**ANNEX 1**

# CAPITAL INVESTMENT STRATEGY
## 2024/25 to 2028/29
## July 2023

**INDEX**



**APPENDICES**

# 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 Investment 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.

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 and how it aligns with the Treasury Management Strategy for 2024/25.

- **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 2023 that will be 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 their 'book value'.

| Table 1: KEY COUNCIL ASSETS BY ACCOUNTING CLASSIFICATION<br>Description | Valuation at 31 March 2023 £m |
|---|---|
| Property Plant & Equipment | 135.949 |
| Investment Property | 40.989 |
| Assets Under Construction | 73.614 |
| Vehicles | 2.530 |

Source: Valuation for 2022/23 Statement of Accounts

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

| Table 2: SIGNIFICANT ASSETS AT MARCH<br>Asset Name | Statement of Accounts Classification | Asset Use | Valuation at 31 March 2023 £m |
|---|---|---|---|
| Land & Premises, Marketfield Way, Redhill[1] | Property, Plant & Equipment | Under Construction | 57.860 |
| Donyngs Sports Centre | Property Plant & Equipment | Leisure | 21.555 |
| Tadworth Centre | Property Plant & Equipment | Leisure | 20.248 |
| Units 1-5 Redhill Distribution Centre, Salbrook Road, Salfords | Investment Property | Commercial: Industrial | 15.882 |
| Horley Sports Centre | Property Plant & Equipment | Leisure | 13.925 |
| Regent House, Queensway, Redhill | Investment Property | Commercial; Office | 11.983 |
| Cromwell Road Development | Property Plant & Equipment | Residential | 8.138 |
| Harlequin Theatre, Redhill | Property Plant & Equipment | Cultural | 7.540 |
| Warwick Quadrant, Redhill | Property Plant & Equipment | Commercial : supermarket / library / theatre | 7.059 |
| Town Hall Middle Block, Reigate | Property Plant & Equipment | Operational | 5.816 |
| Travelodge, Redhill | Property Plant & Equipment | Commercial: Hotel | 5.763 |

| Table 2: SIGNIFICANT ASSETS AT MARCH<br><br>Asset Name | Statement of Accounts Classification | Asset Use | Valuation at 31 March 2023 £m |
|---|---|---|---|
| Forum House, Brighton Road, Redhill | Investment Property | Commercial: offices | 5.072 |
| Earlswood Depot | Property Plant & Equipment | Operational | 5.025 |
| Linden House, High Street, Reigate | Property Plant & Equipment | Commercial: retail / gym | 4.939 |
| Beech House, London Road, Reigate | Investment Property | Commercial: offices | 3.789 |
| 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 | 2.959 |
| Banstead Sports Centre | Property, Plant & Equipment | Leisure | 2.258 |
| Agricultural Land (Various) | Property, Plant & Equipment | Agricultural | 1.946 |
| 61E Albert Road North, Reigate | Property Plant & Equipment | Commercial: industrial / warehousing | 1.895 |
| Crown House, Redhill[2] | n/a[2] | Commercial: offices | 1.819 |
| Bancroft Road Multi Storey Car Park, Reigate | Property Plant & Equipment | Car Park | 1.295 |
| 55-57, 59, 61 & 63 Victoria Road, Horley | Investment Property | Commercial / Other | 1.019 |
| Gloucester Road Car Park, Redhill | Property Plant & Equipment | Car Park | 0.884 |
| 64, Massetts Road, Horley | Property, Plant & Equipment | Residential | 0.793 |
| Bell Street Car Park, Reigate | Property Plant & Equipment | Car Park | 0.585 |
| 1-4 Quarrydene Parade/1-10 Hearthstone, Merstham | Property Plant & Equipment | Commercial: restaurant / library / retail | 0.271 |
| Priory Park, Reigate | Property, Plant & Equipment | Open Space | 0.068 |
| Madeira Walk Sandpit, Reigate | Property Plant & Equipment - Surplus | Open Space | 0.038 |
| Former Scouts site, Thornton Close, Horley | Property Plant & Equipment - Surplus | Open Space | 0.037 |

Source: Valuation for 2022/23 Statement of Accounts
Note 1: Current 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

### <u>Operational Assets</u>

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.

| **Table 3: COUNCIL ASSETS: GROSS RETURNS**<br><br>**Asset Name** | **Asset Type** | **Price Paid £m/Year** | **Valuation at 31 March 2023 £m** | **Budgeted Rent £m** | **Gross Budgeted Yield[1]** |
|---|---|---|---|---|---|
| Units 1-5 Redhill Distribution Centre, Salfords | Industrial / warehousing | £15m (2018) | 15.882 | 0.833 | 4.9% |
| Regent House, Queensway, Redhill | Offices | £15.35m (2018) | 11.983 | 0.881 | 7.1% |
| Warwick Quadrant, Redhill | Retail / library / theatre | £2.4m for half-share of freehold (2005) | 7.059 | 0.305 | 4.3% |
| Travelodge, Redhill | Hotel | £5.0m (2017) | 5.763 | 0.317 | 7.0% |
| Linden House , 51b High Street, Reigate | Retail / gym | £4.7m (2014) | 4.939 | 0.333 | 7.1% |
| Crown House, Redhill[2] | Offices | £2.15m (2017) | 1.819 | 0.177 | 9.5% |

| Table 3: COUNCIL ASSETS: GROSS RETURNS<br><br>Asset Name | Asset Type | Price Paid £m/Year | Valuation at 31 March 2023 £m | Budgeted Rent £m | Gross Budgeted Yield[1] |
|---|---|---|---|---|---|
| Forum House, Brighton Road, Redhill | Offices | £5.53m (2017) | 5.072 | 0.330 | 6.3% |
| Beech House, Reigate[3] | Offices | £6m (2017) | 3.789 | - | - |
| 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 | 2.959 | 0.115 | 3.8% |
| Unit 61E, Albert Road North | Industrial / warehousing | £0.950m (2018) | 1.895 | 0.089 | 4.7% |
| 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) | 1.019 | 0.070 | 6.7% |
| 1-4 Quarrydene Parade/Hearthstone, Merstham | Retail / residential | £0.017m for larger site including this property (1950) | 0.271 | 0.084 | 7.9% |

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. Void and awaiting refurbishment/redevelopment at the time of setting the 2023/24 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 1.

Land & Buildings

The most recent condition survey forms the basis of the rolling capital programme for property maintenance that was approved in February 2023. 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.

Housing Assets

While the Council is not a major provider of social housing, it is a Registered Provider and have a steadily increasing housing stock. Recent developments include:

- 32 homes with ground floor commercial space at Cromwell Road in Redhill Town Centre;
- 25 homes at Pitwood Park in Tadworth; and
- 4 bungalows at Lee Street in Horley.

<u>Vehicles</u>
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:

| Table 4: VEHICLES & PLANT | 2022/23 BFWD £m | 2023/24 Projected £m | 2024/25 Projected £m | 2025/26 Projected £m | 2026/27 Projected £m | 2027/28 Projected £m | Total £m |
|---|---|---|---|---|---|---|---|
| Vehicles & Plant Programme | 1.022 | 0.582 | 0.681 | 0.837 | 0.562 | 3.668 | **7.352** |

**Capital Asset Funding at 31 March**
Assets have historically been funded through use of capital receipts, capital grants and drawing on available balances (internal borrowing). At 31 March 2023, the Council had no long-term external borrowing.

The Treasury Management Strategy for 2023/24 was approved in June 2023 and includes authority to borrow up to £40.0 million (Authorised Limit) to help fund delivery of the approved Capital Programme 2023/24 to 2027/28. 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, with particular emphasis on investment in **affordable housing**;

- 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 3. Costs of financing assets (borrowing) are reflected in Central 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.

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

| | |
|---|---|
| Income Generation | • Pursuing opportunities to generate new income streams.<br>• Optimising fees and charges.<br>• Implementation of the Commercial Strategy. |
| Use of Assets | • Making effective use of existing assets, including the repurposing and sale of surplus properties. |
| Prioritisation of Resources | • Reviewing in-year budget monitoring forecasts to identify new opportunities for savings and efficiencies.<br>• Reviewing the level of service provided and focussing resources on priority services.<br>• Managing pay costs and making effective use of staff resources. |
| Achieving Value for Money | • Actively pursuing options to share with other councils to realise efficiency savings.<br>• Identification of invest to save opportunities – including investment in technology and assets to reduce operational costs. |

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 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.

The Asset Management Plan 2023 to 2028 was approved by the Partner, Shareholder and Trustee Executive Sub-Committee in November 2022. It sets out sets out how property assets will be managed, through a structured approach to strategic asset management planning to support delivery of Corporate Plan priorities, including operational efficiency and environmental sustainability.

**Commercial Strategy**
Part 1 of the Commercial Strategy approved by the Executive in November 2020 and Part 2 in December 2021.

The definitions and principles that the Strategy includes, 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 such activity will be approached, and future investment focused.

Part 1 sets out three guiding principles for our commercial activity:

- **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 explains that the main elements of our commercial approach will be:
- A project pipeline to establish new income streams from asset activity while also delivering broader corporate objectives.

- Ensuring that existing income streams 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 looking to introduce new trading activity where this aligns with our local government remit and areas of expertise.
- Taking a more commercial approach to fees and charges.

The Commercial Strategy 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.

Work also continues under the Commercial Strategy to review the Council's property assets in order to identify potential development opportunities that can be formulated into a project pipeline.

**Other Strategies and Plans**
Going forward investment in current and new capital assets will continue to be influenced by corporate Strategies, including those relating to Environmental Sustainability, Housing Delivery, Leisure & Culture and Greenspaces.

**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 or revenue budget savings ('invest to save') 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 2024/25 to 2028/29**
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 2;
- Revenue consequences of capital decisions are identified and accounted for and must be affordable. The Medium-Term Financial Plan is summarised at Appendix 3; 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 5. The MRP Policy is reviewed each year when the Treasury Management Strategy is updated.

<u>MRP Policy Consultation</u>
In November 2021 Government issued a consultation on changes to how the Minimum Revenue Provision (MRP) calculation will be applied in future. 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 included '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 and timescale for implementation are yet to be confirmed.

**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 2 which sets out the control framework around decisions on acquisition of assets which generate a return.

These controls include the role of the Partner, Shareholder and Trustee 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 6.

**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 Partner, Shareholder and Trustee 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**

The Capital Strategy outturn position will be reported every year as part of the reporting on the Treasury Management 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.

**Capital Programme 2023/24 to 2027/28**

The Council forecasts its Capital Programme over a 5-year period and the latest position is set out below as reported to Executive in January 2023 plus unspent balances brought forward from 2022/23. The planned use of resources is in line with the Medium-Term Financial Plan.

Capital Programme Outturn 2022/23

At 31 March 2023, the Capital Programme budget for 2022/23 was £79.958 million (including £36.983 million of approved carry-forward capital allocations from 2021/22).
The outturn position of £21.155 million was £55.803 million (69.8%) below the approved Programme for the year.

The variance is primarily as a result of slippage due to:

- £6.383 million on Property Rolling Programmes
- £8.222 million on the Marketfield Way project and other Place Delivery Schemes
- £1.659 million on Neighbourhoods schemes, including the Fleet Replacement Programme

In total £24.116 million in respect of previously approved schemes has been carried forward to the Programme for 2023/24 onwards.

Proposals for use of these funds will be subject to approval of reports by Executive or the Partnership, Trustee and Shareholder Sub Committee when business cases are developed.

In-year Capital Programme approvals during 2022/23 have included:

- £4.000 million for purchasing Temporary & Emergency accommodation;
- £0.460 million for contributions to works on housing properties at Stirling House, Mitchell Court and New Pond Farm;
- £0.375 million expenditure on Preston parking improvements;
- £3.318 million for accommodation for Refugees (funded from the Local Authority Housing Fund grant); and
- £0.720 million for purchase of commercial units in Redhill.

Capital Programme Growth

Capital Programme proposals in the January 2023 budget report included growth of £7.683 million for 2023/24 to 2027/28. The primary reason for this growth was the addition of ‘rolled-forward’ allocations for 2027/28 (also 2025/26 for Property Services) and some small-scale rescheduling of previously approved allocations to match spending plans.

Capital Programme 2023/24 to 2027/28

The current Capital Programme is summarised below (details at Appendix 7)

| Table 5.1: CAPITAL PROGRAMME by SERVICE | 2022/23 BFWD £m | 2023/24 Projected £m | 2024/25 Projected £m | 2025/26 Projected £m | 2026/27 Projected £m | 2027/28 Projected £m | Total £m |
|---|---|---|---|---|---|---|---|
| **ORGANISATION SERVICES:** | | | | | | | |
| Property Services | 6.383 | 1.419 | 1.307 | 0.909 | 1.597 | 0.089 | **11.704** |
| IT Services | - | 0.260 | 0.250 | 0.200 | 0.200 | 0.200 | **1.110** |
| Organisational Development | - | 0.250 | 0.250 | - | - | - | **0.500** |
| Environmental Strategy | 0.236 | - | - | - | - | - | **0.236** |
| **PEOPLE SERVICES:** | | | | | | | |
| Housing | 7.444 | 1.412 | 1.419 | 1.419 | 1.419 | 1.419 | **14.532** |
| Leisure & Culture | 0.064 | 0.100 | 0.100 | 0.100 | 0.100 | 0.100 | **0.564** |
| Community Partnerships | 0.108 | - | - | - | - | - | **0.108** |
| **PLACE SERVICES:** | | | | | | | |
| Neighbourhood Operations | 1.659 | 0.897 | 0.996 | 1.177 | 0.902 | 3.853 | **9.484** |
| Place Delivery | 8.222 | - | - | - | - | - | **8.222** |
| **TOTAL APPROVED CAPITAL PROGRAMME** | **24.116** | **4.338** | **4.322** | **3.805** | **4.218** | **5.661** | **46.460** |

| Table 5.2: CAPITAL PROGRAMME by INVESTMENT TYPE | 2022/23 BFWD £m | 2023/24 Projected £m | 2024/25 Projected £m | 2025/26 Projected £m | 2026/27 Projected £m | 2027/28 Projected £m | Total £m |
|---|---|---|---|---|---|---|---|
| Regeneration Schemes | 8.222 | - | - | - | - | - | **8.222** |
| Housing Delivery | 7.560 | 0.186 | 0.193 | 0.193 | 0.193 | 0.193 | **8.518** |
| Vehicles & Plant | 1.372 | 0.582 | 0.681 | 0.837 | 0.562 | 3.668 | **7.702** |
| Disabled Facilities | - | 1.287 | 1.287 | 1.287 | 1.287 | 1.287 | **6.435** |
| Tenanted Properties | 4.085 | 0.455 | 0.455 | 0.391 | 0.480 | - | **5.867** |
| Community Assets | 1.066 | 0.750 | 0.838 | 0.599 | 1.023 | 0.245 | **4.521** |
| Operational Assets | 0.459 | 0.393 | 0.378 | 0.117 | 0.158 | 0.028 | **1.533** |
| ICT Assets | - | 0.260 | 0.250 | 0.200 | 0.200 | 0.200 | **1.110** |
| Car Parks | 0.563 | 0.195 | 0.170 | 0.080 | 0.075 | - | **1.083** |
| Other Assets | 0.631 | 0.040 | 0.040 | 0.065 | 0.065 | 0.040 | **0.881** |
| Leisure Centres | 0.159 | 0.190 | 0.030 | 0.036 | 0.175 | - | **0.590** |
| **TOTAL APPROVED CAPITAL PROGRAMME** | **24.116** | **4.338** | **4.322** | **3.805** | **4.218** | **5.661** | **46.460** |

Future Capital Investment Plans

In addition the Council has previously committed to invest:

- Up to £63.280 million in Commercial income-generating assets; and
- Up to £30.00 million in Housing projects; with £1.050 million committed to date for Temporary Accommodation acquisitions part-funded from the Housing Delivery Revenue Reserve.

Projects will be added to the Capital Programme as new business cases are approved.

**Capital Programme Funding**
Sources of funding for the 2023/24 to 2027/28 Capital Programme are summarised below:

| **Table 6: CAPITAL PROGRAMME FUNDING** | **2022/23 BFWD £m** | **2023/24 Projected £m** | **2024/25 Projected £m** | **2025/26 Projected £m** | **2026/27 Projected £m** | **2027/28 Projected £m** | **Total £m** |
|---|---|---|---|---|---|---|---|
| **TOTAL CAPITAL EXPENDITURE** | **24.116** | **4.338** | **4.322** | **3.805** | **4.218** | 5.661 | **46.460** |
| | | | | | | | |
| **FUNDED BY:** | | | | | | | |
| Capital Reserves | - | - | - | - | - | - | **-** |
| Capital Receipts | - | 35.824 | - | - | - | - | **35.824** |
| Capital Grants & Contributions | 6.254 | 1.408 | 1.408 | 1.408 | 1.408 | 1.408 | **13.294** |
| Earmarked Reserves – Housing Delivery Strategy | 1.160 | - | - | - | - | - | **1.160** |
| Prudential Borrowing | 16.703 | (32.894) | 2.914 | 2.397 | 2.810 | 4.253 | **(3.817)** |
| **TOTAL CAPITAL FUNDING** | **24.116** | **4.338** | **4.322** | **3.805** | **4.218** | **5.661** | **46.460** |

Key sources of capital funding:

| **Table 7: CAPITAL PROGRAMME 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. The remaining balance was nil at March 2023. |
| Capital Receipts | • Sale of capital assets results in a capital receipt that can be used to invest in new capital assets or to repay prudential borrowing.<br>• The main source of capital receipts over the duration of this Capital programme relate to delivery of major schemes including the Marketfield Way (The Rise) redevelopment. These capital receipts have been factored into forecast funding requirements.<br>• Flexible use of capital receipts – there are no current plans for use of this funding option. |
| Capital Grants & Contributions | • Forecasts of the future grant funding allocation for Disabled Facilities works have been updated to reflect forecast allocations.<br>• They also include the Council's share of Section 106 and CIL funding.<br>• Revenue funding equivalent to the historic New Homes Bonus grant allocation up to 2020/21 has previously been allocated to support implementation of the Housing Development Strategy and Pipeline |
| Prudential Borrowing | • The primary source of long-term funding for the Capital Programme is now prudential borrowing, primarily from the Public Works Loans Board (PWLB). |

| Table 7: CAPITAL PROGRAMME FUNDING | |
|---|---|
| | • Loans are managed through the approved Treasury Management Strategy and policies.<br>• 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.<br>• 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. |
| Revenue Budget Contributions | • There is no expectation that significant capital expenditure will be funded from the revenue budget in 2023/24. |

### Revenue Budget Impact of Capital Spending

With the exception of earmarked Section 106 and CIL funds and some earmarked Housing capital receipts, the Council no longer has significant capital Reserves, therefore, while a small number of schemes will be continued to be funded from capital grants and other contributions, the majority of the approved Capital Programme must be funded through prudential borrowing. The costs of repaying this borrowing fall on the revenue budget as treasury management costs in Central budgets.

Treasury management budgets will be updated to reflect the costs of borrowing for the approved Capital Programme net of interest on forecast balances. Details were confirmed in the Treasury Management Strategy that is reported to Audit Committee, Executive and Full Council for approval each year.

The costs of managing and maintaining new capital assets will have to be taken into account in the revenue budget as new assets come into use. Budgets will also have to be established for any new income streams generated.

### Capital Programme – Policy on Capitalisation of Salaries.

Costs incurred as a result of staff spending time on capital projects may be capitalised, provided that the time worked can be linked to bringing a specific, separately identifiable asset into working condition, or substantially enhancing the working life of an existing asset.

### 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 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

The Capital Strategy at Annex 1 sets out a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability.

It covers:

- Capital expenditure and financing
- How the Capital Programme is set
- Approach to asset disposals and asset management
- Treasury management approach, including the Liability Benchmark, borrowing affordability and treasury investment strategy and risks
- Investments for service purposes
- Liabilities
- Revenue Budget implications
- Knowledge and skills

**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.

**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.

**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 – 2027/28.

## 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 Partner, Shareholder and Trustee 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.

**COVID-19 and Economic Pressures**
The COVID-19 pandemic resulted in significant new risks and uncertainties for local authorities. These included 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. Any ongoing impacts on the Council's capital investment plans will be kept under review.

**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 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. Extract from the Treasury Management Strategy 2023/24: Capital Strategy
2. Commercial Governance Framework
3. Medium Term Financial Plan 2024/25 to 2028/29
4. Asset Investment Approach
5. Accounting Policies
6. Property Investment Decisions Checklist
7. Annual Report Template
8. Capital Programme 2023/24 to 2027/28
9. Flexible Use of Capital Receipts Strategy
10. Risk Management

**APPENDIX 1**

# Extract: Treasury Management Strategy 2023/24

Approved by Executive in June 2023

# CAPITAL STRATEGY

June 2023

## 1. Introduction

This capital strategy report sets out a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability.

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

## 2. Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2023/24, the Council is planning capital expenditure of £10.77 million as summarised below:

| Table 1: Prudential Indicator: Estimates of Capital Expenditure | 2021/22 Actual | 2022/23 Forecast | 2023/24 Budget | 2024/25 Budget [1] | 2025/26 Budget |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Capital Programme 2023/24 to 2027/28 | 35,683 | 21,156 | 4,338 | 4,322 | 3,805 |
| Other fully-funded schemes[1] | - | - | 6,434 | 5,807 | 2,727 |
| **TOTAL** | **35,683** | **21,156** | **10,772** | **10,129** | **6,532** |

Notes:

1. Council capital schemes approved by Executive in March 2023 that are to be funded through the Community Infrastructure Levy (CIL).

**Setting the Capital programme**: 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 refreshing the Medium-Term Financial Plan each year.

The officer Management Team appraises all bids and makes recommendations to the Executive. The final 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 Council.

All capital expenditure must be financed, either from external sources (such as government grants, section 106, community infrastructure levy and other contributions), the Council's own resources (revenue contributions, reserves and capital receipts) or borrowing.

The planned financing of the above expenditure is as follows:

| **Table 2: Capital financing** | **2021/22 Actual** | **2022/23 Forecast** | **2023/24 Budget** | **2024/25 Budget** | **2025/26 Budget** |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Grants & Contributions | 2,346 | 4,628 | 7,931 | 7,311 | 4,231 |
| Capital Receipts | 11,764 | 503 | - | - | - |
| Debt | 21,573 | 16,024 | 2,841 | 2,818 | 2,301 |
| **TOTAL** | **35,683** | **21,156** | **10,772** | **10,129** | **6,532** |

The Council's total outstanding borrowing is measured by the capital financing requirement (CFR). This increases with any new capital expenditure financed by borrowing and reduces with any minimum revenue provision (MRP) payments or any use of capital receipts to replace borrowing.

The Council approves the MRP policy each year as part of the Annual Treasury Management Strategy.

| **Table 3: Replacement of prior years' debt finance** | **2021/22 Actual** | **2022/23 Forecast** | **2023/24 Budget** | **2024/25 Budget** | **2025/26 Budget** |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Minimum revenue provision (MRP) | 556 | 583 | 587 | 588 | 602 |
| Capital receipts | - | - | 35,824 | - | - |
| **TOTAL** | **556** | **583** | **36,411** | **588** | **602** |

The Minimum Revenue Provision Statement is set out at TMS Appendix 1.

The CFR is expected to reduce by £36.4 million during 2023/24. Based on the above figures for expenditure and financing, the Council's forecast CFR is as follows:

| Table 4: Prudential Indicator: Estimates of Capital Financing Requirement | 31.3.2022 Actual | 31.3.2023 Forecast | 31.3.2024 Budget | 31.3.2025 Budget | 31.3.2026 Budget |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **TOTAL CFR** | **76,400** | **89,500** | **53,900** | **53,400** | **52,800** |

**Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt.

Repayments of capital grants, loans and investments also generate capital receipts.

The Council forecasts to receive £35.8 million of capital receipts in the coming 2023/24 financial year.

Actual capital receipts received were £0.503 million in 2022/23 and £8.8 million in 2021/22.

There are currently no plans for significant additional capital receipts to be received in 2024/25 or 2025/26.

The Council's Flexible Use of Capital Receipts Strategy is set out at TMS Appendix 2.

**Asset management:** To ensure that capital assets continue to be of long-term use, the Council has an Asset Management Strategy in place. This Strategy is used to identify opportunities to expand the Council's property assets or dispose of surplus assets where appropriate.

It also allows for a review of the state of repair of assets and provides the basis for recommending a rolling investment programme in property assets to maintain and enhance the income derived from them.

The Council's Asset Management Strategy is summarised at TMS Appendix 3.

## 3. Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

This Council is typically cash rich in the short-term as revenue income is received before it is used. Revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

At 31 March 2023 the Council had £7.0 million borrowing at an average interest rate of 4% which has since been repaid.

**Borrowing strategy:** The Council's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future.

The Council has historically been largely debt free but has borrowed on a temporary basis to fund short term cash flow shortfalls. As the Council has a modest and relatively short-lived expected future borrowing requirement short term borrowing is expected to continue to be the most cost-effective option.

The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board if needed.

Projected levels of the Council's total outstanding debt (which comprises borrowing) are shown below, compared with the capital financing requirement.

| Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement | 31.3.2022 Actual | 31.3.2023 Forecast | 31.3.2024 Budget | 31.3.2025 Budget | 31.3.2026 Budget |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Debt | - | 7,000 | - | - | - |
| Capital Financing Requirement | 76,400 | 89,500 | 53,900 | 53,400 | 52,800 |

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 5, the Council expects to comply with this in the medium term.

**Liability Benchmark:** To compare the Council's actual borrowing against an alternative strategy, a Liability Benchmark has been calculated showing the lowest risk level of borrowing.

This assumes that cash and investment balances are kept to a minimum level of £15.0 million at each year-end.

The benchmark is currently £6.0 million for 2022/23 and is forecast to increase to £10.4 million by 31 March 2024.

The Council plans to borrow at or as near as possible to the Liability Benchmark in future as is illustrated by the table below.

| Table 6: Borrowing and the Liability Benchmark | 31.3.2022 Actual | 31.3.2023 Actual | 31.3.2024 Budget | 31.3.2025 Budget | 31.3.2026 Budget |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Outstanding/ estimated borrowing | 0 | 7,000 | 10,400 | 19,400 | 22,000 |
| Liability benchmark | (10,900) | 6,000 | 10,400 | 19,400 | 22,000 |

**Affordable Borrowing Limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

| Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt | 2022/23 Limit | 2023/24 Limit | 2024/25 Limit | 2025/26 Limit |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Authorised limit – borrowing | 79,000 | 40,000 | 41,000 | 42,000 |
| Operational boundary – borrowing | 69,000 | 35,000 | 36,000 | 37,000 |

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

The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns.

Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality money market funds and banks, to minimise the risk of loss, the Council may request its money back at short notice.

| Table 8: Treasury management investments | 31.3.2022 Actual | 31.3.2023 Forecast | 31.3.2024 Budget | 31.3.2025 Budget | 31.3.2026 Budget |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Near-term investments | 15,900 | 6,000 | 5,000 | 5,000 | 5,000 |
| Longer-term investments | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| **TOTAL** | **25,900** | **16,000** | **15,000** | **15,000** | **15,000** |

The Council is required to have at least £10 million in investments at all times to retain a desired professional status when working with financial intermediaries: as this is a constant requirement that remains indefinitely it is considered a long-term investment balance, although it may be invested in short-term products.

**Risk management:** The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

In managing the overall programme of investment there are inherent risks associated such as changes in interest rates, credit risk of counter parties.

Accordingly, the Council will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

No project or investment will be approved where the level of risk - determined by the Council or Chief Finance Officer as appropriate - is unacceptable.

**Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and Finance staff, who must act in line with the Treasury Management Strategy approved by Council.

Quarterly reports on treasury management activity are presented to the Overview & Scrutiny Committee, Executive and full Council.

## 4. Investments for Service Purposes

The Council makes investments to assist local public services, to stimulate local economic growth.

The largest loan currently is to a Council subsidiary to provide a vehicle for both the delivery of housing and infrastructure to seek to meet the corporate objectives of the Council.

Total property investments are currently valued at £37.7 million with the largest being the Redhill Distribution Centre which provides a net return after costs of 5.58%.

**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.

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

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.

**Governance:** The Overview & Scrutiny Committee is responsible for scrutiny and governance of Treasury Management. It reviews the Treasury Management Strategy, and all Treasury Management reports. The Capital Programme is monitored by the Overview & Scrutiny Committee and the Executive as well as receiving all Treasury Management reports. Council approves the Treasury Management Strategy each year along with quarterly performance updates. The Chief Finance Officer is responsible for ensuring that adequate due diligence is carried out before investment is made.

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 updating the Medium-Term Financial Plan each year.

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

Additional capital requirements and opportunities identified through the year are considered on their merits in line with the above governance controls. Any in year changes to the capital budget will be made in accordance with the constitution, including appropriate approval by Executive and/or Council. Due diligence is undertaken on acquisitions and external advice is sought wherever necessary.

| **Table 9: Prudential indicator: Net income from commercial and service investments to net revenue stream** | **2021/22 Actual** | **2022/23 Forecast** | **2023/24 Budget** | **2024/25 Budget** | **2025/26 Budget** |
|---|---|---|---|---|---|
| Total net income from service and commercial investments - in £000 | 1,955 | 2,013 | 2,085 | 2,397 | 2,757 |
| Proportion of net revenue stream | 10.42% | 13.52% | 9.39% | 10.80% | 12.42% |

## 5. Liabilities

In addition to debt of £7.0 million detailed above, the Council is committed to making future payments to cover its pension fund deficit valued at £1.89 million and has made provisions to cover risks such as insurance claims.

**Governance:** Decisions on incurring new discretional liabilities are taken by service managers in consultation with the Chief Finance Officer.

The risk of liabilities crystallising and requiring payment is monitored by the Corporate Governance Group and reported quarterly to the Audit Committee and the Executive.

## 6. Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e., the amount funded from council tax, business rates and general government grants.

| Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream | 2021/22 Actual | 2022/23 Actual | 2023/24 Budget | 2024/25 Budget | 2025/26 Budget |
|---|---|---|---|---|---|
| Financing costs – in £000 | 620 | 606 | 631 | 720 | 736 |
| Proportion of net revenue stream | 3.30% | 4.07% | 2.84% | 3.24% | 3.32% |

**Sustainability:** The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable because only modest amount of short-term borrowing is expected over a short-term period, and only modest MRP costs are expected over a more extended period.

## 7. Knowledge and 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.

Overall responsibility for capital and treasury activities lies with the Council's Chief Finance Officer who, in accordance with statue, 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 Overview & Scrutiny Committee, Audit Committee, Executive and at Member briefings.

The Council uses Arlingclose Limited, 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 resources the Council also uses, where appropriate, external advisors to complete the due diligence process.

## TMS Appendix 1: Minimum Revenue Provision (MRP) Policy

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the MRP). It is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP).

MHCLG regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

Council is recommended to approve the following MRP Statement for 2023/24:

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the Minimum Revenue Policy will be the Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations and will be set aside in the year after the asset becomes operational. This will be a combination of the annuity method and straight-line method:

- Operational land and buildings - 50 years annuity method;
- Investment Properties - 50 years annuity method;
- General Fund Housing - 50 years straight line method;
- Infrastructure - 50 years straight line method;
- Plant and Equipment- 30 years straight line method;
- ICT- 5 years straight line method; and
- Vehicles - 8 years straight line method.

**MRP on Capital Loans and Share Capital.**

Under local authority capital accounting regulations loans to third parties for capital purposes and share capital are deemed to be capital expenditure of the authority. The Council has made loans to its companies (Greensand Holdings Limited, RBBC Limited, Horley Business Park Development LLP) and holds share capital in Pathway for Care Limited.

The Capital Financing Requirement (CFR) includes the value of the loans and investments (share capital). Funds repaid by the companies will be classed as capital receipts and offset against the CFR, which will reduce accordingly.

The repayments of principal will be set aside as capital receipts to finance the initial capital advance in lieu of making MRP.

**MRP Overpayments.**

MHCLG Guidance includes the provision that any MRP charges made over the statutory minimum may be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed, the MRP policy must disclose the cumulative overpayment made each year.

At 31 March 2023 the cumulative voluntary overpayments by this Council were forecast to be £Nil.

## TMS Appendix 2: Flexible Use of Capital Receipts Strategy

The Department for Levelling up, Housing and Communities (DLUHC) confirmed the extension for the use of capital receipts to fund the revenue costs of transformation.

The flexible use of capital receipts is designed to offset the revenue cost of transformational projects which are expected to deliver future ongoing revenue savings for either the Council or other public sector delivery partners. In order to take advantage of the change of use to capital receipts, the Council must act in accordance with the statutory guidance issued by the Secretary of State. This guidance requires the Council to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy.

**Qualifying expenditure**.

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

**Projects**

There are currently no projects in place that plan to make use of the capital receipts flexibility. Should this change, details of the expected savings/service transformation will be provided to full Council alongside the impact on the Council's Prudential Indicators.

## TMS Appendix 3: Asset Management

The Asset Management Plan 2023/24 to 2027/28 was proved by the Partner, Shareholder and Trustee Executive Sub-Committee in November 2022.

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.

# COMMERCIAL GOVERNANCE FRAMEWORK 2019

## Background

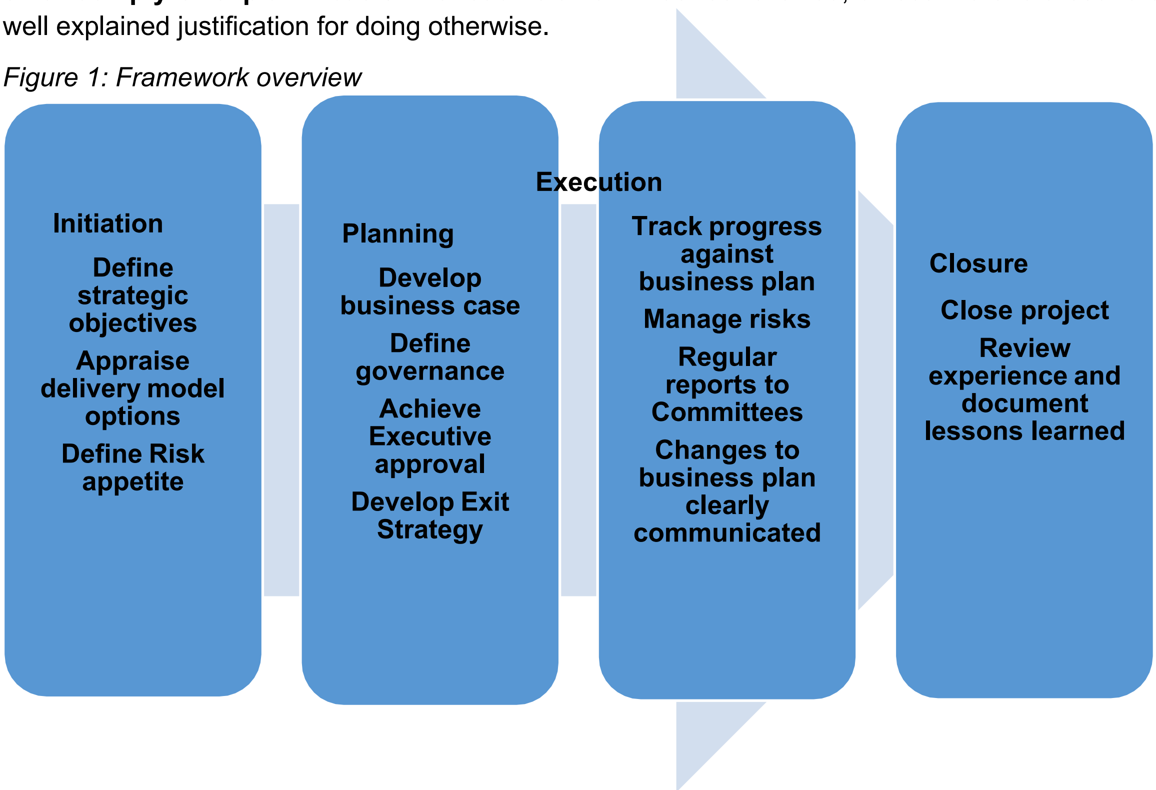
1. This Framework is the distillation of lessons learnt from a review of commercial governance arrangements undertaken by a Member Task Group in 2018-19. The objective of this Framework is to set out a best practice template for the set up and delivery of Partner, Shareholder and Trustee Executive Sub-Committee 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 Partner, Shareholder and Trustee Executive Sub-Committee. 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 Partner, Shareholder and Trustee 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 Partner, Shareholder and Trustee Executive Sub-Committee 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) |
|---|---|
| **Initiation** | |
| 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?<br>i. Structure (limited company, LLP, other).<br>ii. Other shareholders/partners involved.<br>iii. Capital structure (equity, debt, other). | |
| g. What actions have been taken to obtain Member buy in?" | |
| h. What actions have been taken to obtain officer buy in?" | |

| Requirement | Evidence of compliance (or explanation for non-compliance) |
|---|---|
| i. Is the Council's role in commercial decision-making clear? | |
| **Planning** | |
| a. Does the assessment cover relevant criteria including costs, complexity, risks, return on investment? | |
| 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?:<br>i. Projected income and expenditure, over a reasonable time horizon.<br>ii. A clear view of the amount of financing required from the Council, and other parties, over the same time horizon.<br>iii. A range of scenarios covering both optimistic and pessimistic outcomes, showing the financial impact on the Council in each.<br>iv. Success/outcome measures, translated into KPIs which will be reported regularly to the Executive Sub-Committee.<br>v. Any other requirements on the Council, eg staff time, office space, or use of other Council assets.<br>vi. Potential tax (corporation tax, VAT, other) and other liabilities arising.<br>vii. How any unexpected losses would be absorbed.<br>viii. Market and other research on which the financial forecasts are based.<br>ix. Any Intellectual Property already possessed or expected to be developed as part of the venture, and clarity over its ownership.<br>x. Resolution/shutdown plans/exit strategy in the event of a significant adverse event.<br><br>c. What is the proposed governance model?<br>i. Role of Chairman of the Board (or equivalent).<br>ii. Composition of the Board (or equivalent), including Non-Executive Director(s).<br>iii. The proposed measures for training and evaluation of performance of the Board.<br>iv. Arrangements for reporting back to the Council:<br>i. To officers.<br>ii. To the Partner, Shareholder and Trustee Executive Sub- Committee.<br>iii. To the Overview & Scrutiny Committee.<br>v. Potential constraints on sharing of information with the Council, and ways of addressing them (eg if there is to be a | |

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

*Figure 3: Checklist – Execution and Closure*

| Requirement | Evidence of compliance (or explanation for non-compliance) |
| --- | --- |
| **Execution** | |
| 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? | |
| **Closure** | | |
| 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.

APPENDIX 3

# MEDIUM TERM REVENUE BUDGET FORECAST 2024/25 to 2028/29

| MEDIUM TERM REVENUE BUDGET FORECAST | Approved Budget 2023/24 £m | Cumulative Impact 2024/25 £m | Cumulative Impact 2025/26 £m | Cumulative Impact 2026/27 £m | Cumulative Impact 2027/28 £m | Cumulative Impact 2028/29 £m |
|---|---|---|---|---|---|---|
| **Current Year Budget Requirement** | **23.194** | | | | | |
| Service Budgets – Pay Increase | | 1.750 | 4.000 | 6.250 | 8.500 | 9.500 |
| Service Budgets – net additional growth / savings / income | | (0.500) | (0.750) | (1.000) | (1.000) | (1.000) |
| Central Budgets – net additional growth / savings / income | | - | - | - | - | - |
| **Service & Central Budgets** Other growth, savings and income proposals | | TBC during service & financial planning | | | | |
| **Council Tax** 2.99% increase plus forecast taxbase increase | | (0.710) | (1.376) | (2.069) | (2.789) | (3.509) |
| **Business Rates (NNDR)** Latest Forecast | | 1.519 | (0.049) | - | (0.100) | (0.054) |
| **Grants and Reserves** Net change in call on Grants and Reserves | | - | - | - | - | - |
| **Forecast Gap Compared to Current Budget** | **nil** | **2.059** | **1.825** | **3.181** | **4.611** | **4.937** |
| Annual Increase in Gap | | 2.059 | (0.234) | 1.356 | 1.430 | 0.326 |
| Gap as % of current budget requirement | | 8.9% | 7.9% | 13.7% | 19.9% | 21.3% |

# 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 Project Board. |
| Stage 2 | Recommendation for decision to proceed to offer to Partner, Shareholder and Trustee Executive Sub-Committee. |
| Stage 3 | Negotiation and full due diligence. |
| Stage 4 | Final recommendation to Partner, Shareholder and Trustee 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 Partner, Shareholder and Trustee 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 - to ensure compliance with approved borrowing levels;
- Treasury Management Capital Strategy - to set the long-term context in which capital expenditure and investment decisions are made in a sustainable way;
- Commercial Strategy;
- Housing Delivery Strategy – including:
  - the Housing Development Strategy and Pipeline that are under development; and
  - acquisition of additional temporary and emergency accommodation;
- IT Strategy;
- Environmental Sustainability Strategy; and
- the Government's Biodiversity Net Gain Strategy that has potential implications for the authority as a landowner.

**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.

**APPENDIX 5**

# 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 polices 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 (e.g. under a Section 106 agreement), 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.

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy is charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges for this Council may be used to fund revenue expenditure.

**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 for the Council, 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. A number of wooden sculptures are also located in local parkland.

These items are reported in the Balance Sheet at insurance valuation which is based on market values. Insurance valuations are updated every five years. The collection is relatively static with donations and purchases being rare. Where they do occur, donations are recognised at cost and revalued annually.

The Council also hold land and historical structures. Where an accurate valuation can be established, these assets are valued and accounted for in line the Councils accounting policy for land and buildings.

For some assets, the cost of obtaining an accurate valuation, would be disproportionate to the benefits to the user, due to lack of comparable. Therefore, these assets are not recognised on the balance sheet: Castle Grounds, Reigate Caves, the Well House and Reigate Heath Windmill.

**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.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the capital adjustment account and the capital receipts reserve.

**Disposals and 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.

**Recognition**

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accrual's basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as an expense when it is incurred. A deminimus level is applied for individual/groups of assets.

**Measurement**

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost.
- operational assets – Depreciated replacement cost (DRC) Existing Use Value (EUV) or Fair Value basis, determined by the characteristics of the asset; and
- all other assets – fair value, determined as the highest and best use amount that would be paid for the asset in an orderly transaction between market participants.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for the asset's current value.

Assets included in the Balance Sheet are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their value at the year-end, but as a minimum every five years by a qualified external valuer, excepting non-property assets that have short useful lives and/or low values.

Valuations are undertaken on 31st December and an impairment/material changes review carried out on 31 March. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value 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); or
- 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.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

**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); or
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset 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.

**Depreciation**

Depreciation is provided for on all property, plant, and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e., freehold land and certain community assets) and assets that are not yet available for use (i.e., assets under construction).

Depreciation is calculated on the following basis:

- buildings – straight-line allocation over the useful life of the property as determined in consultation with the valuer, up to a maximum of 50 years; and
- vehicles, plant, and equipment – straight-line allocation over the useful life of the asset as set out below:
    - vehicles and plant – 5 to 8years; and
    - equipment – up to 5 years.

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account."

**Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm’s-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

APPENDIX 6

# PROPERTY INVESTMENT DECISIONS – CHECKLIST

| Criteria | Measure | | |
|---|---|---|---|
| **Financial** | | | |
| 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%<br><br>50-60% with >12m covenant | 50-60% with <12m+ covenant | <50% |
| Credit Score | No significant issues identified (Dun & Bradstreet or equivalent) | | |
| **Treasury Management** | | | |
| Complies with ‘Borrowing in Advance of Need’ test | Complies | | |
| **Impact on Corporate Cash Flows** | | | |
| 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 | |
| **Property Characteristics** | | | |
| Location | In borough or clearly supports local economy | | |
| Category | Supports balanced but diverse portfolio which may comprise:<br>• Shops - Class A1 | | |

| Criteria | Measure | | |
|---|---|---|---|
| | • Offices – Class A2/B1<br>• Industrial - Class B2<br>• Distribution & Storage - Class B8<br>• Hotels & Hostels - Class C1<br>• Residential Institutions - Class C2<br>• Dwellings, Houses, Flats & Apartments - Class C3<br>• Non-Residential Institutions - Class D1<br>• Assembly & Leisure - Class D2<br>• Other – not included above | | |
| Type | Prime/secondary/tertiary<br>Established office/industrial | | |
| Tenure | Freehold or long leasehold(s) | | |
| Occupation | Single occupier with good covenant | Multi-let | Vacant |
| Condition | Good condition; or<br>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)<br>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) | | |
| **Corporate Plan Priorities** | | | |
| Strategic significance | Has significant strategic value<br>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 |

**APPENDIX 7**

# CAPITAL PROGRAMME 2023/24 to 2027/28

| CAPITAL PROGRAMME - DETAILS | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2022/23<br>BFWD<br>£m | 2023/24<br>Projected<br>£m | 2024/25<br>Projected<br>£m | 2025/26<br>Projected<br>£m | 2026/27<br>Projected<br>£m | 2027/28<br>Projected<br>£m | Total<br>£m |
| **ORGANISATION SERVICES** | | | | | | | |
| **STRATEGIC PROPERTY** | | | | | | | |
| **Rolling Property Maintenance Programmes** | | | | | | | |
| Forum House, Brighton Road Redhill | 0.270 | 0.150 | 0.150 | 0.100 | 0.100 | - | **0.770** |
| Beech House, London Road Reigate | 3.000 | - | - | - | - | - | **3.000** |
| Unit 61E Albert Road North | 0.074 | 0.012 | 0.012 | 0.012 | 0.075 | - | **0.184** |
| Regent House, 1-3 Queensway Redhill | 0.175 | 0.090 | 0.090 | 0.075 | 0.090 | - | **0.520** |
| Linden House, 51B High Street Reigate | - | 0.012 | 0.012 | 0.012 | 0.015 | - | **0.050** |
| Units 1-5 Redhill Distribution Centre Salfords | 0.115 | 0.017 | 0.017 | 0.017 | 0.025 | - | **0.191** |
| Crown House | 0.285 | 0.075 | 0.075 | 0.075 | 0.075 | - | **0.585** |
| Tenanted Properties | 0.167 | 0.100 | 0.100 | 0.100 | 0.100 | - | **0.567** |
| Tenanted Property Assets | 0.135 | 0.076 | 0.076 | 0.050 | 0.076 | - | **0.413** |
| Operational Buildings | 0.370 | 0.095 | 0.080 | 0.069 | 0.080 | - | **0.694** |
| Priory Park | 0.223 | 0.010 | 0.030 | 0.010 | 0.050 | - | **0.323** |
| Public Conveniences | 0.021 | 0.010 | 0.020 | 0.010 | 0.095 | - | **0.156** |

| CAPITAL PROGRAMME - DETAILS | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2022/23 BFWD £m | 2023/24 Projected £m | 2024/25 Projected £m | 2025/26 Projected £m | 2026/27 Projected £m | 2027/28 Projected £m | Total £m |
| Infrastructure (walls) | 0.031 | 0.010 | 0.060 | 0.010 | 0.020 | - | **0.131** |
| Allotments | 0.042 | 0.012 | 0.022 | 0.012 | 0.012 | - | **0.100** |
| Cemeteries & Chapel | 0.080 | 0.020 | 0.040 | 0.020 | 0.020 | - | **0.180** |
| Pavilion Replacement - Woodmansterne | 0.020 | - | - | - | - | - | **0.020** |
| Leisure Centre Maintenance | 0.159 | 0.190 | 0.030 | 0.036 | 0.175 | - | **0.590** |
| Existing Pavilions Programme | 0.097 | 0.050 | 0.050 | 0.050 | 0.150 | - | **0.397** |
| Car Parks Capital Works Programme | 0.563 | 0.195 | 0.170 | 0.080 | 0.075 | - | **1.083** |
| Earlswood Depot/Park Farm Depot | 0.061 | 0.020 | 0.020 | 0.020 | 0.050 | - | **0.171** |
| Community Centres Programme | 0.081 | 0.067 | 0.065 | 0.032 | 0.125 | - | **0.370** |
| Harlequin Property Maintenance | 0.270 | 0.120 | 0.100 | 0.030 | 0.100 | - | **0.620** |
| Building Maintenance - Capitalised Staff Costs | 0.028 | 0.028 | 0.028 | 0.028 | 0.028 | 0.028 | **0.168** |
| Massetts Road Accommodation Works | 0.021 | 0.021 | 0.021 | 0.021 | 0.021 | 0.021 | **0.126** |
| Temporary & Emergency Accommodation Works | 0.095 | 0.040 | 0.040 | 0.040 | 0.040 | 0.040 | **0.290** |
| **Total** | **6.383** | **1.419** | **1.307** | **0.909** | **1.597** | **0.089** | **11.704** |
| **IT SERVICES** | | | | | | | |
| ICT Replacement Programme | - | 0.200 | 0.250 | 0.200 | 0.200 | 0.200 | **1.050** |
| Replacement Printers and Photocopiers | - | 0.060 | - | - | - | - | **0.060** |
| **Total** | **-** | **0.260** | **0.250** | **0.200** | **0.200** | **0.200** | **1.110** |

| CAPITAL PROGRAMME - DETAILS | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2022/23 BFWD £m | 2023/24 Projected £m | 2024/25 Projected £m | 2025/26 Projected £m | 2026/27 Projected £m | 2027/28 Projected £m | Total £m |
| **ORGANISATIONAL DEVELOPMENT** | | | | | | | |
| Workplace Facilities: Estate/Asset Development | - | 0.250 | 0.250 | - | - | - | **0.500** |
| **ENVIRONMENTAL STRATEGY** | | | | | | | |
| Environmental Strategy Delivery | 0.236 | - | - | - | - | - | **0.236** |
| **PEOPLE SERVICES** | | | | | | | |
| **HOUSING** | | | | | | | |
| **Grant-Funded Schemes** | | | | | | | |
| Disabled Facilities Grant | - | 1.287 | 1.287 | 1.287 | 1.287 | 1.287 | **6.435** |
| Home Improvement Agency (Part Grant Funded) | - | 0.125 | 0.132 | 0.132 | 0.132 | 0.132 | **0.653** |
| Purchase of Accommodation | 3.997 | - | - | - | - | - | **3.997** |
| Purchase of Accommodation (Local Authority Housing Fund) | 2.967 | - | - | - | - | - | **2.967** |
| Purchase of Accommodation - Mitchell Court | 0.240 | - | - | - | - | - | **0.240** |
| Purchase of Accommodation - Stirling House | 0.120 | - | - | - | - | - | **0.120** |
| **Housing Delivery Strategy** | | | | | | | |
| Lee Street Bungalows | 0.020 | - | - | - | - | - | **0.020** |
| Cromwell Road Development | 0.100 | - | - | - | - | - | **0.100** |
| **Total** | **7.444** | **1.412** | **1.419** | **1.419** | **1.419** | **1.419** | **14.532** |
| **LEISURE & CULTURE** | | | | | | | |

| CAPITAL PROGRAMME - DETAILS | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2022/23 BFWD £m | 2023/24 Projected £m | 2024/25 Projected £m | 2025/26 Projected £m | 2026/27 Projected £m | 2027/28 Projected £m | Total £m |
| Harlequin - Service Development | 0.064 | 0.100 | 0.100 | 0.100 | 0.100 | 0.100 | **0.564** |
| **COMMUNITY PARTNERSHIPS** | | | | | | | |
| CCTV | 0.105 | - | - | - | - | - | **0.105** |
| UKSPF - Digital Connectivity for Local Community Facilities | 0.003 | - | - | - | - | - | **0.003** |
| **Total** | **0.108** | **-** | **-** | **-** | **-** | **-** | **0.108** |
| **PLACE SERVICES** | | | | | | | |
| **NEIGHBOURHOOD OPERATIONS** | | | | | | | |
| **Rolling Maintenance Programmes** | | | | | | | |
| Vehicle Wash Bay Replacement | 0.350 | - | - | - | - | - | **0.350** |
| Vehicles & Plant | 1.022 | 0.582 | 0.681 | 0.837 | 0.562 | 3.668 | **7.352** |
| Play Areas Improvement | - | 0.230 | 0.230 | 0.230 | 0.230 | 0.100 | **1.020** |
| Air Quality Monitoring Equipment | - | 0.040 | 0.040 | 0.065 | 0.065 | 0.040 | **0.250** |
| Parks & Countryside – Infrastructure & Fencing | - | 0.045 | 0.045 | 0.045 | 0.045 | 0.045 | **0.225** |
| Workshop Refurbishment | 0.160 | - | - | - | - | - | **0.160** |
| Contribution to Surrey Transit Site | 0.127 | - | - | - | - | - | **0.127** |
| **Total** | **1.659** | **0.897** | **0.996** | **1.177** | **0.902** | **3.853** | **9.484** |
| **PLACE DELIVERY** | | | | | | | |
| Marketfield Way Redevelopment | 5.575 | - | - | - | - | - | **5.575** |

| CAPITAL PROGRAMME - DETAILS | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2022/23 BFWD £m | 2023/24 Projected £m | 2024/25 Projected £m | 2025/26 Projected £m | 2026/27 Projected £m | 2027/28 Projected £m | Total £m |
| Horley Public Realm Improvements - Phase 4 | 0.565 | - | - | - | - | - | **0.565** |
| Merstham Recreation Ground | 1.465 | - | - | - | - | - | **1.465** |
| Redhill Public Realm Improvements | 0.030 | - | - | - | - | - | **0.030** |
| Pay-on-Exit Car Parking, Horley | 0.046 | - | - | - | - | - | **0.046** |
| Preston - Parking Improvements | 0.542 | - | - | - | - | - | **0.542** |
| **Total** | **8.222** | **-** | **-** | **-** | **-** | **-** | **8.222** |
| **TOTAL APPROVED CAPITAL PROGRAMME** | **24.116** | **4.338** | **4.322** | **3.805** | **4.218** | **5.661** | **46.460** |

**APPENDIX 8**

# 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 2023/24, 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.

**APPENDIX 9**

# 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.<br>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.<br>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.<br>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.<br>The market may change (potentially as a result of wider economic issues) which may impact on market rental values.<br>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.<br>The Council also receives advice and market intelligence from its property advisors.<br>The financial assessment includes both interest and repayment of borrowing. | Resale valuations cannot be guaranteed to increase/remain static.<br>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 and economic pressures | H | M | Deliverability of approved schemes and funding forecasts will be subject to review as the medium/long term impacts are confirmed.<br><br>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. | It may be necessary to re-assess deliverability and/or affordability of some schemes and update capital investment plans in response.<br><br>Discussions with tenants have taken place since the start of the pandemic to assess their ability to pay and future requirements. |

| 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<br>CIS2<br>CIS3<br>CIS4 | | |
| Minor | 2 | | | | | |
| Almost none | 1 | | | | | |
| | | 1 | 2 | 3 | 4 | 5 |
| **LIKELIHOOD** | | Rare | Unlikely | Possible | More Than Likely | Almost Certain |