

## **CAPITAL INVESTMENT STRATEGY**

2023/24 to 2027/28

JULY 2022

---

### **INDEX**

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

### **APPENDICES**

1. Commercial Governance Framework
2. Medium Term Financial Plan 2023/24 to 2027/28
3. Asset Investment Approach
4. Accounting Policies
5. Property Investment Decisions Checklist
6. Annual Report Template
7. Capital Programme 2022/23 to 2026/27
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 Commercial Strategy Parts 1 and 2 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**; and
- 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 the Council's long-term strategic context, in terms of its Corporate Plan 2020-2025 objectives and how these translate to priorities

when making capital investment 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

## 2. Baseline Capital Asset Position

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

- The value of Capital assets at 31 March 2022 as reported in the Council's accounts;
- The Council's investment assets, and other assets which generate a return, and the projected income they generate per annum;
- How the condition of the assets is assessed; and
- How current assets have been funded.

### Analysis of Capital Assets

The tables below summarise the Council's asset position in terms of the 'book value' in the latest draft of the Council's 2020/21 accounts.

<b>Table 1: KEY COUNCIL ASSETS BY ACCOUNTING CLASSIFICATION</b>		<b>Valuation 2021/22 Accounts £m</b>
<b>Description</b>		
Property Plant & Equipment		142.745
Investment Property		50.380
Assets Under Construction		60.781
Vehicles		8.562

Source: Valuation for 2021/22 Statement of Accounts

The most significant assets (in terms of value) are set out in the table below:

<b>Table 2: SIGNIFICANT ASSETS AT MARCH 2022</b>	<b>Statement of Accounts Classification</b>	<b>Asset Use</b>	<b>Valuation 2021/22 Accounts £m</b>
<b>Asset Name</b>			
Land & Premises, Marketfield Way, Redhill <sup>1</sup>	Property, Plant & Equipment	Under Construction	27.312
Donyngs Sports Centre	Property Plant & Equipment	Leisure	20.799
Tadworth Centre	Property Plant & Equipment	Leisure	19.641
Units 1-5 Redhill Distribution Centre, Salbrook Road, Salfords	Investment Property	Commercial: Industrial	16.855
Horley Sports Centre	Property Plant & Equipment	Leisure	13.472
Regent House, Queensway, Redhill	Investment Property	Commercial; Office	12.433
Banstead Sports Centre	Property, Plant & Equipment	Leisure	12.955
Cromwell Road Development	Property Plant & Equipment	Residential	8.796
Warwick Quadrant, Redhill	Property Plant & Equipment	Commercial : supermarket / library / theatre	7.059
Harlequin Theatre, Redhill	Property Plant & Equipment	Cultural	6.945
Town Hall Middle Block, Reigate	Property Plant & Equipment	Operational	5.723
Forum House, Brighton Road, Redhill	Investment Property	Commercial: offices	5.242
Earlswood Depot	Property Plant & Equipment	Operational	4.919

<b>Table 2: SIGNIFICANT ASSETS AT MARCH 2022</b>	<b>Statement of Accounts Classification</b>	<b>Asset Use</b>	<b>Valuation 2021/22 Accounts £m</b>
Linden House, High Street, Reigate	Property Plant & Equipment	Commercial: retail / gym	4.697
Travelodge, Redhill	Property Plant & Equipment	Commercial: Hotel	4.491
Beech House, London Road, Reigate	Investment Property	Commercial: offices	3.911
Town Hall Main Building, Reigate	Property Plant & Equipment	Operational	3.250
1,3,4,6,14-16 and 20 Reading Arch Road, Redhill	Property Plant & Equipment	Commercial: industrial	2.992
Priory Park, Reigate	Property, Plant & Equipment	Open Space	2.924
Madeira Walk Sandpit, Reigate	Property Plant & Equipment - Surplus	Open Space	2.896
61E Albert Road North, Reigate	Property Plant & Equipment	Commercial: industrial / warehousing	1.901
Crown House, Redhill <sup>2</sup>	n/a	Commercial: offices	1.860
Agricultural Land (Various)	Property, Plant & Equipment	Agricultural	1.576
Gloucester Road Car Park, Redhill	Property Plant & Equipment	Car Park	1.329
Bancroft Road Multi Storey Car Park, Reigate	Property Plant & Equipment	Car Park	1.295
1-4 Quarrydene Parade/1-10 Hearthstone, Merstham	Property Plant & Equipment	Commercial: restaurant / library / retail	1.056
55-57, 59, 61 & 63 Victoria Road, Horley	Investment Property	Commercial / Other	1.041
Former Scouts site, Thornton Close, Horley	Property Plant & Equipment - Surplus	Open Space	0.894
Bell Street Car Park, Reigate	Property Plant & Equipment	Car Park	0.868
64, Massetts Road, Horley	Property, Plant & Equipment	Residential	0.748

Source: Valuation for 2021/22 Statement of Accounts  
Note 1: Historic valuation – redevelopment in progress  
Note 2: Asset held by Greensand Holdings Limited

## Property Assets

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 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 and environmental quality of the Borough.

### Lettings & Disposals

Section 123 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.

### Income-Generating Assets

While the Council has a relatively small portfolio of properties that are held for purely investment purposes, it has a wide number of assets that are held for other purposes but which still generate rental income to support the revenue budget. Over time the use of these assets may change as new priorities are confirmed and assets are repurposed to help delivery new policies (eg regeneration or place-shaping projects).

Income-generating 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. The most significant of these assets are listed below.

<b>Asset Name</b>	<b>Asset Type</b>	<b>Price Paid £m/Year</b>	<b>Valuation 2021/22 Accounts £m</b>	<b>Budgeted Rent £m</b>	<b>Gross Budgeted Yield<sup>1</sup></b>
Crown House, Redhill <sup>2</sup>	Offices	£2.15m (2017)	1.860	0.177	9.5%
1-4 Quarrydene Parade/Hearthstone, Merstham	Retail / residential	£0.017m for larger site including this property (1950)	1.056	0.084	7.9%
Linden House , 51b High Street, Reigate	Retail / gym	£4.7m (2014)	4.697	0.333	7.1%
Regent House, Queensway, Redhill	Offices	£15.35m (2018)	12.433	0.881	7.1%
Travelodge, Redhill	Hotel	£5.0m (2017)	4.491	0.317	7.0%
55-63 Victoria Road, Horley	Restaurant / library / retail	Leaseback from Thames Valley Housing Association following sale in 2013 of former Council-owned office building (2015)	1.041	0.070	6.7%

<b>Table 3: COUNCIL ASSETS: GROSS RETURNS</b>					
<b>Asset Name</b>	<b>Asset Type</b>	<b>Price Paid £m/Year</b>	<b>Valuation 2021/22 Accounts £m</b>	<b>Budgeted Rent £m</b>	<b>Gross Budgeted Yield<sup>1</sup></b>
Forum House, Brighton Road, Redhill	Offices	£5.53m (2017)	5.242	0.330	6.3%
Units 1-5 Redhill Distribution Centre, Salfords	Industrial / warehousing	£15m (2018)	16.855	0.833	4.9%
Unit 61E, Albert Road North	Industrial / warehousing	£0.950m (2018)	1.901	0.089	4.7%
Warwick Quadrant, Redhill	Retail / library / theatre	£2.4m for half-share of freehold (2005)	7.059	0.305	4.3%
1,3,4,6,14-16 and 20 Reading Arch Road, Redhill	Industrial	£0.045m for larger site including these properties (1972) plus asset subsequent purchases	2.992	0.115	3.8%
Beech House, Reigate <sup>3</sup>	Offices	£6m (2017)	3.911	-	-

**NOTES**

1. Gross yields are a straight Income/Valuation calculation based on the annual budgeted rent and the latest gross asset valuation
2. Asset held by Greensand Holdings Limited
3. Premises were void at the time of setting the 2022/23 budget

**Community Assets**

These include community centres, parks/open spaces and pavilions. Some are let to community groups such as scout groups 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 and Condition**

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

**Land & Buildings**

The most recent condition survey was carried out in 2017/18 and forms the basis of the rolling capital programme for property maintenance that was approved in February 2022. 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 include replacing the boilers at Earlswood depot (£0.050m) and refurbishing the Town Hall Middle Block roof (£0.240m) in 2022/23. Clarendon Road Car Park 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 2019/20 process. Procurement and delivery took place during 2020/21 and 2021/22. Further investment is planned through the approved Capital Programme:

<b>Table 4: VEHICLES &amp; PLANT</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Total</b>
<b>Description</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Vehicles & Plant	0.182	1.056	0.448	0.565	0.578	0.562	<b>3.391</b>

### **Capital Asset Funding at 31 March 2021**

Assets have historically been funded through use of capital receipts, capital grants and drawing on available balances (internal borrowing). At 31 March 2022, the Council had no long-term external borrowing.

The Treasury Management Strategy for 2022/23 was approved in April 2022 and includes authority to borrow up to £83.5 million (Authorised Limit) to fund delivery of the approved Capital Programme 2022/23 to 2026/27. Further details are provided below.



### 3. Strategic Direction

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 2020-2025 is the Council's Corporate Plan. 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 2020-2025 and Commercial Strategy Parts 1 and 2. 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**; and
- 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.

### **Service & Financial Planning**

The annual service & financial planning process is the focus for budget setting and financial planning each year. It provides a structured framework for the identification of financial opportunities and risks and approval of plans to address them. It includes consideration of capital investment plans over a rolling five-year programme.

### **Financial Sustainability Programme**

Reliance on one-off measures such as the use of reserves to balance the budget is not without risks and will not be sustainable over the long-term. Going forward, solutions that reduce costs or increase income on a permanent basis will have to be identified for 2023/24 onwards.

A Financial Sustainability Programme has therefore been developed, focussing on four key areas:

- |                             |   |
|-----------------------------|---|
| Income Generation           | <ul style="list-style-type: none"> <li>• Pursuing opportunities to generate new income streams.</li> <li>• Optimising fees and charges.</li> <li>• Implementation of the Commercial Strategy.</li> </ul>  |
| Use of Assets               | <ul style="list-style-type: none"> <li>• Making effective use of existing assets, including the repurposing and sale of surplus properties.</li> </ul>  |
| Prioritisation of Resources | <ul style="list-style-type: none"> <li>• Reviewing in-year budget monitoring forecasts to identify new opportunities for savings and efficiencies.</li> <li>• Reviewing the level of service provided and focussing resources on priority services.</li> <li>• Managing pay costs and making effective use of staff resources.</li> </ul> |
| Achieving Value for Money   | <ul style="list-style-type: none"> <li>• Actively pursuing options to share with other councils to realise efficiency savings.</li> <li>• Identification of invest to save opportunities – including investment in technology and assets to reduce operational costs.</li> </ul>  |

Further details are provided in the separate Medium Term Financial Strategy report.

### **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**

Following the Member task group review of commercial activity in 2018, and the establishment of the Commercial Ventures Executive Sub Committee in 2019, Part 1 of the Commercial Strategy was developed in consultation with Commercial Ventures Executive Sub Committee members and approved by the Executive in November 2020, and Part 2 was approved by the Executive in December 2021.

The definitions and principles that are included in the Strategy, and the categories of activities it sets out, are intended to assist in the understanding of why this Council needs to undertake commercial activity, and how funding allocated through the budget process will be focused.

Part 1 of the Commercial Strategy confirms the Council's three guiding principles:

- **Principle 1:** Our commercial activity will be ethical, and consistent with the Council's statutory responsibility to promote economic, environmental and social wellbeing in the borough, and our corporate objectives as well as in line with all relevant advice and guidance;
- **Principle 2:** Any decisions which have a commercial aspect will be based on a robust assessment of the business case using consistent relevant criteria, and appropriate due diligence and risk assessment; and
- **Principle 3:** Surplus income generated through our commercial activities will be used to ensure the financial sustainability of the Council and continued delivery of services for local people.

Part 2 of the Strategy builds on Part 1 by explaining the Council's overall proposed commercial approach, as follows:

- Developing project pipeline to establish new income streams from asset activity while also delivering broader corporate objectives
- Ensuring that existing income streams that we already rely on from our assets are maintained and where possible increased, and that we repurpose, redevelop or dispose of those assets that cost us money

- Investing in new assets to secure income or deliver savings whilst also delivering corporate priorities
- Continuing to sell or trade services where we already do this and look to introduce new trading activity where this aligns with our local government remit and areas of expertise; and
- Taking a more commercial approach to fees and charges

Part 2 also explains how the Council will ensure robust and transparent commercial decisions and the overall approach that the Council will take to funding its commercial activity. This Capital Investment Strategy builds on this latter point.

An annual report into the Council's Commercial Strategy progress will be published each year.

### **Summary**

The Capital Investment Strategy is a tool to support delivery against the Council's vision as set out in its Corporate Plan and supporting strategies.

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 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 2023/24 to 2027/28

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**; and
- 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; and
- 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 as part of the annual Services & Financial Planning process. 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. The MRP Policy is reviewed each year when the Treasury Management Strategy is updated.

MRP Policy Consultation 2021

In November 2021 Government issued a consultation on changes to how the Minimum Revenue Provision (MRP) calculation will be applied in 2023/24 onwards. The consultation covers two main areas:

Some authorities

- use capital receipts in lieu of all or part of the revenue charge for the MRP; and
- Some authorities exclude investment assets from the MRP determination.

The Government's view is that both practices should not be permitted.

If implemented the implications for this authority relate to the investment in Greensand Holdings Limited where MRP is not currently provided because the lending to the company is secured on the company's property assets. The authority does however make an assessment in its annual accounts of the risks of non-payment and reduces (impairs) the asset value of the loans.

In June 2022 the Government indicated that its proposals would be revised in response to consultation responses. These revisions include 'additional flexibilities' whereby the MRP charged on capital loans for service purposes will be limited to covering the expected credit loss on the loan. The revised proposals also permit capital receipts to be used instead of a revenue charge for MRP on capital loans, including those made for commercial purposes, in the year of receipt.

The final changes are likely to be announced later in 2022 and are expected to apply for the 2023/24 financial year onwards.

### **Commercial Assets and Due Diligence**

The Council will 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, and work of the supporting officer groups, 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 Head of Paid Service, 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 has delegated authority to approve proposals relating to acquisitions or disposal of land and property and income-generating 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 reporting on the Commercial Strategy. It 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 2022/23 to 2026/27 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 2026/27 were approved by Council in February 2022 and are included in detail at Appendix 7. They are summarised in the table below:

Table 5: CAPITAL PROGRAMME 2022/23 to 2026/27 by SERVICE	2021/22 <sup>1</sup>	2022/23	2023/24	2024/25	2025/26	2026/27	TOTAL £m
	BFWD £m	Projected £m	Projected £m	Projected £m	Projected £m	Projected £m	
<b>ORGANISATION SERVICES</b>							
Property Services	5.223	1.636	1.352	1.246	0.028	1.536	<b>11.022</b>
IT Services	0.474	0.200	0.260	0.250	0.200	0.200	<b>1.584</b>
Organisational Development	0.452	0.250	0.250	0.250	-	-	<b>1.202</b>
<b>PEOPLE SERVICES</b>							
Housing	20.519	11.325	1.325	1.325	1.325	1.362	<b>37.181</b>
Wellbeing & Intervention	0.172	0.100	0.100	0.100	0.100	0.100	<b>0.672</b>
Community Partnerships	0.075	0.030	-	-	-	-	<b>0.105</b>
<b>PLACE SERVICES</b>							
Neighbourhood Operations	0.659	1.542	0.774	0.891	0.929	0.913	<b>5.706</b>
Place Delivery	9.410	15.100	-	-	-	-	<b>24.510</b>
Economic Prosperity	-	0.100	0.100	0.100	-	-	<b>0.300</b>
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>36.983</b>	<b>30.283</b>	<b>4.161</b>	<b>4.162</b>	<b>2.581</b>	<b>4.110</b>	<b>82.280</b>

Note 1: £62.991 million was allocated for investment in Commercial projects in previous years. This has not been carried forward to 2022/23; instead, sums will be allocated as new business cases are approved.

Table 6: CAPITAL PROGRAMME 2022/23 to 2026/27 by INVESTMENT TYPE	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	TOTAL £m
	BFWD £m	Projected £m	Projected £m	Projected £m	Projected £m	Projected £m	
Regeneration Schemes	9.410	15.100	0.000	0.000	0.000	0.000	24.510
Commercial Assets	0.210	0.075	0.075	0.075	0.000	0.075	0.510
Housing Delivery	20.519	10.191	0.191	0.191	0.191	0.228	31.511
Vehicles & Plant	0.532	1.056	0.448	0.565	0.578	0.562	3.741



Table 6: CAPITAL PROGRAMME 2022/23 to 2026/27 by INVESTMENT TYPE	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	TOTAL £m
	BFWD £m	Projected £m	Projected £m	Projected £m	Projected £m	Projected £m	
Disabled Facilities	0.000	1.134	1.134	1.134	1.134	1.134	5.670
Operational Assets	0.764	0.408	0.393	0.378	0.028	0.158	2.129
Community Assets	1.006	0.792	0.744	0.838	0.375	1.023	4.778
ICT Assets	0.224	0.200	0.260	0.250	0.200	0.200	1.334
Car Parks	0.358	0.190	0.195	0.170	-	0.075	0.988
Tenanted Properties	3.492	0.586	0.380	0.380	-	0.405	5.244
Economic Prosperity Projects	-	0.100	0.100	0.100	-	-	0.300
Leisure Centres	0.017	0.210	0.190	0.030	-	0.175	0.622
Other	0.452	0.241	0.051	0.051	0.076	0.076	0.944
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>36.983</b>	<b>30.283</b>	<b>4.161</b>	<b>4.162</b>	<b>2.581</b>	<b>4.110</b>	<b>82.280</b>

£36.983 million of resources allocated for previously-approved schemes have been brought forward from previous years, principally due slippage in the original forecast delivery date. These include:

Place Services                    Marketfield Way - £6.986m  
    Merstham Recreation Ground - £1.419m  
    Horley Public Realm Improvements - £0.575m  
    Preston Regeneration - £0.348m

Rolling Programmes            Beech House, London Road. Reigate - £3.000m  
    Priory Park Maintenance - £0.213m  
    Car Parks Capital Works - £0.358m  
    Crown House - £0.210m  
    Harlequin Property Maintenance - £0.206m  
    Operational Buildings - £0.260m  
    Pavilions Programme - £0.168m  
    Tenanted Properties - £0.100m

Housing Development        Housing Delivery Programme - £20.000m  
    Cromwell Road Development - £0.150m  
    Lee Street Bungalows - £0.327k

The approved Capital Programme includes growth for new initiatives and opportunities:

Table 7: CAPITAL GROWTH 2022/23	
Service Area	Approved Capital Growth
<b>ORGANISATION</b>	
IT Services	<ul style="list-style-type: none"> <li>Investment in IT networks</li> </ul>
Property Services	<ul style="list-style-type: none"> <li>Existing asset maintenance rolling programme</li> </ul>

<b>Table 7: CAPITAL GROWTH 2022/23</b>	
<b>Service Area</b>	<b>Approved Capital Growth</b>
<b>PEOPLE SERVICES</b>	
Housing	<ul style="list-style-type: none"> <li>Existing asset maintenance rolling programme</li> </ul>
<b>PLACE SERVICES</b>	
Neighbourhood Services	<ul style="list-style-type: none"> <li>Continued investment in play area improvement, Air Quality Management equipment, parks &amp; countryside, infrastructure &amp; fencing and flood prevention.</li> </ul>
Grant-funded schemes	<ul style="list-style-type: none"> <li>Growth of £1.3 million to support the continued rolling budget for Disabled Facilities Grants, Home Improvement Agency services and Handy Person Scheme</li> </ul>
Vehicles & Plant	<ul style="list-style-type: none"> <li>Continuation of the rolling investment programme</li> </ul>

This results in a forecast borrowing requirement of £19.367 million over the period. Further details of capital financing and borrowing are set out in section 5.

<b>Table 8: CAPITAL PROGRAMME FUNDING 2022/23 to 2026/27</b>	<b>2021/22 BFWD £m</b>	<b>2022/23 Projected £M</b>	<b>2023/24 Projected £M</b>	<b>2024/25 Projected £M</b>	<b>2025/26 Projected £M</b>	<b>2026/27 Projected £M</b>	<b>TOTAL</b>
<b>TOTAL CAPITAL EXPENDITURE 2022/23 to 2026/27</b>	<b>36.983</b>	<b>30.283</b>	<b>4.161</b>	<b>4.162</b>	<b>2.581</b>	<b>4.110</b>	<b>82.280</b>
<b>FUNDED BY:</b>							
Capital Reserves	-	-	-	-	-	-	-
Capital Receipts		28.938	2.816	2.817	1.236	0.017	<b>35.824</b>
Capital Grants & Contributions	0.327	1.345	1.345	1.345	1.345	1.382	<b>7.089</b>
Earmarked Reserves – Housing Delivery Strategy	20.000	-	-	-	-	-	<b>20.000</b>
Prudential Borrowing	16.656	-	-	-	-	2.711	<b>19.367</b>
<b>TOTAL CAPITAL FUNDING 2022/23 to 2026/27</b>	<b>36.983</b>	<b>30.283</b>	<b>4.161</b>	<b>4.162</b>	<b>2.581</b>	<b>4.110</b>	<b>82.280</b>

#### Key sources of capital funding:

##### Capital Reserves

- Previously the Council benefitted from access to significant capital reserves following the sale of its housing stock. Over recent years these reserves have been utilised to invest in the capital programme.

- |                                  |   |
|----------------------------------|---|
| Capital Receipts                 | <ul style="list-style-type: none"> <li>• Sale of capital assets results in a capital receipt that can be used to invest in new capital assets or to repay prudential borrowing.</li> <li>• The primary source of capital receipts over the duration of this Capital programme relates to delivery of major schemes including Marketfield Way redevelopment and the Pitwood Park housing development. These capital receipts have been factored into forecast funding plans.</li> <li>• Other sources include funds that continue to be received following the housing stock transfer and other housing developments over the past 20 years.</li> </ul>  |
| Flexible Use of Capital Receipts | <ul style="list-style-type: none"> <li>• Following approval of the updated IT Strategy in March 2022, a proportion of available capital receipts may have to be allocated for investment in projects to support delivery of the Strategy over the next five years. This funding approach would be delivered through the Government's scheme for use of capital receipts to fund transformation initiatives.</li> </ul>  |
| Capital Grants & Contributions   | <ul style="list-style-type: none"> <li>• Forecasts of the future grant funding allocation for Disabled Facilities works have been updated to reflect forecast allocations.</li> <li>• They include the Council's share of Section 106 and CIL funding. A review of options for making use of Section 106 funding is currently underway as part of the Financial Sustainability Programme.</li> </ul>  |
| Prudential Borrowing             | <ul style="list-style-type: none"> <li>• The primary source of long-term funding for the Capital Programme is now prudential borrowing, mainly from the Public Works Loans Board (PWLB).</li> <li>• Loans are managed through the approved Treasury Management Strategy and policies.</li> <li>• Interest on borrowing is paid to the PWLB and charged to the annual revenue budget along with the Minimum Revenue Provision that is necessary to set aside funds for eventual repayment of the loan principal. These costs have to be taken into account when setting a balanced Revenue Budget. The MRP Policy is reviewed each year when preparing the Treasury Management Strategy.</li> <li>• There are increasing restrictions on the type of capital expenditure that is eligible for prudential borrowing. Borrowing to fund investment solely for commercial gain is no longer permitted.</li> </ul> |
| Revenue Budget Contributions     | <ul style="list-style-type: none"> <li>• There is no expectation that significant capital expenditure will be funded from the revenue budget in 2023/24.</li> </ul>   |

### **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 Spending**

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 annual review 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; and
- **Section 106 Agreements** (Town and Country Planning Act 1990) and **Community Infrastructure Levy** (CIL) sums. 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.

The table below summarises the capital expenditure plans over the duration of the Treasury Management Strategy and how they are to be financed through use of existing capital or revenue resources. Any shortfall of resources results in a borrowing requirement.

<b>Table 9: CAPITAL FINANCING PLANS</b>	<b>2022/23 Estimate £m</b>	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>
Grants/Contributions	1.247	1.247	1.247
Capital Receipts	26.778	-	-
Revenue	-	-	-
Reserves	-	-	-
<b>External Funding</b>	<b>28.025</b>	<b>1.247</b>	<b>1.247</b>
Net Borrowing Need - General Fund (Core)	6.028	2.914	2.915
Net Borrowing Need - General Fund (Regeneration)	-	-	-
<b>Net Financing Need for the Year</b>	<b>6.028</b>	<b>2.914</b>	<b>2.915</b>

<b>Table 10: MOVEMENT IN CAPITAL FINANCING REQUIREMENT</b>	<b>2020/21 Actual £m</b>	<b>2021/22 Estimate £m</b>	<b>2022/23 Estimate £m</b>	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>
Closing CFR	50.326	62.874	68.236	70.412	72.549
Movement in CFR	19.221	12.548	5.362	2.176	2.137
<b>Movement in CFR represented by:</b>					
Net financing need for the year (Table 9)	19.515	13.062	6.028	2.914	2.915
Less MRP/VRP and other financing movements	(0.294)	(0.514)	(0.666)	(0.738)	(0.778)
<b>Movement in CFR</b>	<b>19.221</b>	<b>12.548</b>	<b>5.362</b>	<b>2.176</b>	<b>2.137</b>

Source: Treasury Management Strategy 2022/23

### 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).

<b>Table 11: EXPECTED CHANGE IN EXTERNAL DEBT</b>	<b>2020/21 Actual £m</b>	<b>2021/22 Estimate £m</b>	<b>2022/23 Estimate £m</b>	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>
<b>External Debt</b>					
Debt at 1 April	14.000	9.000	37.000	44.000	49.000
Expected change in Debt	(5.000)	28.000	7.000	5.000	2.000
Other long-term liabilities (OLTL)	-	-	-	-	-
Expected change in OLTL	-	-	-	-	-
<b>Actual Gross Debt at 31 March</b>	<b>9.000</b>	<b>37.000</b>	<b>44.000</b>	<b>49.000</b>	<b>51.000</b>
CFR	50.326	62.874	68.236	70.412	72.549
<b>Under / (over) Borrowing</b>	<b>41.326</b>	<b>25.874</b>	<b>24.236</b>	<b>21.412</b>	<b>21.549</b>

Source: Treasury Management Strategy 2022/23

The above table confirms that the Council is forecast (based on its current Capital Programme and Treasury Management Strategy) to borrow up to £51.0 million by 2024/25. This is within the Operational Limit of £73.500 million and the Authorised Borrowing limit of £83.500 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:

<b>Table 12: RATIO OF FINANCING COSTS TO NET REVENUE BUDGET</b>	<b>2019/20 Actual %</b>	<b>2020/21 Estimate %</b>	<b>2022/23 Estimate %</b>	<b>2023/24 Estimate %</b>	<b>2024/25 Estimate %</b>
Gross cost of borrowing as % of net budget requirement	2.4%	7.9%	8.9%	9.1%	9.2%
Net cost of borrowing including investment income as % of net budget requirement	-3.5%	0.9%	3.8%	4.2%	4.4%

Source: Treasury Management Strategy 2022/23

The estimates of financing costs include current commitments and the proposals in the 2022/23 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 2022/23, but with a new restriction on the use of capital receipts to fund discretionary redundancy payments and a new requirement to submit plans for use of the discretion in advance of each financial year.

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 Borrowing**

Following on from the Public Works Loan Board (PWLB) consultation which closed in July 2020, HM Treasury concluded their findings and published revised lending terms for the PWLB in November 2020 while at the same time reducing PWLB lending rates to reverse the increase imposed in October 2019.

The key features of the new lending terms are:

- As a condition of accessing the PWLB, authorities are required to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB;
- This includes requiring the Chief Financial Officer to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This



assessment has to be based on their professional interpretation of guidance issued alongside the new lending terms;

- Given the nature of local authority borrowing, it is not possible to reliably link particular loans to specific spending, therefore this restriction applies on a 'whole plan' basis – meaning that the PWLB will not lend to any local authority which plans to buy investment assets primarily for yield anywhere in their capital plans, regardless of whether that transaction would notionally be financed from a source other than the PWLB;
- When applying for a new loan, the local authority will be required to confirm that the plans they have submitted remain current and that the assurance that they do not intend to buy investment assets primarily for yield is still accurate; and
- Should it transpire that a local authority has deliberately misused the PWLB, HM Treasury has the option to suspend that authority's access to the PWLB, and in the most extreme cases, to require that loans be repaid.

### **The Prudential Code**

CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the 'Prudential Code') provides the framework for councils' capital investments. The key feature of the prudential system is that councils should determine the level of their capital investment – and how much they borrow to finance that investment – based on their own assessment of what they can afford, not just for the current year but also for future years.

The statutory basis for the prudential system is set out in the Local Government Act 2003, which:

- Confirms councils' power to borrow – which in the medium term must only be for capital purposes, while short-term borrowing can be for cash flow purposes;
- Makes it clear that, as previously, councils may not mortgage assets;
- Places a duty on councils not to exceed their prudential borrowing limits, or any national limits imposed by central government;
- Places a duty on councils to determine – and review – their own borrowing limits in accordance with the Prudential Code;
- Gives the Government a reserve power to impose borrowing limits that would override councils' own borrowing limits for national economic reasons;
- Makes it clear that credit arrangements should be treated as borrowing under the prudential system; and
- Confirms that councils may invest both for the prudential management of their financial affairs and for purposes relevant to their functions.

Following two consultations intended to take into account the changing landscape for local government following the sustained period of reduced public spending and the developing localism agenda, the Prudential Code was updated in December 2017. One of the main changes was to introduce the requirement to publish a Capital Investment Strategy.

The main requirements of the revised Prudential Code relating to service and commercial investments are:

- The risks associated with service and commercial investments should be proportionate to their financial capacity – losses to be absorbed in budgets or reserves without unmanageable detriment to local services;
- An authority must not borrow to invest for the primary purpose of commercial return. It is not prudent for local authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority (where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose);
- An annual review is to be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
- A new Prudential Indicator is being introduced for the net income from commercial and service investments as a proportion of the net revenue stream; and
- A new requirement for Investment Management Practices which set out how the Council will manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

### **Treasury Management Code**

CIPFA published revised Prudential and Treasury Management Codes in December 2021. The formal reporting requirements of the revised Codes will be implemented in 2023/24.

When implemented the revised Treasury Management Code will require investments and investment income to be attributed to one of three purposes:

#### (i) Treasury management

- Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

#### (ii) Service delivery

- Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is *'...either related to the financial viability of the project in question or otherwise incidental to the primary purpose...'*

#### (iii) Commercial return

- Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

The authority's Treasury Investment Strategy will be required to include:

- Classification of investments for service or commercial purposes:
- The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;
- An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (ie. whether losses could be absorbed in budgets or reserves without unmanageable detriment to local services);
- Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;
- Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);
- Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the overall strategy);
- Statement of compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

The revised Treasury Management code also requires authorities to comply with the following in 2023/24 onwards:

- Adopting a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
- Long term treasury investments, (including pooled funds), to be classed as commercial investments unless justified by a cash flow business case;
- Some pooled funds (longer term instruments, including those with no fixed maturity date) to be included in the indicator for principal sums maturing in years beyond the initial budget year;
- Amendment to the knowledge and skills register for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- Quarterly performance reporting to Members (as part of integrated revenue, capital and balance sheet reports), to include prudential indicators; and
- Environmental, social and governance (ESG) issues to be addressed within an authority's treasury management policies and practices.

Local authorities were already at an advanced stage with 2022/23 budget setting, including the preparation of their Treasury Management Strategy Statements, when these changes were announced. Therefore CIPFA acknowledged that they view 2022/23 as a transitional year to embed these new requirements and has stated that there will be a 'soft' introduction of the

revised Codes, with local authorities not being expected to have to change their Treasury Management reports for 2022/23; full implementation will be required for 2023/24.

The underlying principles, including that an authority must not borrow to invest primarily for financial return, do however apply with immediate effect, and align with the Government's changes to PWLB borrowing terms in 2020.

### **Governance**

The Audit 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 approves the Treasury Management Strategy each year along with the half-year performance report.

Throughout the year, the Audit 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 2022/23 – 2026/27.

## 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 Government 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 through the Audit 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 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 post-lockdown 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 while general inflation pressures will result in increased build costs. 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, 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 subject to public consultation and also 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 2023/24 to 2027/28
3. Asset Investment Approach
4. Accounting Policies
5. Property Investment Decisions Checklist
6. Annual Report Template
7. Capital Programme 2022/23 to 2026/27
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?	

Requirement	Evidence of compliance (or explanation for non-compliance)
<b>Planning</b>	
a. Does the assessment cover relevant criteria including costs, complexity, risks, return on investment?	
<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</li> </ul>	

Requirement	Evidence of compliance (or explanation for non-compliance)
<p>Association and/or other documentation allow for full information flow to the Council).</p> <p>vi. Any other governance mechanisms proposed, eg advisory board, stakeholder committee.</p>	
<p>d. Who are the key people involved and how have we satisfied ourselves that their skills and experience are relevant and sufficient?</p> <p>i. Identities, skills and experience of key personnel (covering people management, leadership, financial and commercial skillsets).</p> <p>ii. Results of due diligence on key personnel.</p> <p>iii. Assessment of potential conflicts of interest – including any current or expected involvement of related parties/companies.</p>	
<p>e. What controls will be in place to minimise/mitigate risk?</p> <p>i. Procurement and fraud controls.</p> <p>ii. Financial controls (within the Council) to ensure funds advanced are in line with approved limits.</p> <p>iii. Financial controls (within the company/venture) including authorisation of expenditure.</p> <p>iv. Controls relating to other risks arising from the venture.</p>	

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 2023/24 to 2027/28

MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2021/22	Cumulative Impact 2023/24	Cumulative Impact 2024/25	Cumulative Impact 2025/26	Cumulative Impact 2026/27	Cumulative Impact 2027/28
	£m	£m	£m	£m	£m	£m
<b>2022/23 Budget Requirement</b>	<b>19.800</b>					
Service Budgets - Pay		1.250	2.250	3.250	4.250	5.250
Service Budgets – net service growth / savings 2023/24		TBC through service & financial planning 2023/24				
New Sources of Income – Fees & Charges / Commercial		(0.100)	(0.250)	(0.400)	(0.500)	(0.500)
Central Budgets - Pensions		0.340	0.340	0.340	0.340	0.340
Central Budgets - Treasury Management – net borrowing costs		0.150	0.400	0.600	0.800	0.800
<b>Council Tax</b>						
£5 per Band D equivalent plus impact of forecast taxbase		(0.541)	(1.108)	(1.498)	(1.181)	(2.151)
<b>Business Rates</b>		(1.260)	(0.200)	(0.500)	(0.500)	(0.500)
<b>Negative RSG Grant</b>				0.740	0.980	1.230
<b>Government Grants</b>						
Lower Tier Services Grant		TBC in the December Provisional Settlement Announcement				
Services Grant						
New Homes Bonus		0.600	0.600	0.600	0.600	0.600
<b>Call on Reserves 2022/23</b>						
Reversal of one-off call on Earmarked Reserves and General Fund Balance Contribution in 2022/23		1.677	0.677	0.677	0.677	0.677
<b>Forecast Gap at July 2022 Compared to 2022/23 Budget</b>	<b>-</b>	<b>2.116</b>	<b>2.709</b>	<b>3.809</b>	<b>4.829</b>	<b>5.446</b>
Annual Increase in Gap		2.116	0.593	1.100	1.020	0.617
Gap as % of 2022/23 budget requirement		10.6%	13.6%	19.1%	24.2%	27.3%



## ASSET INVESTMENT APPROACH

### Introduction

The Council has for several years targeted 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 2020-2025 sets out our priorities for the current five year period and explains how we will focus our resources and deliver services to those living, working and spending time in Reigate & Banstead. This includes objectives to be a financially self-sustaining Council by maximising income and efficiency opportunities, and to generate additional income to build our financial resilience through responsible and sustainable commercial activities. One way we can do this is by developing our existing land, commercial properties and acquisitions that generate new additional income that will contribute to the local economy.

The Council's Commercial Strategy assists in the understanding of why this Council needs to undertake commercial activity, and how funding will be focused. It includes a Commercial Activity Action Plan, progress on which will be reported annually. The Action Plan will support delivery of new income generation opportunities for inclusion in future MTFP forecasts.

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 Approach 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 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; and
- Supporting the local economy.

### Governance

This approach 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 the Corporate Governance Group, supported by the Strategic Property Officer Group and the Companies Oversight 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 Strategic Property Officer Group will carry out an initial high-level assessment and desk top valuations of any investment opportunity. Key criteria for the assessment will include:

- The contribution of any opportunity to Corporate Plan objectives
- The type, tenure and location of the asset and current and forecast market conditions
- The impact that pursuing the opportunity will have on the Council's overall portfolio
- Immediate and longer-term capital costs and revenue implications
- Risks associated with the specific opportunity as well as any wider risks for the organisation should it pursue the opportunity; and
- The exit strategy.

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

The Corporate Governance Group 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**

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;
- IT Strategy; and
- Environmental Sustainability Strategy

### **Scope**

This approach 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; and
- 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 Approach 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 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); and
- 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.

## 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	50-60% 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> </ul>		

Criteria	Measure		
	<ul style="list-style-type: none"> <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> <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



## 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 2022/23 to 2026/27

CAPITAL PROGRAMME 2022 to 2027 - DETAILS							
	2021/22 Bfwd	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m	£m	£m	£m
<b>ORGANISATION SERVICES</b>							
<b>PROPERTY SERVICES</b>							
<b>Rolling Property Maintenance Programmes</b>							
Forum House, Brighton Road Redhill	0.170	0.100	0.150	0.150	-	0.100	<b>0.670</b>
Beech House, London Road, Reigate	3.000	-	-	-	-	-	<b>3.000</b>
Unit 61E Albert Road North	0.062	0.200	0.012	0.012	-	0.075	<b>0.360</b>
Regent House, 1-3 Queensway Redhill	0.075	0.100	0.090	0.090	-	0.090	<b>0.445</b>
Linden House, 51B High Street Reigate	0.028	0.029	0.012	0.012	-	0.015	<b>0.095</b>
Units 1-5 Redhill Distribution Centre Salfords	0.057	0.058	0.017	0.017	-	0.025	<b>0.174</b>
Crown House	0.210	0.075	0.075	0.075	-	0.075	<b>0.510</b>
Tenanted Properties	0.100	0.100	0.100	0.100	-	0.100	<b>0.500</b>
Tenanted Property Assets	0.060	0.076	0.076	0.076	-	0.076	<b>0.364</b>
Operational Buildings	0.260	0.110	0.095	0.080	-	0.080	<b>0.625</b>
Priory Park	0.213	0.010	0.010	0.030	-	0.050	<b>0.313</b>

**CAPITAL PROGRAMME 2022 to 2027 - DETAILS**

	<b>2021/22 Bfwd</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Public Conveniences	0.017	0.004	0.004	0.020	-	0.095	<b>0.140</b>
Infra-structure (walls)	0.026	0.060	0.010	0.060	-	0.020	<b>0.176</b>
Allotments	0.030	0.012	0.012	0.022	-	0.012	<b>0.088</b>
Cemeteries & Chapel	0.060	0.020	0.020	0.040	-	0.020	<b>0.160</b>
Pavilion Replacement – Woodmansterne	0.020	-	-	-	-	-	0.020
Leisure Centre Maintenance	0.017	0.210	0.190	0.030	-	0.175	<b>0.622</b>
Existing Pavilions Programme	0.168	0.050	0.050	0.050	-	0.150	<b>0.468</b>
Car Parks Capital Works Programme	0.358	0.190	0.195	0.170	-	0.075	<b>0.988</b>
Earlswood Depot/Park Farm Depot	0.052	0.020	0.020	0.020	-	0.050	<b>0.162</b>
Day Centres Programme	0.034	0.075	0.067	0.065	-	0.125	<b>0.366</b>
Harlequin Property Maintenance	0.206	0.110	0.120	0.100	-	0.100	<b>0.636</b>
Building Maintenance - Capitalised Staff Costs	0.000	0.028	0.028	0.28	0.028	0.028	<b>0.140</b>
<b>Total</b>	<b>5.223</b>	<b>1.636</b>	<b>1.352</b>	<b>1.246</b>	<b>28</b>	<b>1.536</b>	<b>11.022</b>
<b>IT SERVICES</b>							
<b>Rolling Investment Programmes:</b>							
ICT Replacement Programme	0.224	0.200	0.200	0.250	0.200	0.200	<b>1.274</b>
Replacement Photocopiers/ Printers	-	-	0.060	-	-	-	<b>0.060</b>
<b>Total</b>	<b>0.224</b>	<b>0.200</b>	<b>0.260</b>	<b>0.250</b>	<b>0.200</b>	<b>0.200</b>	<b>1.334</b>
<b>ORGANISATIONAL DEVELOPMENT</b>							

<b>CAPITAL PROGRAMME 2022 to 2027 - DETAILS</b>							
	<b>2021/22 Bfwd</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Workplace Facilities: Estate/Asset Development	0.452	0.250	0.250	0.250	-	-	<b>1.202</b>
<b>Total</b>	<b>0.452</b>	<b>0.250</b>	<b>0.250</b>	<b>0.250</b>	<b>-</b>	<b>-</b>	<b>1.202</b>
<b>Environmental Strategy Delivery</b>							
Environmental Strategy Delivery	0.250	-	-	-	-	-	<b>0.250</b>
<b>PEOPLE SERVICES</b>							
<b>HOUSING</b>							
<b>Grant-Funded Schemes</b>							
Disabled Facilities Grant	-	1.134	1.134	1.134	1.134	1.134	<b>5.670</b>
Home Improvement Agency (Part Grant Funded)	-	0.120	0.120	0.120	0.120	0.120	<b>0.600</b>
Handy Person Scheme (Housing Assistance Programme)	-	0.050	0.050	0.050	0.050	0.050	<b>0.250</b>
Massetts Road – Property Rolling Programme	-	0.021	0.021	0.021	0.021	0.021	<b>0.105</b>
Housing Temp/Emergency Repairs	-	-	-	-	-	-	<b>0.037</b>
Lee Street Bungalows	0.327	-	-	-	-	-	<b>0.327</b>
<b>Housing Delivery Strategy</b>							
Housing Delivery	20.000	10.000	-	-	-	-	<b>30.000</b>
Cromwell Road Development	0.150	-	-	-	-	-	<b>0.150</b>
Pitwood Park Development, Tadworth	0.043	-	-	-	-	-	<b>0.043</b>
<b>Total</b>	<b>20.519</b>	<b>11.325</b>	<b>1.325</b>	<b>1.325</b>	<b>1.325</b>	<b>1.362</b>	<b>37.181</b>

<b>CAPITAL PROGRAMME 2022 to 2027 - DETAILS</b>							
	<b>2021/22 Bfwd</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>WELLBEING &amp; INTERVENTION</b>							
Harlequin - Service Development	0.172	0.100	0.100	0.100	0.100	0.100	<b>0.672</b>
<b>Total</b>	<b>0.172</b>	<b>0.100</b>	<b>0.100</b>	<b>0.100</b>	<b>0.100</b>	<b>0.100</b>	<b>0.672</b>
<b>COMMUNITY DEVELOPMENT</b>							
<b>Rolling Maintenance Programmes</b>							
CCTV	0.075	0.030	-	-	-	-	<b>0.105</b>
<b>PLACE SERVICES</b>							
<b>NEIGHBOURHOOD OPERATIONS</b>							
<b>Rolling Maintenance/Investment programmes</b>							
Vehicle Wash Bay Replacement	0.350	-	-	-	-	-	<b>0.350</b>
Vehicles & Plant	0.182	1.056	0.448	0.565	0.578	0.562	<b>3.391</b>
Play Areas Improvement	-	0.230	0.230	0.230	0.230	0.230	<b>1.150</b>
Air Quality Monitoring Equipment	-	0.040	0.040	0.040	0.065	0.065	<b>0.250</b>
Parks & Countryside – Infrastructure & Fencing	-	0.045	0.045	0.045	0.045	0.045	<b>0.225</b>
Workshop Refurbishment	-	-	0.160	-	-	-	<b>0.160</b>
Contribution to Surrey Transit Site	0.127	0.160	-	-	-	-	<b>0.127</b>
Land Flood Prevention	-	0.011	0.011	0.011	0.011	0.011	<b>0.053</b>
<b>Total</b>	<b>0.659</b>	<b>1.542</b>	<b>0.774</b>	<b>0.891</b>	<b>0.929</b>	<b>0.913</b>	<b>5.708</b>

CAPITAL PROGRAMME 2022 to 2027 - DETAILS							
	2021/22 Bfwd	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m	£m	£m	£m
<b>PLACE DELIVERY</b>							
Marketfield Way Redevelopment	6.986	15,100	-	-	-	-	<b>22.086</b>
Horley Public Realm Improvements - Phase 4	0.575	-	-	-	-	-	<b>0.575</b>
Merstham Recreation Ground	1.419	-	-	-	-	-	<b>1.419</b>
Redhill Public Realm Improvements	0.030						<b>0.030</b>
Pay on Exit Car Parking, Horley	0.052	-	-	-	-	-	<b>0.052</b>
Preston – Parking Improvements	0.348	-	-	-	-	-	<b>0.348</b>
<b>Total</b>	<b>9.410</b>	<b>15,100</b>	-	-	-	-	<b>24.510</b>
Economic Prosperity - Vibrant towns & villages	-	100	100	100	-	-	<b>0.300</b>
<b>TOTAL APPROVED CAPITAL PROGRAMME</b>	<b>36.983</b>	<b>30,283</b>	<b>4,161</b>	<b>4,162</b>	<b>2,581</b>	<b>4,110</b>	<b>82.280</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 2022/23, but with a new restriction on the use of capital receipts to fund discretionary redundancy payments and a new requirement to submit plans for use of the discretion in advance of each financial year.

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**

The IT Strategy that was approved in March 2022 included options for funding some investment in new technology through calling on capital receipts; however to date no specific projects have been identified that require use of this funding source as the majority of currently-planned investment is categorised as revenue expenditure.

There are therefore 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.</p>

Ref	Risk	Impact	Likelihood	Mitigation	Residual Risk
CIS9	Delivery and financial risks due to cost inflation pressures	H	H	Deliverability of approved schemes within approved funding limits will be subject to regular review and reporting as the medium/long term impacts are confirmed.	Project scope and specifications may have to be revised; some planned schemes may have to be paused or cancelled.

**Key:**

IMPACT						
Grave	5		CIS5			
Significant	4			CIS8	CIS9	
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.