating Lease (not Finance lease)		
Opted to Tax	VAT on acquisition is recoverable and no adverse impact on the Council's Partial Exemption status	VAT on acquisition is not recoverable with adverse impact on the Council's Partial Exemption status	
<b>Property Characteristics</b>			
Location	In borough or clearly supports local economy		
Category	Supports balanced but diverse portfolio which may comprise: <ul style="list-style-type: none"> <li>• Shops - Class A1</li> <li>• Offices – Class A2/B1</li> <li>• Industrial - Class B2</li> <li>• Distribution &amp; Storage - Class B8</li> <li>• Hotels &amp; Hostels - Class C1</li> <li>• Residential Institutions - Class C2</li> <li>• Dwellings, Houses, Flats &amp; Apartments - Class C3</li> </ul>		

Criteria	Measure		
	<ul style="list-style-type: none"> <li>• Non-Residential Institutions - Class D1</li> <li>• Assembly &amp; Leisure - Class D2</li> <li>• Other – not included above</li> </ul>		
Type	Prime/secondary/tertiary Established office/industrial		
Tenure	Freehold or long leasehold(s)		
Occupation	Single occupier with good covenant	Multi-let	Vacant
Condition	Good condition; or Price reflects works required	Significant concerns about life, value or potential returns	
Environmental	Flood risk, conservation area, etc		
Planning	Use conforms to planning consents		
Energy Performance	> D	< D with details provided of works required to achieve D	< D
Title	Transfer required		
Legal	Any issues identified (including permitted use) Tenant check (company and directors)		
Rent	At or above market rent		
Income Flow	5+ years to lease renewal/tenant break option		
Rent Review	Upward only, preferably at market standard frequency		
Repairs	Full repairing and insuring lease (property policies arranged through the Council's insurers)		
<b>Corporate Plan Priorities</b>			
Strategic significance	Has significant strategic value Supports delivery of key corporate objectives		

### Key

Exceeds minimum criteria for investment – recommended for consideration
Does not fully meet criteria - may be considered if issues can be addressed
Does not meet criteria – not recommended for consideration

## Capital Investment Strategy Annual Report Template

### Asset Base Update

- *updated analysis of the Council's capital asset base.*

### Expenditure in year v planned (link to priorities)

- *summary of capital expenditure in year, explaining key variances of actuals v budget.*
- *summary of how capital expenditure links to the Council's priorities.*
- *identify any key issues.*

### Commercial Assets

- *analysis of the Council's commercial assets, valuations and income streams.*

### Commercial Acquisition Decisions During the Year

- *overview of acquisition decisions.*

Asset	Type	Cost	Return	Decision Date	Comments

### Commercial Asset Performance

Asset	Income	Expenditure	Net Return	Target Return on Acquisition	Void Rate	Comments

### Commercial Asset Condition

Asset	Condition	Issues & Actions

### Asset Funding

- *summary of borrowing costs (interest and MRP).*

	Actual	Planned	Variance	Comments
Borrowing				
Interest				
MRP				

### Risk management

- *summary of key risk management actions during the year.*

### Conclusions

- *recommendations regarding future investment and funding.*
- *recommendations regarding potential disposals.*

## Capital Programme 2020/21 to 2024/25

<b>CAPITAL PROGRAMME 2020 to 2025 - DETAILS</b>						
	2020/21 (Yr. 1)	2021/22 (Yr. 2)	2022/23 (Yr. 3)	2023/24 (Yr. 4)	2024/25 (Yr. 5)	Total
	£000	£000	£000	£000	£000	£000
<b>ORGANISATION SERVICES</b>						
<b>PROPERTY SERVICES</b>						
<b>Rolling Property Maintenance Programmes:</b>						
Beech House, London Road, Reigate	3,000.0	0.0	0.0	0.0	0.0	<b>3,000.0</b>
Forum House, Brighton Road, Redhill	70.0	100.0	100.0	150.0	150.0	<b>570.0</b>
Unit 61E, Albert Road North	55.0	11.5	200.0	11.5	11.5	<b>289.5</b>
Regent House	25.0	50.0	100.0	90.0	90.0	<b>355.0</b>
Linden House, 51b High Street, Reigate	17.3	11.3	28.8	11.5	11.5	<b>80.3</b>
Units 1-5 Redhill Distribution Centre. Salfords	40.3	17.3	57.5	17.3	17.3	<b>149.5</b>
Crown House	75.0	135.0	75.0	75.0	75.0	<b>435.0</b>
Tenanted properties - occupied by third parties - planned building maintenance	100.0	100.0	100.0	100.0	100.0	<b>500.0</b>
Commercial Investment Properties	50.0	76.0	76.0	76.0	76.0	<b>354.0</b>
Operational Buildings	115.0	145.0	110.0	95.0	80.0	<b>545.0</b>
Priory Park Maintenance	198.0	10.0	10.0	10.0	30.0	<b>258.0</b>
Public Conveniences	5.0	4.0	4.0	4.0	20.0	<b>37.0</b>
Infrastructure (Walls etc.)	55.0	10.0	60.0	10.0	60.0	<b>195.0</b>
Allotments	14.0	12.0	12.0	12.0	22.0	<b>72.0</b>
Cemeteries & Chapels	40.0	20.0	20.0	20.0	40.0	<b>140.0</b>

**CAPITAL PROGRAMME 2020 to 2025 - DETAILS**

	2020/21 (Yr. 1)	2021/22 (Yr. 2)	2022/23 (Yr. 3)	2023/24 (Yr. 4)	2024/25 (Yr. 5)	Total
	£000	£000	£000	£000	£000	£000
Leisure Centres	30.0	30.0	210.0	190.0	30.0	<b>490.0</b>
Pavilions	90.0	110.0	50.0	50.0	50.0	<b>350.0</b>
Car Parks Capital Works	190.0	195.0	190.0	195.0	170.0	<b>940.0</b>
Earlswood Depot/Park Farm Depot	50.0	20.0	20.0	20.0	20.0	<b>130.0</b>
Day Centres	75.0	85.0	75.0	67.0	65.0	<b>367.0</b>
Harlequin Property Maintenance	40.0	140.0	110.0	120.0	100.0	<b>510.0</b>
Building Maintenance – consultancy/capitalised staff costs.	50.0	50.0	50.0	50.0	40.0	<b>240.0</b>
	<b>4,384.5</b>	<b>1,332.0</b>	<b>1,658.3</b>	<b>1,374.3</b>	<b>1,258.3</b>	<b>10,007.3</b>
<b>IT SERVICES</b>						
<b>Rolling Investment Programmes:</b>						
ICT Replacement Programme	225.0	425.0	325.0	325.0	325.0	<b>1,625.0</b>
Disaster Recovery Systems Upgrade	0.0	0.0	50.0	0.0	0.0	<b>50.0</b>
Replacement Photocopiers/ Printers	0.0	0.0	0.0	60.0	0.0	<b>60.0</b>
	<b>225.0</b>	<b>425.0</b>	<b>375.0</b>	<b>385.0</b>	<b>325.0</b>	<b>1,735.0</b>
<b>ORGANISATIONAL DEVELOPMENT</b>						
Workplace Facilities: Estate/Asset Development	250.0	250.0	250.0	250.0	250.0	<b>1,250.0</b>
Workplace Facilities: additional IT requirement for increase in workforce.	30.0	10.0	10.0	10.0	10.0	<b>70.0</b>
	<b>280.0</b>	<b>260.0</b>	<b>260.0</b>	<b>260.0</b>	<b>260.0</b>	<b>1,320.0</b>

<b>CAPITAL PROGRAMME 2020 to 2025 - DETAILS</b>						
	<b>2020/21 (Yr. 1)</b>	<b>2021/22 (Yr. 2)</b>	<b>2022/23 (Yr. 3)</b>	<b>2023/24 (Yr. 4)</b>	<b>2024/25 (Yr. 5)</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>COMMERCIAL SERVICES</b>						
<b>COMMERCIAL INVESTMENT</b>						
Commercial Investment	50,000.0	0.0	0.0	0.0	0.0	<b>50,000.0</b>
<b>PEOPLE SERVICES</b>						
<b>HOUSING</b>						
<b>Grant-Funded Schemes</b>						
Disabled Facilities Grant	1,134.0	1,134.0	1,134.0	1,134.0	1,134.0	<b>5,669.8</b>
Home Improvement Agency (Part Grant Funded)	120.0	120.0	120.0	120.0	120.0	<b>600.0</b>
Handy Person Scheme (Housing Assistance Programme)	50.0	50.0	50.0	50.0	50.0	<b>250.0</b>
Repossession Prevention Fund	30.0	30.0	30.0	30.0	30.0	<b>150.0</b>
<b>Housing Development</b>						
Lee Street Bungalows	234.0	0.0	0.0	0.0	0.0	<b>234.0</b>
Cromwell Road Redevelopment	3,680.0	0.0	0.0	0.0	0.0	<b>3,680.0</b>
Pitwood Park	1,745.0	71.0	0.0	0.0	0.0	<b>1,816.0</b>
<b>Housing Delivery Strategy</b>						
Housing Delivery	10,000.0	10,000.0	10,000.0	0.0	0.0	<b>30,000.0</b>
	<b>16,993.0</b>	<b>11,405.0</b>	<b>11,334.0</b>	<b>1,334.0</b>	<b>1,334.0</b>	<b>42,399.8</b>

<b>CAPITAL PROGRAMME 2020 to 2025 - DETAILS</b>						
	<b>2020/21 (Yr. 1)</b>	<b>2021/22 (Yr. 2)</b>	<b>2022/23 (Yr. 3)</b>	<b>2023/24 (Yr. 4)</b>	<b>2024/25 (Yr. 5)</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>WELLBEING &amp; INTERVENTION</b>						
<b>Rolling Maintenance Programmes:</b>						
Harlequin Facilities Maintenance	40.0	40.0	40.0	40.0	40.0	<b>200.0</b>
Harlequin - Service Development	100.0	0.0	0.0	0.0	0.0	<b>100.0</b>
	<b>140.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>300.0</b>
<b>COMMUNITY PARTNERSHIPS</b>						
<b>Rolling Maintenance/Investment Programmes:</b>						
CCTV	30.0	30.0	30.0	30.0	30.0	<b>150.0</b>
<b>PLACE SERVICES</b>						
<b>NEIGHBOURHOOD OPERATIONS</b>						
<b>Rolling Maintenance/Investment Programmes:</b>						
Refuse Vehicle Replacement	1,620.0	1,620.0	0.0	0.0	0.0	<b>3,240.0</b>
Vehicles & Plant	1,542.0	846.0	846.0	846.0	846.0	<b>4,926.0</b>
Fleet Vehicle Wash-Bay Replacement	350.0	0.0	0.0	0.0	0.0	<b>350.0</b>
Play Areas Improvement	226.0	230.0	230.0	230.0	230.0	<b>1,146.0</b>
Air Quality Monitoring Equipment	109.0	40.0	40.0	40.0	40.0	<b>268.0</b>
Park & Countryside – Infrastructure & Fencing	45.0	45.0	45.0	45.0	45.0	<b>225.0</b>
Contaminated Land – Investigation Work	30.0	30.0	30.0	30.0	30.0	<b>150.0</b>
Land Flood Prevention	6.0	10.5	10.5	10.5	10.5	<b>48.0</b>
	<b>3,927.0</b>	<b>2,821.5</b>	<b>1,201.5</b>	<b>1,201.5</b>	<b>1,201.5</b>	<b>10,353.0</b>

<b>CAPITAL PROGRAMME 2020 to 2025 - DETAILS</b>						
	<b>2020/21 (Yr. 1)</b>	<b>2021/22 (Yr. 2)</b>	<b>2022/23 (Yr. 3)</b>	<b>2023/24 (Yr. 4)</b>	<b>2024/25 (Yr. 5)</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>PLACE DELIVERY</b>						
Marketfield Way Redevelopment	18,858.6	23,212.0	15,100.0	0.0	0.0	<b>57,170.6</b>
Preston Regeneration	362.1	0.0	0.0	0.0	0.0	<b>362.1</b>
Horley Public Realm Improvements - Phase 4	100.0	500.0	0.0	0.0	0.0	<b>600.0</b>
Merstham Recreation Ground	700.0	700.0	0.0	0.0	0.0	<b>1,400.0</b>
Redhill Public Realm Improvements	0.0	30.0	0.0	0.0	0.0	<b>30.0</b>
	<b>20,020.7</b>	<b>24,442.0</b>	<b>15,100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>59,562.7</b>
Economic Prosperity: Vibrant towns & villages	100.0	100.0	100.0	100.0	100.0	<b>500.0</b>
<b>TOTAL APPROVED CAPITAL PROGRAMME</b>	<b>96,100</b>	<b>40,855</b>	<b>30,099</b>	<b>4,725</b>	<b>4,549</b>	<b>176,328</b>

## **Flexible Use of Capital Receipts Strategy**

As part of the Local Government Finance Settlement (LGFS) in March 2016, the Secretary of State for Housing, Communities and Local Government provided Local Authorities with the opportunity to use capital receipts to fund the revenue costs of transformation. This flexibility was then extended to 2021/22 as part of the 2018/19 LGFS.

The flexible use of capital receipts is designed to offset the revenue cost of transformational projects which are expected to deliver future ongoing revenue savings for either the Council or other public sector delivery partners.

In order to take advantage of the change of use to capital receipts, the Council must act in accordance with the statutory guidance issued by the Secretary of State. This guidance requires the Council to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy.

### **Qualifying expenditure**

Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

### **Projects**

There are currently no projects in place that plan to make use of the capital receipts flexibility.

Should this change, details of the expected savings/service transformation will be provided to full Council alongside the impact on the Council's Prudential Indicators.

## Risk Assessment

Ref	Risk	Impact	Likelihood	Mitigation	Residual Risk
CIS1	Financial risks where the costs of maintaining an asset are understated.	M	M	Agency, legal costs, management costs, debt repayment and insurance costs are included in the financial assessment as are any other known commitments. The condition of the property is also considered.	Unknown costs may materialise that exceed budget forecasts.
CIS2	Financial risks where income streams associated with an asset are overstated and/or void periods are understated.	M	M	Individual decisions are informed by a detailed financial assessment which includes a review of income projections based on current contractual terms. The length of contracts is also considered, and a judgement is made as to a reasonable void period which is flexed depending on the number and type of rental agreements in place. The strength of the market demand for the property is also considered, as is the credit rating status of sitting tenants. The assessment of decisions includes consideration of the Council's exit strategy.	There are no guarantees that tenants will remain solvent and/or fulfil their agreements. The market may change (potentially as a result of wider economic issues) which may impact on market rental values. The life of the asset and the period of the financial model typically extends beyond any leases that are in place and there is no guarantee that premises will remain let over the period of the financial model/borrowing.
CIS3	Financial risks where the (resale) value of the asset is overstated and/or reduces. Or the life of the asset is overstated.	M	M	An independent valuation of the property is commissioned as part of the decision-making process. The Council also receives advice and market intelligence from its property advisors. The financial assessment includes both interest and repayment of borrowing.	Resale valuations cannot be guaranteed to increase/remain static. While the cost of loan repayment is modelled within the financial assessment, any desire to sell the asset within the payback period could result in a capital shortfall should the market valuation decline.

Ref	Risk	Impact	Likelihood	Mitigation	Residual Risk
CIS4	Strategic risks where the benefits, improvements and development potential of an asset are overstated	M	M	Individual acquisition decisions consider the benefit, improvement and development of the area as well as income generation for the authority.	The actual long-term economic impact of acquisitions may be less than anticipated.
CIS5	Reputational risks related to dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception.	H	L	Individual acquisition decisions consider the benefit, improvement and development of the area and contribution to agreed corporate objectives that were subject to stakeholder consultation.	The acquisition and development of individual assets may result in negative opinion.
CIS6	Environmental sustainability risks related to delivery of the Strategy	M	L	Individual acquisition decisions consider the benefit, improvement and development of the area and contribution to agreed corporate objectives that were subject to stakeholder consultation. Environmental sustainability considerations are taken into account when making individual investment decisions.	The acquisition and development of individual assets may result in negative opinion.
CIS7	Risks relating to the profile of the Council's asset base - and how effectively risk is spread across different asset types and sectors	H	L	Individual acquisition decisions consider the asset class and the extent to which it will help ensure a balanced portfolio.	The risk associated with individual asset classes will be influenced by a range of factors that may change over time.
CIS8	Risks relating to the COVID-19 pandemic	H	M	<p>Deliverability of approved schemes and funding forecasts will be subject to review as the medium/long term impacts are confirmed.</p> <p>Income from commercial rents is likely to be at higher risk of non-payment due to a downturn in the economy and changes in how tenants operate resulting in reduced demand for office space.</p>	<p>It may be necessary to re-assess deliverability and/or affordability of some schemes and update capital investment plans in response.</p> <p>Discussions with tenants have taken place since the start of the pandemic to assess their ability to pay and future requirements. It is still too early to form a clear picture of what the medium to long term implications may be.</p>

**Key:**

IMPACT						
Grave	5		CIS5			
Significant	4			CIS8		
Moderate	3		CIS6	CIS1 CIS2 CIS3 CIS4		
Minor	2					
Almost none	1					
		1	2	3	4	5
LIKELIHOOD		Rare	Unlikely	Possible	More Than Likely	Almost Certain

## Asset Condition Assessment

### Programmed Planned and Reactive Maintenance

Management of the Council's property maintenance programme, condition surveys and project management of small to medium size construction projects is carried out by the Property Services team. This team incorporates Facilities Management, with responsibility for the day to day running of the buildings to support and enable ongoing service delivery. The team is augmented by external consultants when specialist advice or additional resources are required.

Compliance with numerous statutory requirements relating to maintenance and management of properties are dealt with in-house, augmented by external consultants when specialist advice is required. The main legislative areas covered are:

- Disability Discrimination Act;
- Control of Asbestos Regulations;
- Health and Safety at Work Act;
- Environment Protection Act (contaminated land);
- Control of Substances Hazardous to Health Regulations (Legionella);
- The Regulatory Reform (Fire Safety) Orders;
- Gas safety and fixed wire testing;
- Fire risk assessments; and
- Lifts and Lifting Operations Lifting Equipment Regulations (LOLER).

Health and Safety schedules have been checked and updated, with all due inspections and certifications in hand.

A rolling five-year programme of condition surveys, regular inspection of the properties and liaison with service managers determines the revenue and capital budgets required over the medium term.

The objective is to reduce reliance on capital to fund planned and reactive maintenance, through continued aggregation of planned maintenance contracts and efficient re tendering of services that the Council purchases from external contractors.

Budgets for, and the cost of, repairs and maintenance are split between planned maintenance and reactive maintenance in order to monitor and measure the progress of improving the proportion of expenditure on the former at the expense of the latter.

All procurements are undertaken in accordance with the Council's Contract Procedure Rules and making use of the Council's E-Procurement system. This approach ensures both compliance with legislation governing public sector procurement and an open and competitive process for securing the most economically advantageous terms.

This page is intentionally left blank