GUILDFORD BOROUGH

James Whiteman
Managing Director

www.guildford.gov.uk

Contact: Andrea Carr
Committee Services
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29 December 2020

Dear Councillor

Your attendance is requested at a remote meeting of the **JOINT EXECUTIVE ADVISORY BOARD** to be held on **THURSDAY 7 JANUARY 2021** at **7:00 pm**. The meeting can be accessed remotely via Microsoft Teams in accordance with the provisions of The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.

If for any reason Councillors lose their wi-fi connectivity to the meeting and are unable to re-join using the link in the Outlook calendar invitation, please re-join using the telephone number 020 3855 4748. You will be prompted to input a conference ID: 710 813 970#

Yours faithfully

James Whiteman
Managing Director

MEMBERS OF THE EXECUTIVE ADVISORY BOARD

Councillor Paul Abbey
Councillor Jon Askew
Councillor Christopher Barrass
Councillor Dennis Booth
Councillor Ruth Brothwell
Councillor Graham Eyre
Councillor Andrew Gomm
Councillor Angela Goodwin
Councillor Angela Gunning
Councillor Gordon Jackson
Councillor Diana Jones
Councillor Steven Lee
Councillor Ann McShee
Councillor Bob McShee
Councillor Masuk Miah
Councillor Ramsey Nagaty
Councillor George Potter
Councillor Jo Randall
Councillor Maddy Redpath
Councillor Will Salmon
Councillor Pauline Searle
Councillor Fiona White
Councillor Catherine Young

Authorised Substitute Members:

Councillor David Bilbé
Councillor Richard Billington, The Mayor 2020-21
Councillor Chris Blow
Councillor Colin Cross
Councillor Gillian Harwood
Councillor Liz Hogger
Councillor Tom Hunt, Armed Forces Champion
Councillor Nigel Manning
Councillor Ted Mayne, Deputy Older Persons' Champion
Councillor Marsha Moseley, The Deputy Mayor 2020-21
Councillor Susan Parker
Councillor Tony Rooth
Councillor Paul Spooner
Councillor James Walsh

QUORUM: 5

Guildford Borough Council
Millmead House, Millmead, Guildford, Surrey GU2 4BB

WEBCASTING NOTICE

This meeting will be recorded for live and/or subsequent broadcast on the Council's website in accordance with the Council's capacity in performing a task in the public interest and in line with the Openness of Local Government Bodies Regulations 2014. The whole of the meeting will be recorded, except where there are confidential or exempt items, and the footage will be on the website for six months.

If you have any queries regarding webcasting of meetings, please contact Committee Services.

THE COUNCIL'S STRATEGIC FRAMEWORK

Vision – for the borough

For Guildford to be a town and rural borough that is the most desirable place to live, work and visit in South East England. A centre for education, healthcare, innovative cutting-edge businesses, high quality retail and wellbeing. A county town set in a vibrant rural environment, which balances the needs of urban and rural communities alike. Known for our outstanding urban planning and design, and with infrastructure that will properly cope with our needs.

Three fundamental themes and nine strategic priorities that support our vision:

Place-making	Delivering the Guildford Borough Local Plan and providing the range of housing that people need, particularly affordable homes
	Making travel in Guildford and across the borough easier
	Regenerating and improving Guildford town centre and other urban areas
Community	Supporting older, more vulnerable and less advantaged people in our community
	Protecting our environment
	Enhancing sporting, cultural, community, and recreational facilities
Innovation	Encouraging sustainable and proportionate economic growth to help provide the prosperity and employment that people need
	Creating smart places infrastructure across Guildford
	Using innovation, technology and new ways of working to improve value for money and efficiency in Council services

Values for our residents

- We will strive to be the best Council.
- We will deliver quality and value for money services.
- We will help the vulnerable members of our community.
- We will be open and accountable.
- We will deliver improvements and enable change across the borough.

The information contained in the items on this agenda has been allowed into the public arena in a spirit of openness and transparency to gain broad input at an early stage. Some of the ideas and proposals placed before this Executive Advisory Board may be at the very earliest stage of consideration by the democratic decision-making processes of the Council and should not be considered, or commented on, as if they already represent either Council policy or its firm intentions on the issue under discussion.

The Executive Advisory Boards do not have any substantive decision-making powers and, as the name suggests, their purpose is to advise the Executive. The subject matter of the items on this agenda, therefore, is for discussion only at this stage and any recommendations are subject to further consideration or approval by the Executive, and are not necessarily in final form.

A G E N D A

ITEM NO.

1 **APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS**

2 **LOCAL CODE OF CONDUCT AND NOTIFICATION OF DISCLOSABLE PECUNIARY INTERESTS**

In accordance with the local Code of Conduct, a councillor is required to disclose at the meeting any Disclosable Pecuniary Interest (DPI) that they may have in respect of any matter for consideration on this agenda. Any councillor with a DPI must not participate in any discussion or vote regarding that matter and they must withdraw from the meeting immediately before consideration of the matter.

If that DPI has not been registered, the councillor must notify the Monitoring Officer of the details of the DPI within 28 days of the date of the meeting.

Councillors are further invited to disclose any non-pecuniary interest which may be relevant to any matter on this agenda, in the interests of transparency, and to confirm that it will not affect their objectivity in relation to that matter.

3 **ELECTION OF CHAIRMAN**

4 **MINUTES** (Pages 7 - 12)

To confirm the minutes of the meeting of the Joint Executive Advisory Board held on 11 November 2020.

5 **HOUSING REVENUE ACCOUNT DRAFT BUDGET 2021-22** (Pages 13 - 86)

6 **CAPITAL AND INVESTMENT STRATEGY 2021-22 TO 2025-26** (Pages 87 - 162)

7 **EXCLUSION OF PUBLIC AND PRESS**

The Board is asked to consider passing the following resolution:

That under Section 100A(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the consideration of the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Act; namely, information relating to the financial or business affairs of any particular person (including the authority holding that information).

Such an exclusion will involve the Board members moving to a second (Part 2) meeting for the duration of their discussion of this item.

8 **SAVINGS STRATEGY UPDATE PRESENTATION**

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JOINT EXECUTIVE ADVISORY BOARD

11 November 2020

Councillor Paul Abbey
Councillor Jon Askew
* Councillor Christopher Barrass
* Councillor Dennis Booth
* Councillor Ruth Brothwell
* Councillor Graham Eyre
* Councillor Andrew Gomm
* Councillor Angela Goodwin
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Councillor Masuk Miah
* Councillor Ramsey Nagaty
* Councillor George Potter
* Councillor Jo Randall
* Councillor Maddy Redpath
* Councillor Will Salmon
* Councillor Pauline Searle
* Councillor Fiona White
* Councillor Catherine Young

* Present

Councillors Tim Anderson, Joss Bigmore, Deborah Seabrook and James Steel were also in attendance.

6 ELECTION OF CHAIRMAN

The Joint Executive Advisory Board (EAB)

RESOLVED

that Councillor Angela Gunning be elected as Chairman for this meeting.

7 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from Councillors Paul Abbey and Masuk Miah.

8 LOCAL CODE OF CONDUCT AND NOTIFICATION OF DISCLOSABLE PECUNIARY INTERESTS

There were no declarations of disclosable pecuniary interests or non-pecuniary interests.

9 MINUTES

The minutes of the meeting of the Joint EAB held on 9 July 2020 were confirmed as a correct record, and would be signed by the Chairman at the earliest opportunity.

10 OFF-STREET PARKING BUSINESS PLAN 2021-22

The Lead Councillor for Environment introduced and commended a report which updated the Executive on progress made in delivering the parking related recommendations approved in January 2020, reviewed and sought approval for parking pricing structure proposals, reviewed improvement works undertaken and work to be pursued during 2021-22, and advised on Parking Services performance in 2019-20. The views of the Board were sought in this regard.

The Waste, Parking and Fleet Services Manager presented the report which explained changes in service during COVID-19 and the excellent work carried out by the service to support key workers, businesses and residents. However, due to the reduction in visitors, officers had reconsidered how to manage the Council's parking resources to best suit Guildford's needs and bring forward decisions on pricing strategy to increase confidence, footfall and revenue.

A review of parking pricing had resulted in the formulation of the following options:

- Option 1 - Hold existing pricing for 2021-22 and allow a period of stabilisation from price changes and COVID-19;
- Option 2 - Continue with a price increase from £1.50 to £1.60 per hour for the following most popular surface car parks in April 2021:
    - Mary Road
    - Bedford Road Surface
    - Commercial Road 2
    - Old Police Station
- Option 3 – Continue the pre-agreed price increase as per Option 2 and introduce a new £1 per hour shopper offer (minimum 3 hours), Monday to Saturday, with flat rates in Bedford Road Multi-Storey Car Park (MSCP), York Road MSCP, Castle MSCP, G Live, Millbrook and Tunsgate car parks as follows:
    - £3 for up to 3 hours
    - £6 for up to 6 hours
    - £12 for greater than 6 hours

The Waste, Parking and Fleet Services Manager explained the following four recommendations to the Executive contained in the report. The principal rationale behind the options and recommendations was to offer shopper car parking at a reduced price with a view to encouraging visitors to spend more time in the town centre in order to have an enjoyable relaxing visitor experience whilst boosting the local economy. This also reflected the current lower demand for town centre parking diminishing the previous need for higher turnover of parking spaces. The continuing need for short stay parking was also recognised and it was proposed that provision in this area be expanded to include the Leapale Road car park and that a modest hourly tariff increase be applied, subject to review. This would achieve a balanced offering of shopper and short stay parking in addition to commuter provision. Officers had consulted widely in respect of the proposals and consultees included local traders and Experience Guildford, the local Business Improvement District. Amanda Masters, the Chief Executive Officer of Experience Guildford, was present to comment on the proposals and contribute to the related discussion with a view to bringing a business orientated perspective to the parking proposals to balance the Council's need to increase income.

(1) To continue with the proposed short stay car park price increase as set out in Option 2 above, but to authorise the Waste Parking and Fleet Services Manager, in consultation with the relevant lead councillor and Director of Resources, to review the charge in January 2021 and to cancel the increase if the recovery from COVID-19 is likely, in their view, to be affected negatively by this increase.
(2) To make no changes to Sunday tariffs for all car parks.
(3) To reallocate Leapale Road car park as 'short stay' and bring prices into line with neighbouring short stay surface car parks.
(4) To introduce a new shopper offer, Monday to Saturday, based on the flat rate Option 3 above.

The following points and views arose from related questions, comments and discussion:

- Experience Guildford was strongly supportive of the parking proposals, particularly the shopper car park charges. A noticeable change since the first Coronavirus lockdown was that town centre visitors were mainly local residents and consideration may need to be given to the future development of the town to reflect this trend if it continued. Although retailers were not in favour of parking charges, it was acknowledged that car parks were essential to support trading.
- The proposed increase in short stay car parking charges from £1.50 to £1.60 per hour was due to be implemented in April 2021 and subject to review in January 2021, possibly informed by parking habits in the lead up to Christmas. The intention was to introduce the shopper car park charges before Christmas, subject to the fulfilment of legal requirements.
- In terms of parking support provided by the Council during the initial pandemic lockdown, all town centre car park charges were cancelled in March 2020 for the duration of the lockdown in line with Government advice. This supported essential shop workers, emergency teams and key workers in the NHS and the police during advice not to use public transport. All of the Bright Hill car park was set aside for use by NHS workers employed at Mount Alvernia Hospital which had been contracted to support the NHS. The police were granted approximately 400 parking passes owing to the displacement of staff parking by the use of Guildford Police Station as a major hub associated with police responses to COVID-19. Support continued after the cessation of the lockdown and featured access to Farnham Road car park for an additional month and an ongoing 50% reduction in parking charges for NHS and police employees.
- Parking support was also provided in relation to the Eat Out to Help Out scheme where free parking was available in the Pay and Display carparks from 4:00 pm on the relevant days to encourage late afternoon shopping followed by dining out. However, it was difficult to measure uptake as parking tickets were not issued. From the retail perspective, Amanda Masters advised that there had been a spike in footfall in the town centre in the early part of the weeks when the scheme was in operation and it was considered to be successful with many restaurateurs continuing the scheme without Government funding.
- Whilst the parking proposals were supported and welcomed, it was hoped that charges would return to previously accepted levels following the pandemic.
- There were two sets of car park payment machines, those owned by this Council located in off-street car parks and those owned by Surrey County Council and operated by this Council in on-street settings. Although the Council was seeking to invest in its car park machines with a view to increasing mutually beneficial contactless payments, officers felt that there was some demand for the retention of a cash payment option.
- Although users of the RingGo cashless parking application paid a supplementary fee above the basic parking charge for the service, this was an optional payment for the parking convenience it offered that could not be covered by the Council, which was currently reviewing its agreement with RingGo and hoped to secure a reduction in the fee. Experience Guildford welcomed the use of RingGo, or similar systems, as they provided valuable data revealing the originating location of parkers and shoppers which assisted with targeted marketing.
- Although essential works were being undertaken in Bedford Road car park to reduce the risk of flooding, as the facility was below ground level and in close proximity to the river, possible future flooding events could not be ruled out.
- Potential work at Leapale Road car park to reduce suicide risk was included in the provisional capital programme and under consideration.
- Whilst the Park and Ride scheme remained popular, its reducing use over recent years had been exacerbated by Government advice for people to work from home and avoid public transport if possible owing to COVID-19 risk. The reasons for the declining use

and projectory for future use would be explored. It was suggested that consideration could be given to altering the charging model to one of payment per vehicle instead of per person in order to encourage car sharing and use by groups. Although the pricing structure was a decision for the operator, Stagecoach, the company had indicated that it was enthusiastic to work with this Council and Surrey County Council around future service provision following COVID-19, including pricing and customer attraction.

- The benefits of the close working relationship between the Council, the Parking Service and Experience Guildford were highlighted.
- Reference was made to the gains of having a whole system overarching approach to the Council's parking service that was sufficiently agile to react to the current changing situation.

The Chairman summarised the main views of the Joint EAB for submission to the Executive as follows:

1) Recommendation 3 of the parking proposals concerning shopper car park charges is strongly supported.
2) Cash car park payments be continued for the present and kept under review as part of ongoing developments in this area.
3) The Waste, Parking and Fleet Services Manager and his Parking Services team are thanked and congratulated for their rapid response to difficult circumstances under the Coronavirus lockdown and beyond in supporting essential shop workers, businesses, the NHS and police.

11 GENERAL FUND OUTLINE BUDGET 2021-22 AND BUSINESS PLANNING 2021-22 TO 2024-25

A report to the Executive outlining the current position regarding the 2021-22 outline general fund budget and the business planning assumptions for 2021-22 to 2024-25 was before the Joint EAB for consideration. The report invited the Executive to note the situation, including areas of uncertainty that would influence the final position, and agree the proposed strategy for savings and efficiencies to be implemented over the period 2021-22 to 2024-25 in order to achieve a balanced budget over the medium term. The report contained the following five recommendations to the Executive to assist it with the preparation of the General Fund estimates for 2021-22:

1. Approve the budget assumptions used in the preparation of the 2021-22 outline budget and three year forward projections.
2. Note the current position on the outline budget for 2021-22 and the budget shortfall anticipated over the 3 years to 2024-25.
3. Approve the savings strategy for 2021-22 through to 2024-25 (Section 13 & Appendix 3).
4. Agree to the proposal to Council to make the contributions to/from the Council's various earmarked reserves for specific purposes as set out in section 9 of the report as part of the budget report in February 2021.
5. Agree the use of the Council's earmarked reserves as set out in section 10 to fund the cost of the COVID-19 pandemic, in line with the supplementary estimate agreed by Council in May 2020.

The Director of Resources gave an introductory presentation which explained the difficulties associated with 2021-22 financial predictions, the core assumptions, the best estimate of the budget gap based on core assumptions and the budget gap sensitivity analysis.

The financial prediction difficulties arose owing to a number of uncertainties including the Government funding settlement, the Fair Funding Review, possible devolution, the ongoing financial implications of COVID-19 and subsequent pace of economic recovery, the impact of the increase in Local Council Tax Support Scheme claims and the future of the Leisure Management contract. Known factors affecting the budget were the overspend in the current year and possible mitigations, Council Tax and Business Rates collection rates and ability to spread the collection fund deficit over three years, the current level of reserves, interest rates and the cost of servicing debt, and savings resulting from the Future Guildford transformation programme.

Core assumptions upon which the 2021-22 budget was based consisted of the general inflation rate; staff pay award, pay increments and vacancy factor; increases in fees and charges; income reduction due to COVID-19; Council Tax base and proposed increase; housing rents; and Government Settlement Funding Assessment.

The best estimate of the Council's budget gap based on core assumptions was £2.692million in 2021-22 rising to £4.417million in 2024-25.

The budget gap sensitivity analysis explored estimates of surplus or deficit in relation to staff pay inflation, capital programme slippage, various income streams, Fair Funding Review reduction in base line spend, changes in investment income and interest rate rise.

The Lead Councillor for Resources and the Leader of the Council highlighted the challenges associated with balancing the budget for 2021-22, which would include a public consultation exercise regarding priorities for Council services, and acknowledged budget reductions achieved to date and the extraordinary work undertaken by officers to support vulnerable residents in the Borough during the Coronavirus pandemic.

The following points arose from related questions, comments and discussion:

- Essential services to support the most vulnerable in local communities should be continued as a priority.
- It was proposed that the budget consultation would be undertaken by a polling company which would target a representative sample of all Borough residents to gain views to inform subsequent decisions by the Council.

The Joint EAB

RESOLVED

That, under Section 100A(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the consideration of information contained within Appendix 3 to the report on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Act; namely, information relating to the financial or business affairs of any particular person (including the authority holding that information).

Accordingly, the Board moved to a second (Part 2) meeting for the duration of its discussion regarding the exempt information in Appendix 3. The meeting received and considered a presentation in respect of the Savings Strategy which described the approach to the identification of savings target areas providing related spend lines, normalised net expenditure and proposed actions and savings for each portfolio.

Following the EAB's consideration of the exempt information the public was readmitted to the meeting.

Having indicated its support for the five recommendations to the Executive as set out above, the EAB agreed the following points for submission to the Executive:

- Notwithstanding the outcome of the public consultation exercise associated with the outline budget, services provided to the most vulnerable residents should be protected.

- There may be merit in exploring the work undertaken by an Older People's Services task group established by Surrey County Council to inform service needs and provision in this area.

- Whilst the Joint EAB was not equipped to discuss or consider suggested budget reductions in any detail or advise on the extent and prioritisation of savings due to a lack of supporting information, it was aware where possible and likely inevitable reductions would fall.

- Owing to uncertainty, it was not currently possible for the Joint EAB to form a view in respect of budget and business planning scenarios associated with the possibility of the Council forming part of a new unitary authority in the future.

The meeting finished at 9:47 pm

Signed .... Date ....

Chairman

Executive Report

Ward(s) affected: n/a

Report of Director of Service Delivery

Author: Ian Doyle and Jude Aihie

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Lead Councillors responsible: Caroline Reeves and Tim Anderson

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Date: 26 January 2021

Housing Revenue Account Budget 2021-22

Executive Summary

The report outlines the proposed Housing Revenue Account (HRA) budget for 2021-22.

These estimates are predicated on the assumptions, ambitions and priorities contained in the current HRA business plan (see **Appendix 1**) to be reviewed in the light of the current pandemic and Brexit as it affects our operating environment.

On 31 March 2021, social rent policy requiring social housing providers in England to reduce social rents by 1% per annum for the four years from 1 April 2016, as prescribed in the Welfare Reform and Work Act 2016 will come to an end. From April 2021, the rents for 2021-22 shall increase by Consumer Price Index (CPI) from September 2019 to September 2020 (0.8%) plus 1% and other subsequent September going forward.

A 3.4% increase in garage rents is proposed from April 2021.

The report includes a proposed investment programme in tenants' homes.

The estimates are on the premise of a lower priority to the repayment of debt principal inherited as part of the self-financing HRA settlement as proposed in the business plan.

The Executive is asked to agree, subject to Council approving the budget on 10 February 2021:

(1) That the projects forming the HRA major repairs and improvement programme, as set out in Appendix 4 to this report, be approved.

(2) That the Director of Service Delivery be authorised, in consultation with the Lead Councillor for Housing and Development Management:

(a) to reallocate funding between approved schemes to make best use of the available resources; and

(b) to set rents for new developments.

The Executive is asked to endorse the recommendation to Council below:

Recommendation to Council:

(1) That the proposed HRA revenue budget for 2021-22, as set out in Appendix 2 to this report, be approved.

(2) That a rent increase of 1.8%, comprising the September 2020 CPI (0.8%) plus 1%, as required by the Welfare Reform and Work Act 2016, be implemented.

(3) That the fees and charges for HRA services for 2021-22, as set out in Appendix 3 to this report, be approved.

(4) That a 3.4% increase in garage rents be approved for 2021-22.

(5) That the Housing Investment Programme as shown in Appendix 5 (current approved and provisional schemes), be approved.

Reasons for Recommendation:
To enable the Council to set the rent charges for HRA property and associated fees and charges, along with authorising the necessary revenue and capital expenditure to implement a budget, this is consistent with the objectives outlined in the HRA Business Plan.

1. Purpose of Report

1.1 This report provides a position statement on the 2021-22 draft budget and makes recommendations to the Executive on both the HRA revenue and capital programme budget.

2. Corporate Plan

2.1 Through the provision of new homes and supporting the less advantaged, this budget delivers on the Place-making and Community themes of our Corporate Plan.

3. Background

3.1 The ongoing regime of self-financing arrangements introduced in 2012, empowers the Council to optimise its resources in management of its social housing services. The Housing Revenue Account Business Plan sets the framework upon which the revenue budget and proposed Housing Investment Programme are prepared. This plan sets out our ambitions and priorities for the service.

4. Housing Revenue Account Business Plan

4.1 The objective of the business plan is to optimise its resources in ensuring quality tenantable accommodation for residents, stock growth to address the increasing demand for affordable housing and surpluses to the various reserves in pursuance of its business. It is not limited to housing stock, but also wider issues such as community development and improving the environment.

4.2 The Business Plan, not only concentrates on the financial related strategy and objectives, but also the service priorities of the Council's Landlord function to its tenants and leaseholders. The longer-term perspective is crucial to ensure that the service and its primary assets, the housing stock, are fit for purpose for the whole period of the plan and beyond.

4.3 Brexit and lately the Covid-19 pandemic has been a challenging period for the government, local government, residents, and the economy. The Government has made a number of policy announcements that recognise the important role social housing has across our communities, especially in these challenging times. There also appears to be a renewed desire to see local authorities play an increased role in the delivery of new homes to kick start the economy.

4.4 The announcements are resetting the landscape in which the HRA business operates and are very much in line with the ambitions this Council has for its communities.

4.5 Universal Credit, as currently structured, continues to cause concern. Some of these concerns are increasingly shared at a national level.

4.6 Housing is fundamental to an individual's health and wellbeing. The HRA operates within an increasingly stressed public sector financial environment and we see the impact daily. The intervention threshold for mental health and social services have steadily increased, especially in this period of lock down measures to curtail the spread of coronavirus. We are trying to manage the consequences of this, on both tenants and neighbourhoods, which is proving increasingly challenging.

4.7 North Downs Housing Ltd (NDH) accounts were, for the first time grouped, with the Council's Statement of Accounts in the preceding financial year ended 31 March 2020. The accounts are in line with the business plan to break-even in 2023-24. Whilst NDH's role is to provide an alternative range of tenures, it offers the opportunity through partnership working to consider a wider range of development opportunities.

4.8 The Council has, through the Community Wellbeing Team and Project Aspire, provided greater support in less advantaged areas. They work closely with Landlord Services.

5. Potential Pressures

5.1 As mentioned, the Covid-19 pandemic has played a major impact on the social and healthcare services on tenants. The cost of managing tenancies is likely to see upward pressure as we are forced to deal with situations we are less well equipped to manage.

5.2 The pandemic has led to several business closures, despite government support, with resultant increase on demand for social housing, putting pressure on our limited resources and time expediency in responding to this new demand.

5.3 The funding framework available to meet the cost of supported housing remains fragile. Last year we received just £144,000 in Supporting People Grant funding with a further likely reduction.

5.4 The Homeless Reduction Act 2017 has placed greater obligations on the Council. This is coinciding with a steady rise in the number of households at risk. Many of those at greatest risk have not only housing issues but a range of complex needs. Together they are placing greater demands on the Housing Service that in turn flows through to the teams managing our properties.

5.5 The wider social housing sector is becoming increasingly commercial. Some housing associations are focusing on minimising risk by being very selective on who they will house and also their move to market rent that is 80% of commercial rent for their new build and letting. We are fortunate in having a retained stock, which gives us greater flexibility in helping those in housing need. It does, however, create a cost pressure.

5.6 The affordability of shared ownership properties is an issue for many. Whilst it enables a resident to join the home ownership ladder, the reality for many is that they are unable to stair-case (acquire further equity shares) or move to a larger property as their household grows. Expanding this stock is not currently a priority for the Business Plan; however, this will be revisited when we have the opportunity to develop larger sites. In such cases, shared ownership brings down the overall cost of a large development.

5.7 The estimates, consistent with the business plan, continue to attach a lower priority to the repayment of debt principal inherited as part of the self-financing HRA settlement, reflecting the Council's determination to provide new additional affordable homes.

5.8 For the first time in a long period we have underspent in our responsive repairs budget as a result of the pandemic as both staff and contractors are limited to mainly urgent and essential repairs. This may have an impact on our housing stock and future repair bills, in the long run.

6. Preparation of the revenue and capital programme budget for 2021-22

6.1 The 2021-22 budgets have been prepared having regard to the recent policy announcements and the positive impact they might have. At the same time, we are conscious of various cost pressures along with the implications of our debt financing profile.

6.2 **Capital expenditure:** The proposed investment in our existing property base takes account of the downward pressure on our income stream since 2016. It also reflects the latest information we have on the condition of the stock.

Revenue expenditure: We have already taken a number of steps to limit our ongoing revenue commitments until we fully understand the implications of the challenges we face.

- We will continue to evaluate all posts that fall vacant to determine whether it is appropriate to reappoint or whether an alternative approach is considered.
- The Covid-19 pandemic has changed the way we work with an increased use of IT, remote working and virtual meetings.
- The Allpay system and mobile payment App has being useful in this trying period, in our drive for rent collection.
- Rent collection analytics technology introduced earlier has helped colleagues focus and strategise their rent collection.

7. HRA Revenue Budget 2021 - 22

Assumptions

7.1 The total HRA debt stands at £197 million. It is projected that the interest charge for 2021-22 will be £5,142,230. No provision is included in the budget for the repayment of debt during 2021-22 in line with the Executive's decision that debt repayment is not a priority.

7.2 The revenue budget for 2021-22 is predicated around a number of key assumptions. The most important of which are set out in the table below:

Item	Assumption		
Opening stock	4.780 units of accommodation		
HRA Debt	£197 million		
Average cost of capital for 2017-18	2.60%		
September CPI	0.8%		
Rent increase CPI + 1%	1.8%		
Garage income increase	3.4%		
Bad debt provision 2021-22	£500,000		
Void rate	1%		
Service charge increases	Linked to contractual arrangement with suppliers		
Housing units lost through Right to Buy (RTB)	2019-20 19	2020-21 10 +8	2021-22 15
Retained receipts	Held in reserves		
HRA ring fence	Policy of strong ring fence continues		
Debt repayment	No provision made for the repayment of debt		

7.3 The revised budget set out in Appendix 2 is based on a 52-week rent year.

7.4 Due to the requirement under the Welfare Reform and Work Act 2016, rents will increase by CPI plus 1% per annum in 2021-22, which will result in additional income of approximately £630,000.

Summary of Revenue Account Budget 2021-22

7.5 The table below summarises the proposed 2021-22 revenue budget, which reflects our current Treasury Management Strategy – in effect an interest only mortgage rather than a repayment mortgage. The timing of debt repayment will largely be a treasury management decision aligned to the overarching objectives of the HRA Business Plan.

Gross Expenditure alternatively analysed as:	**£000**
Management and maintenance	8736
Depreciation	5,529
Other	3,629
Interest payable	5,142
Transfer to reserves	11,295
	34,331

Received From:	**£000**
Council House Rents	30,507
Interest receivable	598
Rent income	1,320
Fees, charges and miscellaneous income	1,905
	34,331

7.6 Based on the assumptions contained in the HRA Business Plan and detailed in paragraph 7.2 above, it is estimated that the HRA will have an operating surplus of £11.221 million for 2021-21. The size of the surplus reflects a number of factors:

- the prevailing borrowing rate
- the impact of Covid-19 on maintenance expenditure
- the impact of historically high levels of investment in the stock over past years maintaining stock condition
- good income collection performance
- strong rental stream with many properties at or close to target rent levels

Expenditure

7.7 The main headings are summarised below:

Subjective Heading	2020-21 Budget	2020-21 Projection	2021-22 Budget
	£	£	£
General Management	5,933,810	6,090,631	6,324,322
Responsive and planned maintenance	5,857,920	3,793,321	5,857,920
Interest payable	5,142,230	5,675,260	5,142,230
Depreciation	5,525,000	5,528,730	5,528,730
Cost of democracy	256,800	251,530	256,800

7.8 **General Management**: Budgeted expenditure on delivering continuing HRA services is less than 5% increase on previous year's budget, reflecting the review of revenue commitments outlined in paragraph 6.2 above.

7.9 **Repairs and maintenance:** Budgeted expenditure on revenue-funded works remains at previous year's budget due to the restrictive access and less physical contact as a result of Covid-19 pandemic. We are hoping the vaccination programme will lead to a resumption of activities to manageable levels.

7.10 **Interest payable:** Approximately 75% of the loan portfolio consists of fixed interest loans, whilst the remaining portfolio is on a variable rate arrangement. Although the variable rate loans are subject to prevailing market conditions, it is likely that interest rates will remain low in the short to medium term. The table below sets out our current loan portfolio.

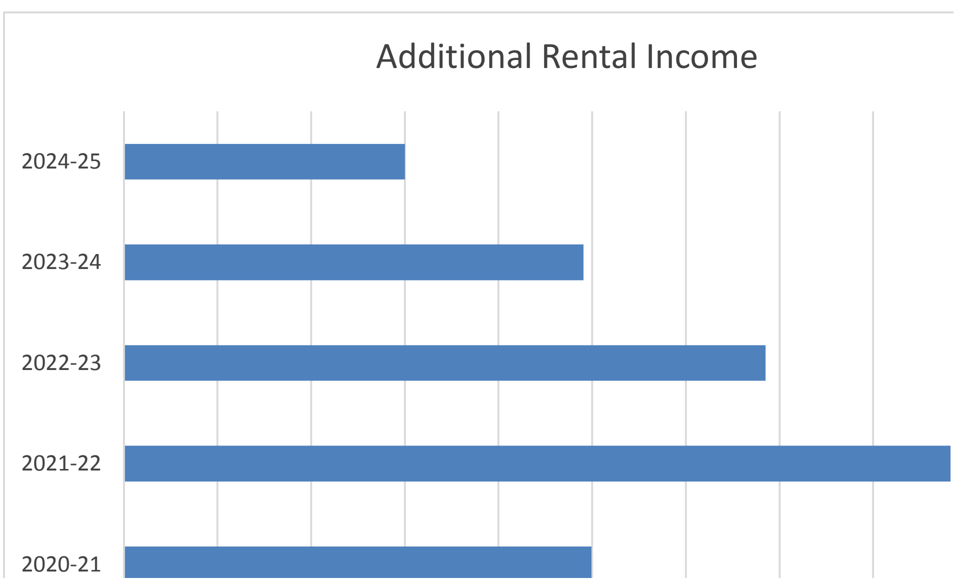
Loan Type	Principal	Remaining years	Rate
Variable	£45,000,000	10	0.48%
Fixed	£10,000,000	12	2.70%
Fixed	£10,000,000	13	2.82%
Fixed	£10,000,000	14	2.92%
Fixed	£10,000,000	15	3.01%
Fixed	£25,000,000	17	3.15%
Fixed	£25,000,000	20	3.30%
Fixed	£25,000,000	15	3.44%
Fixed	£15,000,000	29	3.49%
Fixed	£17,435,000	30	3.50%

7.11 **Depreciation:** To safeguard future rental streams, we need to ensure our properties and assets are adequately maintained. This will involve the replacement of ageing components at the appropriate time. In order to do so, it is important that we set aside adequate funds each year to meet future liabilities. The depreciation charge is one of the key mechanisms we use to do this. The proposed 2021-22 charge represents, in officers' view, a realistic amount having regard to the outcome of the stock condition survey. A charge of £5,528,730 is considered both appropriate and affordable.

Income

Rent Increase

The September CPI plus 1% rent increase gives an additional income of roughly £0.5m, yearly as demonstrated in the graph below:



7.12 The previous stated formula in the last four years as per the Welfare Reform and Work Act 2016 requires us to reduce our social housing rents by 1% a year for four years from April 2016, which ended in April 2020. The policy reverts back to our original business plan of annual increase in rents of CPI inflation + 1% each year. The result of this policy means that in five years, there will be cumulative rental income surplus of £2.67m at our disposal.

7.13 A provision for bad debt charge of £500,000 is included in the estimates, revised from £300,000 to take cognisance of the effect of the pandemic. This charge will remain under review, but it is considered appropriate - it represents 1.7% of the annual tenanted income.

Right to Buy sales (RTB)

7.14 RTB activity remains steady during 2020-21. However, as a result of Brexit and Covid-19, we are expecting a significant drop in take-up.

7.15 The table below outlines activity as at December 2020.

Activity	Number
Properties sold since 1 April 2020	10
Applications being processed	8

7.16 Under the government's one-for-one replacement scheme, we are able to retain the majority of the capital receipt provided it is re-invested in additional affordable housing or regeneration schemes within three years. Only a third of the cost of a development can be financed from this source - we must finance the balance from capital receipts or other sources including reserves accruing from the appropriation of revenue account surpluses. Our current development plan fully commits the one-for-one retained receipts we have accumulated to date. The ambition remains to utilise the receipts we are anticipating in future years.

7.17 On current levels of activity, we project a loss of units to be in the region of 15-25 units per year. Our new build programme is mitigating the impact of the on-going right-to-buy programme, but it is unfortunate there are, to date. no proposals to amend the scheme in order to prevent the ongoing loss of much needed social housing in the area.

7.18 Increasing sales has three negative impacts. It:

- reduces the number of affordable homes
- removes the long-term positive contribution each property makes to our operating costs
- increases the unit costs of managing and maintaining properties. Invariably tenants buy the better properties.

HRA Borrowing Cap

7.19 The removal of HRA borrowing restrictions gives greater flexibility on borrowing additional funds and dexterity in treasury management to maximise investment, reduce cost and risk.

7.20 We hope to carry out adequate investment appraisal weighing up various options and ensuring each scheme and investment add value to our business, by choosing the best return against our benchmark. We expect to fund schemes using:

- capital receipts retained under the 1 for 1 replacement scheme
- HRA reserves
- HRA borrowing

7.21 HRA borrowing will be within the Prudential Borrowing framework – it must be affordable by the HRA and not place our existing services and stock investment programmes at risk. Each development scheme will be appraised individually to ensure it is viable and affordable as is currently the case.

8. HRA Capital Programme and Reserves

8.1 We will continue to assess a range of different delivery mechanisms for new homes. Whilst these will introduce a greater degree of complexity, the indications are that they will provide additional freedoms. The housing market in the borough does not work for many and a wider range of interventions are needed, beyond those that the HRA is able to make. The section below sets out what the HRA can do over the coming year.

8.2 Currently, there are four potential strands forming our HRA capital programme under the self-financing regime. In the past, not all have been viable options, but that position has changed. The four strands are:

- replacing ageing components such as roofs and kitchens
- improving and enhancing existing properties – for example, installing double glazing
- stock rationalisation – the most common example to date being the decommissioning of outdated sheltered units
- expansion – the provision of new additional affordable homes.

8.3 The funding sources enabling us to deliver a capital programme are as follows:

- HRA rental stream
- Capital receipts generated from the disposal of HRA assets including land
- HRA reserves
- HRA borrowing

8.4 The HRA has built up significant revenue reserves and as at 31 March 2021 are estimated to be in the region of £11.106m– excluding capital receipts. These can be used for specific HRA related purposes. It is proposed that these reserves are set aside to support the major repairs and improvements and new build programme. The HRA also has usable capital receipts, generated from the sale of HRA land and housing assets.

8.5 The table below shows the available reserves that can support the HRA Business Plan and they reflect only the schemes currently included in programme, and the decision not to repay debt. The contribution into the reserve for future capital programmes is maintained.

Year ending	Reserve for future capital works	Major repairs reserve	New Build Reserve	**Total**	Usable capital receipts	Usable Capital Receipts (one-for-one receipts) 1	Usable Capital Receipts (HRA debt repayment)	**Total usable capital receipts**	**Total reserves/ receipts**
	£000	£000	£000	**£000**	£000	£000	£000	**£000**	**£000**
Mar-19	33,329	9,598	45,789	**88,716**	6,760	6,142	4,158	**17,060**	**105,776**
Mar-20	35,829	9,977	51,687	**97,493**		7,666	4,819	**12,485**	**109,978**
Mar-21	38,329	9,977	48,818	**97,124**		5,443	5,502	**10,945**	**108,069**
Mar-22	40,829	9,977	40,475	**91,281**		877	6,207	**7,084**	**98,365**
Mar-23	43,329	9,977	42,768	**96,074**		874	6,935	**7,809**	**103,883**
Mar-24	45,829	9,977	46,316	**102,122**		1,412	7,687	**9,099**	**111,221**

Potential reserve commitments - Illustrative example	
Potential repayment of variable rate loan	**45,000**
Cumulative reserve balance	**66,221**

8.6 The business plan is most sensitive to the following assumptions:

- income trends
- legislative changes
- inflation rates
- cost of debt
- capital investment
- right-to-buy sales
- Covid-19

8.7 The degree to which a development programme can be financed will in part be determined by a continued willingness to attach a lower priority to debt repayment coupled with the release of land for such purposes under the provisions of the Local Plan.

8.8 One-for-one receipts are being applied to current and proposed new build schemes to minimise the risk of repayment of such receipts. This will enable the retention of future one-for-one receipts, with a reduced risk of repayment, pending the identification of new sites[1]

8.9 A combination of usable one-for-one receipts, and the new build reserve will be used to fund a number of schemes on the approved capital programme. Where appropriate, investment will be supplemented by appropriate borrowing.

8.10 **Development Projects:** An update of our current development projects shall be provided during the year.

8.11 **Existing housing stock:** Based on an analysis of our stock condition data and the detailed knowledge that the Property Manager has of the stock, a proposed investment programme is set out in Appendix 4. An update of Schemes completed during 2020-21 was given during

[1] The Council has entered into an agreement with the Secretary of State whereby it is allowed to retain an element of the capital receipts that it receives from Right to Buy sales. Under the terms of the agreement these receipts must be used to finance up to 30% of the cost of replacement social housing within three years, otherwise the retained receipts must be repaid to the MHCLG with interest.

the year and hopefully the same strategy of continuous update will be applied in the 2021-22 financial year.

9. Robustness of the Budget and Adequacy of Reserves

9.1 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the budget and adequacy of the proposed financial reserves.

9.2 Paragraph 7.2 above details the assumptions used in the preparation of the 2021-22 budget.

9.3 Staffing costs have been included based on the Full Time Equivalents (FTEs) included in the approved establishment of 65.26.

9.4 Throughout the budget process, the Corporate Management Team, the Leader and relevant lead councillors have been involved in what is considered to be a deliverable budget.

9.5 A prudent assessment of income has been made and only income that has a high level of certainty of being received is included within the budget. The 2021-22 budget includes a bad debt provision of £500,000. This provision reflects the economic climate and continuing welfare reform changes. The level of operating balance remains unchanged at £2.5 million.

9.6 Surrey County Council continues to fund the Sheltered Housing service; hence it is not shown.

9.7 Service level risk assessments have been undertaken for both existing major areas of the budget and mitigating actions have been taken and monitored in the course of the year

9.8 The corporate risks will be included in the corporate risk register, whilst service risk registers are prepared having regard to the comprehensive guidance available about how to identify and score risks.

9.9 The overarching HRA business plan reflects the changing financial environment in which it needs to operate and to ensure the business plan remains fit for purpose. The HRA will continue to need to balance tenant needs and expectations in the context of its financial situation.

9.10 The housing related reserves are adequately funded is projected to be around £132.56m as at April 2021 and growing. The estimated value of all HRA reserves for the period up to 31 March 2023 is shown in paragraph 8.5. The HRA reserves shall be engaged on value adding expenditure to maintain growth and stability.

10. Legal Implications

10.1 The HRA is a separate account that all local authorities with housing stock are required to maintain. This account contains all transactions relating to local authority owned housing. The Local Government and Housing Act 1989 prohibits the Council operating its HRA at a deficit. The proposed balanced budget meets this obligation.

10.2 Notices of any increase in rent have to be sent to tenants 28 days in advance of the new charges coming into effect.

11. Human Resource Implications

11.1 The decision to review and where necessary to freeze or delete vacant posts is outlined in paragraph 6.2.

12. Conclusion

12.1 The proposed HRA revenue budget not only meets our obligation to deliver a balanced budget but also delivers opportunities to improve services to tenants. It also enables the Council to provide new affordable homes at a time when access to housing is increasingly difficult.

12.2 The proposed HRA capital programme sets out to maintain and improve our existing assets. It is essential we do so, not only to meet our regulatory obligations but also to safeguard future income streams.

13. Background Papers

None

14. Appendices

Appendix 1: HRA Business Plan 2019-2049
Appendix 2: Draft HRA Revenue Budget
Appendix 3: HRA Fees and Charges
Appendix 4: HRA Investment Programme (Major repairs and improvements)
Appendix 5: Housing Investment Programme, resources and funding statement

Housing Revenue Account

2019-2049
Business Plan

Community Services Directorate
Guildford Borough Council

2019 – 2049 Business Plan

Contents

Housing Revenue Account

2019 - 2049 Business Plan

Executive Summary

1.0 Introduction

1.1 This will be our seventh year under the self financing regime introduced in 2012 under the Localism Act 2001, which for Guildford meant taking on a loan of £193.2 million.

Our tenants are better off under the new arrangements in that we now retain our rental income to invest in services locally. We were only able to retain just over 50% under the previous system.

1.2 The weak global financial environment in 2012 allowed us to borrow at lower rates than we had expected. This helped to counter balance some of the impact of the Welfare Reform changes that we have encountered in recent years.

2.0 What we want to achieve

2.1 Our mission for landlord services along with our key objectives are as follows:

Mission

To make a positive difference to residents lives by providing excellent services and good quality affordable homes in valued neighbourhoods.

Objectives: These are to:

- operate a sound, viable housing business in a professional and cost-effective manner
- provide good quality homes in settled communities for as long as needed by tenants, consistent with our Tenancy Strategy
- increase the supply of affordable homes, including by direct provision where it is appropriate and viable to do so
- continue to strengthen communities by making our estates places people value and want to live
- value and promote tenant involvement in decision making
- widen the range of housing options open to tenants, ensuring they are in a position to make informed choices.

3.0 The business environment

3.1 The business operates in a complex and changing economic and social environment.

Housing is fundamentally important to our residents, affecting many areas of their lives and an individual's general health and wellbeing. The HRA operates within an increasingly stressed public sector financial environment and we see the impact daily. The intervention threshold for mental heath and social services have steadily increased. We are having to attempt to manage the consequences on both tenants and neighbourhoods, which is proving increasingly challenging.This, coupled with the fact that over 50% of the cost of social housing is met from the housing welfare system, makes it inevitable that we operate in a regulated environment.

3.2 The regulatory framework operated by the Homes & Community Agency places greater emphasis on self-regulation, with tenants being placed at the heart of the process. Following a series of financial crises in the sector the focus is increasingly on the long term viability of individual registered providers. The Chartered Institute of Public Finance and Accounting published a code for Financial Accounting (CIPFA) for HRA's which has a similar objective.

3.3 The Government has over the last year made a number of policy announcements which recognise the important role social housing has across our communities. There also appears to be a greater desire to see local Councils play an increased role in the delivery of new homes.

3.4 The announcements are resetting the landscape in which the HRA business operates and are very much in line with the ambitions this Council has for its communities.

3.5 The Government has clarified three policy areas which have been a threat to the long-term viability of the Housing Revenue Account.

Rent setting: From 1 April 2020 we will no longer be required to reduce rent, each year by 1%. We will be allowed to revert to the rent policy of CPI + 1% on which the debt settlement was predicated.

Enforced Sales: The Government has accepted the policy of forcing Councils to sell higher value properties was not appropriate when we face increasing housing shortages for lower income households.

HRA borrowing: The recent announcement to lift the restriction on borrowing by our HRA allows us to consider a more ambitious development programme.

3.6 The impact of welfare reform through the introduction of Universal Credit as currently structured remains a concern. Some of these concerns are increasingly shared at a national level. We await to see whether these fears are seen locally as Universal Credit is rolled out.

3.7 The Council has now set up North Downs Housing Ltd. Whilst its role is to provide an alternative range of tenures, it offers the opportunity through partnership working to consider a wider range of development opportunities.

3.8 The Council has, through the Community Wellbeing Team and Project Aspire, provided greater support in less advantaged areas. They work closely with Landlord Services.

3.9 The Right to Buy scheme has reduced the stock considerably since its introduction in 1980. The number of sales had fallen to around ten each year but this trend has reversed. On average, there are now around 22 Right to Buy sales per year. The increase in the maximum discount to £80,900 (2018-19) combined with the availability of finance is leading to continuing sales. Right to Buy sales remain a risk to the business but not in the short term based on current activity levels.

3.10 Demand for our properties is high and this will continue over the long term because of the extremely high cost of housing in the borough.

4.0 Our priorities

4.1 Looking over the next five years the plan identifies a series of priorities. The business is structured in a way to ensure we deliver against those priorities. Apart from the overarching priority to ensure we continue to operate a sound and viable business, our priorities are to:

- protect the income stream
- protect the asset base
- deliver additional homes
- deliver stronger communities
- maintain high satisfaction levels with core landlord services.

4.2 Staff share the senior management team's commitment to the service and have demonstrated their capacity to meet the challenges presented by the self financing regime.

5.0 Financial plan

The financial plan recognises the need to effectively manage the £197 million debt. The 30 year financial model has been constructed making a range of assumptions. Some of the more significant assumptions include:

Consolidated borrowing rate:	3.16% for 2019-20
Annual rent change:	1% reduction to 2020 then a return to CPI + 1% from 1st April 2020
Average 5 year inflation:	3.0% per annum
30 year estimated capital investment: (Current day prices)	£192 million

5.1 Based on current assumptions the plan is viable over the 30 year plan period and offers scope to expand through continuing to build additional homes.

5.2 The key sensitivities are:

- interest rates
- inflation
- right to buy activity
- income stream levels

5.3 The HRA has access to reserves representing approximately 47% of the debt burden, higher than most similar businesses in our sector. The reserves are available to support both revenue and capital activities.

6.0 Business risks

6.1 The Localism Act 2011 introduced not only opportunities for the business, but some new risks. Mitigation measures are incorporated into the plan with others being developed – for example those relating to our development programme.

6.2 Whilst the inflation and interest rate risks are quantifiable to some extent, those flowing from the Government's reforms of the welfare system are less so and continue to present a material risk.

6.3 Early versions of the business plan reflected the prevailing HRA rent settlement which provided for an annual increase in rents of CPI plus 1%. In 2016, the Government announced regulations requiring registered providers of social housing to reduce social housing rents by 1% per annum for 4 years.

6.4 The Government announcement that post-2020 there would be an inflation linked rent settlement, returning to social rent policy of Consumer Price index plus 1% is welcomed.

6.5 The roll-out of the Welfare Reform is continuing and presents a significant risk to the business.

6.6 Changes to make the Right to Buy scheme more attractive has increased the number of sales from the levels assumed in the Governments debt settlement model. Countering the incentives has been the economic climate and the availability of mortgage finance. High property valuations coupled with the likelihood of increasing borrowing rates is starting to impact on Right to Buy activity. Our plan reflects our latest estimate of the annual sales numbers.

6.7 As mentioned, the impact of pressures on social and health core services for tenants is increasingly evident. The cost of managing tenancies is likely to see upward pressure as we are forced to deal with situations we are less well equipped to manage.

6.8 The funding framework available to meet the cost of supported housing remains fragile. Last year we saw the Supporting People Grant reduce by £168,000 and further reductions are envisaged.

7.0 Conclusion

7.1 The business plan is a measured and robust response to the changing environment our housing business operates in.

7.2 The plan will ensure we operate a sound and viable business able to deliver our two central aims of:

- being a major social landlord that delivers high levels of tenant satisfaction but adds value to our local community
- expanding our stock to provide more affordable homes.

7.3 Using the assumptions set out in the plan, the financial model shows the business to be viable both in the short and long term and capable of supporting expansion.

7.4 A number of business risks have been identified but these are capable of being managed to minimise their impact. Naturally the future will bring both new opportunities and risks.

7.5 The senior management team are confident the business plan is sound and deliverable. The business will continue to do what it does best – provide a great added value service to our local community.

Housing Revenue Account

2019-2047 Business Plan

1.0 Introduction

1.1 Guildford Borough Council is the largest single provider of social housing in the Borough, providing homes to nearly 1 in 10 residents of our borough.

It is the largest social business run by the Council with an annual turnover of in excess of £30 million. More importantly we provide homes for some of the most vulnerable members of our local community.

1.2 The Localism Act 2011 returned control of this business back to the Council. This business plan sets out how we manage and develop our social housing business for the benefit of our local community.

1.3 The Council sees this service as central to delivering a number of its wider objectives and it attaches a high priority to the provision of affordable housing and is fully committed to delivering this plan.

2.0 What we want to achieve

2.1 Our overall mission is:

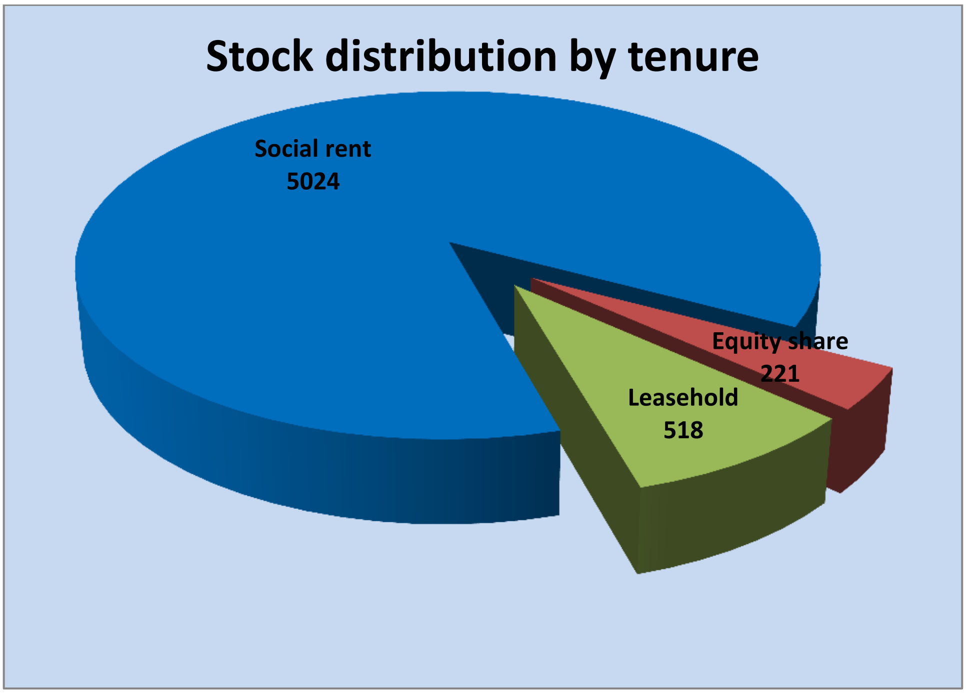
> To make a positive difference to residents lives by providing excellent services and good quality affordable homes in valued neighbourhoods.

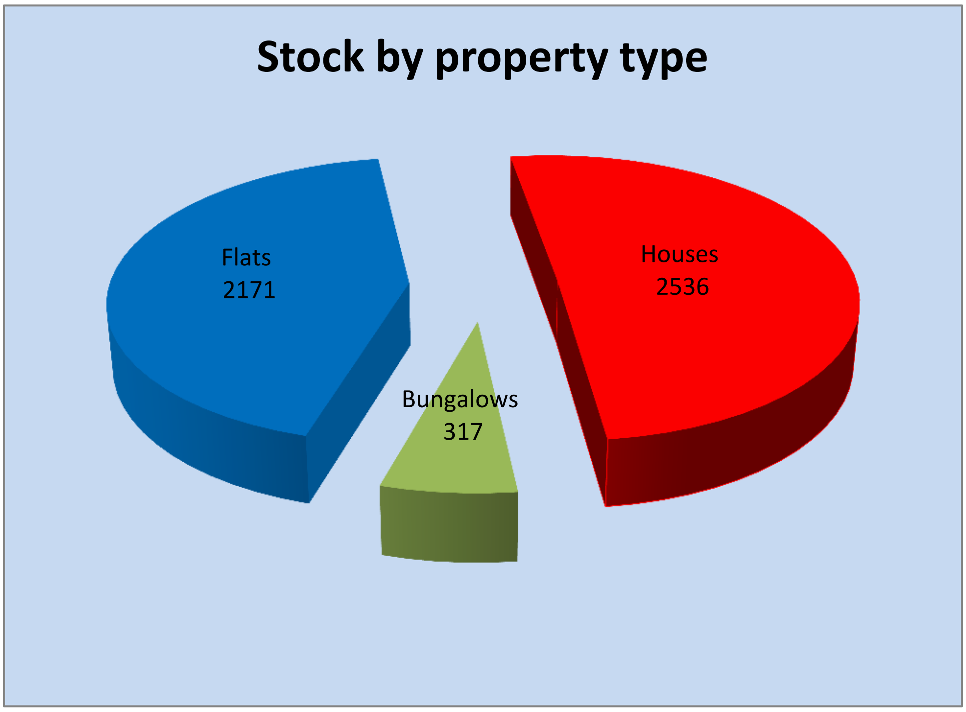
2.2 Our objectives are to:

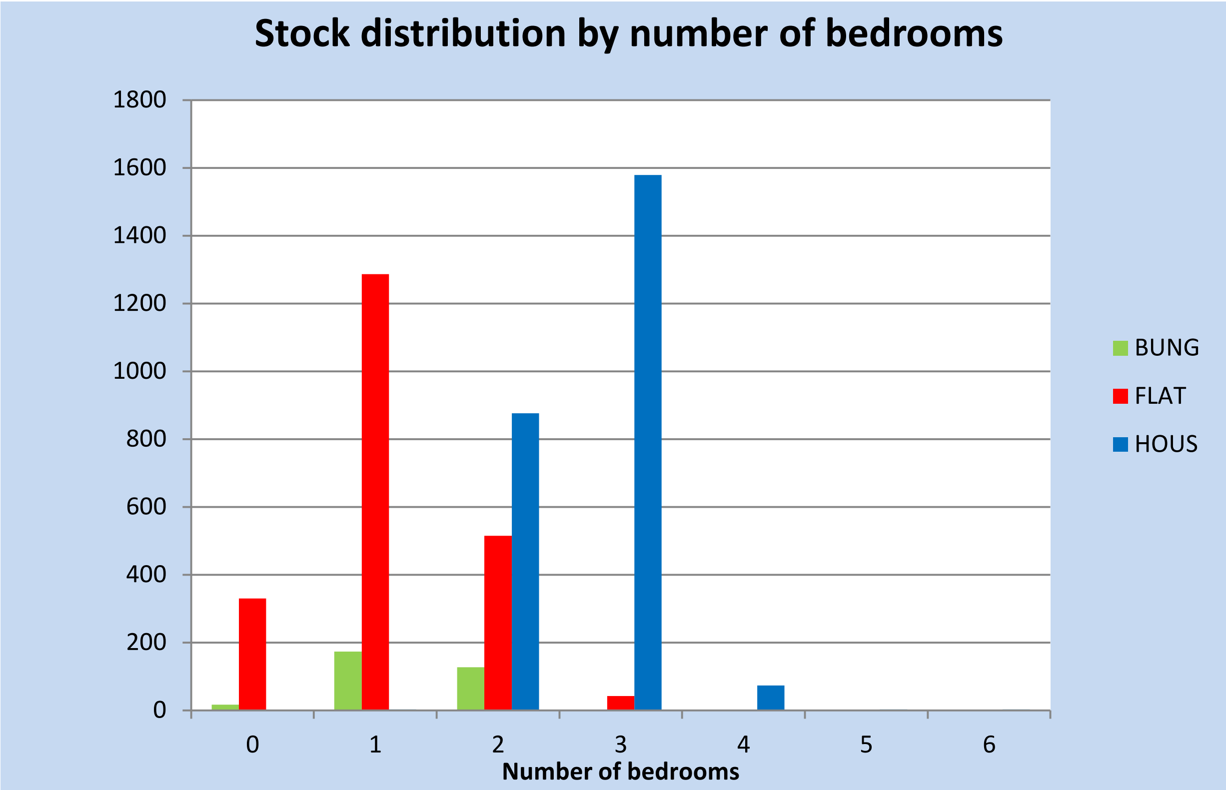
- operate a sound and viable social housing business in a professional and cost effective manner
- provide good quality homes in settled communities for as long as needed by a tenant and is consistent with our Tenancy Strategy
- continue to strengthen communities by making our estates places people value and want to live
- increase the supply of affordable homes including by direct provision where it is appropriate and viable to do so
- value and promote greater tenant involvement in decision making
- widen the range of housing options open for tenants, ensuring they are in a position to make informed choices.

3.0 What is the business today

3.1 We provide a range of homes across the borough under a variety of tenures. The charts below describe the stock.







3.2 The stock consists largely of low rise, post war properties with a large percentage being flats. It is largely concentrated in the urban areas around Guildford town and Ash in the west. The remainder is distributed across the more rural parts of the borough.

3.3 The Council has a strong track record in maintaining the stock as confirmed by stock condition surveys carried out in 2018. This assessed the level of decency to be in the region of 98% with the cost of making the remainder decent between £100,000 and £150,000. This liability is fully covered by reserves.

3.4 The principle need is to ensure an on-going repair and replacement programme is delivered to not only protect but enhance the existing asset base.

3.5 We are also a large provider of garages with over 1,700 units. This part of the business generates an income valued at around £730,000 per annum.

It is important therefore we maintain an investment programme for this element of our asset base.

3.6 All but our recently built properties are let and rented at social rent level. This is determined by reference to a national formula and subject to influence by the government and our regulator. Newly built properties are let at higher ‘affordable rents’.

3.7 Our customer base reflects the Council's current and historic housing allocation policies and the high cost of housing in the area. The charts below detail some of the characteristics of our existing customer base based on our last survey.

4.0 **Business Environment**

4.1 All social housing providers operate in an increasingly complex and challenging environment. We are a registered provider and are subject to regulation by the Homes and Communities Agency.

4.2 **National policy:** The nature and delivery of social housing is critical to a variety of national social and economic policies. Each government has its own agenda and policy objectives which social housing needs to contribute towards.

Whilst the current Government continues to see home ownership as its preference, there is an increasing acceptance that for a significant proportion of the population this is out of reach. Investment and policy initiatives are becoming more supportive to the social housing sector.

The decision to relax the HRA borrowing restriction is evidence of the policy shift.

4.3 There is continued reliance on the model that relies on charging higher rents partly funded through the housing benefit system – the affordable rent model. However the sector has increasing concerns on how truly affordable it is for many.

4.4 The Government's announcement to lift the borrowing restriction is welcomed. We feel however it could go further in relaxing the restrictions on the use of receipts from the sale of council houses under the national Right to Buy scheme.

4.5 The government see increasing house building as one of the ways to address housing need and generate economic growth and want local councils to contribute towards this objective. Our HRA has capacity to support additional borrowing and we recently bid to have our borrowing limit raised for a specif project this has been overtaken by the announcement to lift borrowing restrictions more generally.

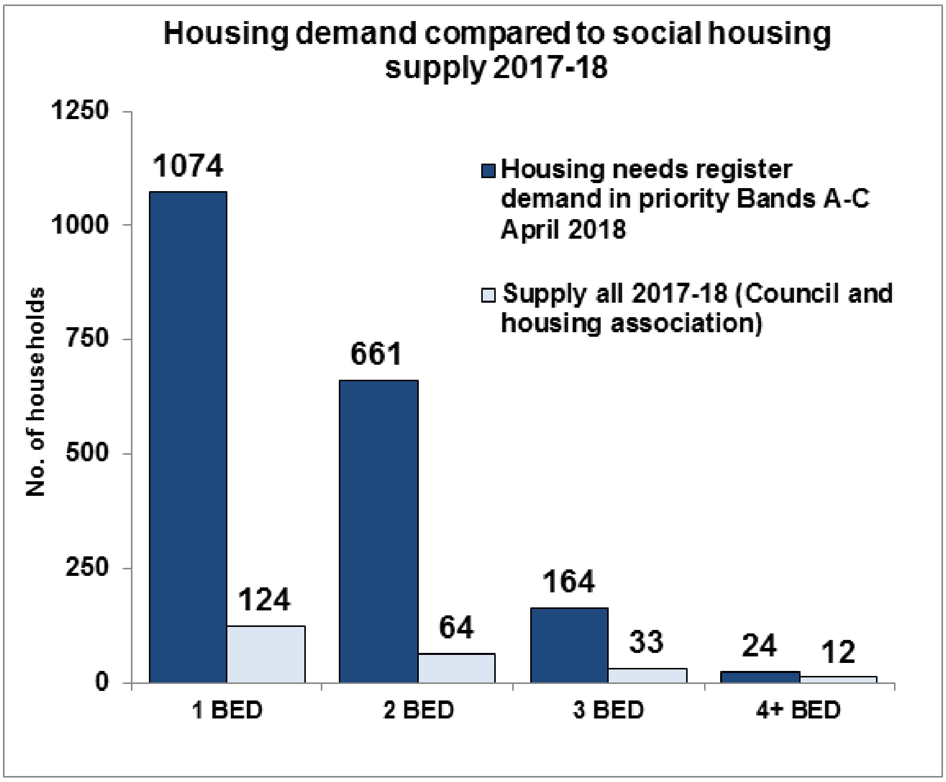
4.6 **Regulation:** The importance of housing to the lives of the tenants coupled with the level of national subsidy and lack of effective competition makes it inevitable our business is subject to regulation. The national regulatory framework issued by the Homes and Communities Agency (HCA) sets out the regulatory requirements we must meet.

4.7 The framework, last revised in 2018, has moved us towards a system of self-regulation. A summary of the framework is set out in Annexe 2. It requires us to place our tenants at the heart of the process, something we and the Tenants' Action Group welcome. The HCA are considering revising the standard to ensure adequate separation of commercial activities, which might threaten the viability of the core regulated business.

4.8 Aligning the interests of the business with that of our existing and future tenants will contribute towards long-term sustainability.

4.9 **Demand:** We operate in an area with an extremely high cost of housing. In the borough's relatively expensive housing market Hometrack are saying that the average price of a two bedroom house is around £380,00. Yet over 75% of residents in the borough have a total household income of less than £50,000. This means that even with a substantial fall in house prices or a sizeable increase in income, a significant proportion of local people would be unable to afford to buy a house on the open market.

4.10 Using the housing needs register as a proxy for the demand for social housing shows how far we are unable to meet current demand. The chart below illustrates this with reference to the lettings activity last year.



There is a high likelihood that demand for social housing in this Borough will continue to exceed supply for the life of this business plan.

4.11 Whilst some stock over time will become increasingly difficult to let because of its configuration this will only affect a small proportion of the stock – less than 10%.

4.12 Financial environment: We operate in a very different financial environment to that which existed before the HRA debt settlement, one with a greater business focus.

4.13 The business operates with an overhanging debt of £197 million; this debt is financed largely through a range of loans from the Public Works Loan Board (PWLB) together with some internal borrowing. The loans are a blend of fixed and variable rate instruments with varying refinancing periods.

The debt has been structured to minimise cost, balancing a need to maintain flexibility whilst at the same time achieving a large degree of cost certainty.

4.14 Business operating costs will be met from the rental stream. Rental cover provides sufficient comfort on our ability to meet our debt obligations.

4.15 Approximately 50% of our income stream is reliant on the housing benefit subsidy system. This ratio has remained fairly constant over the last 10 years and is unlikely to reduce.

The Government maintains tight control on its exposure to this cost, through a series of complex measures. It is the stated aim of the government to contain the national housing benefit bill and is something we need to be very aware of looking ahead.

4.16 Asset base: Historically our asset base has shrunk, through a combination of Right to Buy disposals and previous stock rationalisation programmes. Each property we own not only contributes towards the cost of debt and our other operating costs but also generates a surplus over time.

Our ambitions to develop new homes is starting to reverse this trend.

5.0 Our priorities

5.1 Against the background of the objectives set out above the following priorities have been identified for our business:

- protecting the income stream and reducing unnecessary costs
- protecting the asset base
- delivering additional homes
- delivering stronger communities
- maintaining high satisfaction levels with core landlord services.

In order to deliver against these priorities the business will continue to tightly focus on controlling all our expenditure, including the costs associated with our debt to ensure we remain viable in these difficult economic circumstances.

Each is briefly considered below.

5.2 **Income stream:** It is vital we protect our income stream if we are to sustain a viable business. With over 90% coming from rents this will be the main focus.

5.3 To safeguard our income stream we will:

- continue to promote and increase awareness of the changes arising from welfare reform
- ensure sufficient and adequate financial advice is available to our tenants both directly and by working in partnership with third sector agencies
- implement measures to help mitigate fuel poverty
- continue to provide financial and practical assistance by working with partner organisations to support tenants
- explore additional income streams including through a system of fairer charging for some of the services we provide and providing management services to others including North Downs Housing Ltd
- continue our development programme
- closely monitor the risks outlined in Section 8.

At the same time the business will continue to tightly focus on controlling all our expenditure, including the costs associated with the debt to ensure we remain viable.

5.4 **Protecting the asset base:** Though the demand for social housing is high in the borough some properties are in less demand. We have addressed this through an ongoing stock rationalisation programme – the redevelopment scheme at Ladymead, Guildford being the most recent examples.

5.5 It is important we ensure our properties and associated neighbourhoods remain attractive as measured by the ability to let. We need to maintain the properties in a manner that achieves the greatest return on our investment.

5.6 We will protect the asset base by implementing our asset management strategy which in summary is:

- fully funding and delivering a planned preventative maintenance programme to prevent early component failures
- fully funding and delivering a responsive maintenance programme that ensures minor defects do not lead to further avoidable expenditure
- ensuring we have accurate and appropriate stock data information to enable informed decisions to be made on stock maintenance
- ensuring our capital replacement and improvement programmes are correctly targeted at the right time
- implementing timely stock rationalisation programmes where properties are reaching the end of their economic life or become hard to let.

5.7 **Delivering additional homes:** The need for additional affordable homes has been identified by the local community as being one of its top priorities. The Council has acknowledged this by making it one of its key delivery targets. Our development strategy is set out in Annexe 4.

HRA reform has created opportunities to provide new affordable homes and has allowed us to embark on a new development programme. Since HRA reform, the HRA has delivered 92 new homes and has a further 30 under construction. A further 400 are planned to be completed in the next 5 years subject to land availability.

5.8 We will continue to structure our business to best place us to deliver additional affordable homes. We will do this by:

- creating financial capacity through our revenue streams to support development whilst protecting existing assets and services
- using appropriate delivery mechanisms to achieve the best value solution
- identifying viable redevelopment opportunities across both the HRA portfolio and the wider Council's property estate with a view to adding to the Council's stock of affordable housing
- using a range of models to deliver the most affordable housing we can – this is likely to involve not only social rent but affordable rent models and working with North Downs Housing Ltd on a joint venture basis.

5.9 The HRA development strategy sets a target of delivering at least 200 new homes on Council owned land by 2022.

5.10 **Delivering stronger communities:** We are very much a social business and intend to be much more than just a residential landlord. We will continue providing considerable added value through a range of measures.

5.11 We will help communities to become stronger by promoting and developing the range of opportunities our tenants have to be involved in decision making in a way that suits them:

- developing tenant co-regulation of the business
- supporting the development of the Tenants' Action Group
- increasing opportunities for active tenant participation in service delivery through a range of initiatives
- engaging with initiatives designed to get people back into work
- working in partnership with the Community Wellbeing Team to support and develop grassroots community projects.

5.12 **Maintaining core landlord services:** Our tenants rightly expect high standards from the landlord services team in return for the rent they pay. Our reputation as a good landlord is important to us and we are judged daily through the quality of the service we provide.

5.13 Though demand for social housing is high there are other alternative providers in the borough. With over 2,500 units, a range of other registered providers offer alternative options for tenants. It is important we appeal to a wide range of potential tenants to enable us to deliver sustainable and vibrant neighbourhoods.

5.14 We will continue to deliver good quality services, aiming to achieve increasing levels of tenant satisfaction. We will do this by:

- agreeing service standards with tenants and delivering services in the best way to meet those standards
- maintaining a strong focus on customer service and subject ourselves to regular scrutiny by our tenants
- meeting our financial targets to allow us to fund core landlord services to enable our services to be properly delivered
- demanding from our contractors and service suppliers the same commitment to customer service that we expect of ourselves.

6.0 Financial plan

6.1 From April 2012 key elements of our financial strategy changed. Total HRA borrowing now stands at £197 million. Additional borrowing is envisaged.

6.2 The plan is built around the need to manage this debt whilst at the same time delivering our business objectives. In order to assure ourselves on the long term viability of the business a 30 year financial model has been constructed.

6.3 **Key assumptions:** The model has been constructed using a number of assumptions. The most important are set out in the table below:

Item	Assumption
Opening stock	5,221 units of accommodation
HRA debt	£197 Million
Borrowing rate 2019-20	3.16%
Annual rent change	Reduction of 1% to April 2020 then return to CPI plus 1%
Rent change mechanism	DCLG settlement
Garage income increase	CPI plus 1%
Bad debt provision 2019-20	£300,000 (Reviewed annually to ensure reasonableness)
Void rate	1%
Service charge increases	Linked to inflation on repair and maintenance headings

Item	Assumption
RTB	25/yr
Retained receipt	Held in reserves
HRA ring fence	Policy of strong ring fence continues
Debt repayment	No provision has been made for the repayment of debt
Operating balance	£2.5 million
Estimated 30 yr capital investment (Current day prices)	£192 million
Service cost inflation	2.0% - 6.0% per annum for 10 year period

6.4 Inevitably, the further we look ahead the reliability of the model outputs reduce. The table below provides indicative projections for the next 10 years.

HOUSING REVENUE ACCOUNT PROJECTIONS 2019-20 to 2028-29 **TABLE 1**

Guildford Borough Council

Year	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**
£'000										
INCOME:										
Rental Income	-29,945	-30,752	-32,148	-33,847	-35,782	-37,027	-38,340	-39,698	-41,103	-42,556
Service Charges	-1,008	-1,038	-1,069	-1,101	-1,135	-1,169	-1,204	-1,240	-1,277	-1,315
Non-Dwelling Income	-934	-934	-934	-934	-934	-934	-934	-934	-934	-934
Grants & Other Income	-558	-552	-505	-480	-495	-510	-525	-541	-557	-574
Total Income	**-32,445**	**-33,276**	**-34,657**	**-36,363**	**-38,345**	**-39,639**	**-41,002**	**-42,412**	**-43,870**	**-45,379**
EXPENDITURE:										
General Management	3,009	3,099	3,192	3,288	3,387	3,488	3,593	3,701	3,812	3,926
Special Management	1,947	2,005	2,066	2,128	2,191	2,257	2,325	2,395	2,466	2,540
Other Management	749	771	795	818	843	868	894	921	949	977
Bad Debt Provision	300	308	322	339	358	371	384	398	412	426
Responsive & Cyclical Repairs	5,358	5,599	5,935	6,273	6,787	7,356	7,984	8,656	9,376	10,146
Total Revenue Expenditure	**11,363**	**11,783**	**12,310**	**12,846**	**13,567**	**14,341**	**15,180**	**16,071**	**17,015**	**18,016**
Interest Paid & Administration	5,142	5,892	6,300	7,292	7,742	7,922	8,090	8,248	8,397	8,397
Interest Received	-598	-623	-614	-560	-593	-635	-628	-628	-628	-628
Depreciation	5,529	5,673	5,879	6,118	6,383	6,578	6,782	6,992	7,208	7,431
Net Operating Income	**-11,009**	**-10,551**	**-10,782**	**-10,667**	**-11,247**	**-11,433**	**-11,578**	**-11,730**	**-11,879**	**-12,163**
APPROPRIATIONS:										
Revenue Contribution to Reserves	10,934	10,476	10,707	10,592	11,172	11,358	11,503	11,655	11,804	12,088
Revenue Contribution to Capital	75	75	75	75	75	75	75	75	75	75
Total Appropriations	**11,009**	**10,551**	**10,782**	**10,667**	**11,247**	**11,433**	**11,578**	**11,730**	**11,879**	**12,163**

6.5 A key factor driving our debt management and treasury management strategies is the objective to increase the stock. This will require substantial capital investment over the 30 year plan life over and above our need to maintain and improve the existing stock.

In order to finance this investment physical debt repayment will attract a lower priority. This in turn has influenced the financing structure used to support the business. With this in mind some of the debt instruments stretch over the 30 year plan period. The table below sets out our current loan portfolio.

Loan Type	Principal	Remaining Period	Rate
Variable	£45,000,000	4	0.92%
Fixed	£2,070,000	3	3.60%
Fixed	£10,000,000	6	2.70%
Fixed	£10,000,000	7	2.80%
Fixed	£10,000,000	8	2.92%
Fixed	£10,000,000	9	3.01%
Fixed	£25,000,000	11	3.15%
Fixed	£25,000,000	14	3.30%
Fixed	£25,000,000	19	3.44%
Fixed	£15,000,000	23	3.49%
Fixed	£17,435,000	24	3.50%

6.6 It is difficult to predict with certainty many of the factors used to construct the model. We have therefore identified the key sensitivities for the business.

These are set out below:

Assumption	**Change**	**Impact - 10 yr cashflow**
Rent inflation rate	+ 1% -1%	£17.2 million increase £16.3 million decrease
Revenue cost inflation	+1% -1%	£5.6 million decrease £5.4 million increase
Borrowing rate	+1%	£8.6 million decrease

Assumption	Change	Impact - 10 yr cashflow
	-1%	£8.6 million increase
Right to Buy sales (income from rent foregone)	+15/yr +30/yr	£5.4 million decrease £10.9 million decrease

Note (i) the calculation is predicated on the lost rental income for each property based on a mid-year sale, against which a small allowance has been made to reflect a saving against maintenance costs. The implications around capital receipts would be separately assessed and tied into the priorities of the business plan.

In practice it is unlikely each factor will change in isolation which may mitigate the impact. For example investment cost inflation is likely to generate an increase in the Consumer Price Index which in turn will feed into high rent increases.

6.7 Any significant impacts from changes in the economic environment will form part of the information used to produce the annual estimates.

6.8 The plan has been constructed on the basis that we will fully fund our existing revenue and capital commitments as the first priority. The plan allows for some enhancement to existing services.

6.9 The areas being proposed for 2019-20 include:

- improving the physical environment on some of our estates through an environmental improvements programme
- increasing funding to deal with communal cleaning improvements and measures to support tenants with the introduction of universal credit

Whilst we continue to seek increased efficiencies, some additional investment will be needed and priority will continue to be given enhancing services to existing tenants as we further develop the plan.

6.10 It has been assumed income collection rates will remain strong. Inevitably the economic climate coupled with the Welfare Reform changes, including universal credit, is likely to lead to increasing arrears and ultimately bad debts. A steady increase in the provision has been made over the last five years based on our best estimate. At this point the impact can not be forecast with any certainty.

6.11 Depreciation represents a real charge to the operating account. This allowance will be used to support the major capital works programme. Under this plan we commit to making appropriate provision to do so. A charge of £5,528,730 million has been included in the 2019-20 estimates.

6.12 Based on current projections over the 30 year plan period we need to spend in the region of £192 million (current day prices) maintaining and improving the stock. The plan as currently structured is affordable.

6.13 **HRA reserves:** The HRA through a combination of tight control of the business and the policy not to repay debt has built-up significant reserves. This approach gives us options and greater flexibility than would otherwise have been the case, not only in terms of service delivery but in how we manage our debt.

6.14 In the short term our reserves will and have been used to support our latest development programme target of 425 units by 2025. The removal of the HRA borrowing restriction offers us the opportunity to increase the scale of our development programme and to consider reviewing our rent setting policy on our new developments.

6.15 Shown below are the cumulative reserves which can be used to support the business plan – they reflect however only approved new build projects and the decision not to repay debt :

Year ending	Reserve for future capital works	Major repairs reserve	New Build Reserve	**Total**	Usable capital receipts	Usable Capital Receipts (one-for-one receipts) 1	Usable Capital Receipts (HRA debt repayment)	**Total usable capital receipts**	**Total reserves/ receipts**
	£000	£000	£000	**£000**	£000	£000	£000	**£000**	**£000**
Mar-19	33,329	9,598	45,789	**88,716**	6,760	6,142	4,158	**17,060**	**105,776**
Mar-20	35,829	9,977	51,687	**97,493**		7,666	4,819	**12,485**	**109,978**
Mar-21	38,329	9,977	48,818	**97,124**		5,443	5,502	**10,945**	**108,069**
Mar-22	40,829	9,977	40,475	**91,281**		877	6,207	**7,084**	**98,365**
Mar-23	43,329	9,977	42,768	**96,074**		874	6,935	**7,809**	**103,883**
Mar-24	45,829	9,977	46,316	**102,122**		1,412	7,687	**9,099**	**111,221**

Note (i) The figure for usable capital receipts assumes the redevelopment only. Schemes in the pipeline as approved will reduce these balances

(ii) Future development projects will be funded from a mix of the new build reserve, capital receipts, and additional borrowing as appropriate.

(iii) No allowance has been made for repayment of debt

(iv) It is intended to maintain the amount held in HRA operating balances at £2.5 million to reflect the ongoing risk of rent arrears in the difficult economic climate.

6.16 Whilst the table shows a significant accumulation of reserves, it makes no allowance for the repayment of debt or the need to fund further development schemes in the pipeline. Further opportunities will present themselves over the next few years and these will need to be partially funded from the reserves set out above. The level of reserves will be kept under review in the context of the evolving development programme along with the anticipated pressures on the revenue account.

6.17 Following changes introduced by the Government in October 2013 future HRA generated capital receipts must be used for HRA purposes only.

6.18 **Affordable rents:** These are rents set at up to 80% of local market rents and therefore place a greater burden on the Housing Benefit system. Local authorities developing new properties for rent will, subject to both the Homes and Communities Agency and Department of Works and Pension agreement, be able to charge affordable rents. Any consent will be on a scheme by scheme basis.

6.19 The plan assumes that new schemes will be let at 70% of local market rents or at the local housing allowance, whichever is the lower.

Each development will be subject to an individual project appraisal before any firm commitment is made.

We are increasingly aware that affordable rents are, to some on very low incomes, financially, very challenging. This is particularly so on the larger properties. Now, with the option to borrow, we will consider on a site by site basis whether rents below the 70% limit can be charged whilst still ensuring the project remains viable.

6.20 **Operating costs:** When benchmarked against other providers, we generally fall into upper or mid quartile levels. Scope to achieve substantial cost reductions is limited. The plan therefore has been prepared on the basis it is not reliant on unpredictable future possible savings and no savings have been factored into the plan at this stage.

6.21 As a matter of ongoing policy the practise of maintaining a downward pressure on costs will continue through reviews to ensure services are delivered in the most cost effective way.

6.22 **Operating balances:** The model projects over the next five years, that net operating income will be positive. Whilst it does include the additional income from new developments, it makes no provision for debt repayment.

6.23 Any surpluses will be used to support either future year's revenue services or the major capital schemes, unless the financial environment makes debt repayment essential.

7.0 **Operating policies**

7.1 A range of operating policies and strategies have/are being reviewed. These include:

- Rental policy – under review
- Asset management strategy
- Tenancy policy
- Tenancy engagement strategy
- Development strategy

7.2 The plan has been prepared on the assumption the existing policies remain unchanged. In practise this will not be the case as we seek to take advantage of any opportunities the new environment provides to improve and grow our business.

8.0 **Business risks**

8.1 Though the reform offers exciting opportunities for the business in the future, the changing environment continues to present a series of business risks. In some cases we are well placed to manage the risk, others lie largely outside our control.

The main risks identified are set out below:

8.2 **Inflation:** The subsidy system to some degree isolated the HRA from the effects of inflation, even though it did not seem that way. Our rental stream from 1st April 2020 will once again be linked to the Consumer Price Index (CPI) prevailing in September. Expenditure on the other hand is not so tightly linked.

8.3 During a volatile period we could face significantly different inflation rates for expenditure and income. A low CPI in September coupled with a high average cost inflation figure for the year is a realistic scenario and would place strain on the plan if it continued for a number of years.

8.4 We recognise that construction related costs were constrained during the recession but inflation pressures are evident across the sector. The impact of Brexit is already seen in the availability of skilled labour. Commodity and material prices are more subject to global influences and have continued to steadily rise.

8.5 **Interest rates:** The annual interest cost is estimated to be £5.14 million for 2019-20. The £45 million of variable rate loans is subject to a six monthly interest rate reset. A movement of 1% would result in an additional charge to the revenue account of £450,000.

Subsequent interest rate risks will largely be mitigated by an effective treasury management strategy.

Our borrowing strategy insulates the HRA from interest rate volatility on 75% of the fixed debt portfoilio. However there remains a refinancing risk, assuming the debt is not repaid when it falls due, which is difficult to quantify.

8.6 **Welfare reform:** The government's stated objectives include:

- reducing the national cost of the welfare system
- ensuring the benefit system does not act as a disincentive to work
- placing greater responsibility on individuals.

8.7 Universal Credit is now in place for new claimants and those having a material change in circumstances. The transition date for existing claimants remains uncertain. The current scheme creates a risk that some of our tenants face reductions in their benefits and therefore ability to pay their rent. Older tenants are to be largely protected which will mitigate any short term impact. With around 50% of our income being met via the Housing Benefit system any changes to it are a potential threat to our income stream.

8.8 The biggest risk continues to be direct payment to tenants rather than social landlords. This returns us to the position we were in before the direct payments to landlords were introduced. Collection costs will increase along with debt management costs. Additional investment, over that already made, in financial advisory and debt support services may be necessary to counter the risk to our income stream. Across the country areas have seen significantly different results. The common theme however is that all have seen some reduction in rent collection rates.

8.9 **Right to Buy:** Right to Buy disposals had always been identified as a business risk.

8.10 Unit overheads increase with each sale, compounding the adverse financial impact. Based on current RTB activity the plan assumes limited impact in the short term from the revised Right to Buy scheme.

8.11 **Regulatory environment:** The regulatory environment has changed considerably since its introduction in 2009. The burden of external inspection has been reduced and replaced by self-regulation which is to be welcomed. This position could of course reverse.

It is reasonably foreseeable that the regulator will be obliged to reflect future government policies, placing additional investment obligation on our business. Maintaining adequate reserves will help mitigate this risk.

8.12 Rent setting across the sector to a large degree remains in the hands of the government and the regulator. The business plan is based on rents increasing by CPI + 1% annually. It is unclear when or if rent convergence will be allowed post 2020.

With national government meeting over half of the cost, they have little incentive to change the rent charge formulae so as to increase rents. Whilst it has been stated they have no intention to do so, it remains to be seen that this position is left unchanged over the 30 year plan period.

The government has ended the convergence process by which let properties reach formula rents. Convergence will now be achieved only when a property is relet. We anticipate having around 2,100 properties below their formula rent at the end of the convergence period. If all properties moved immediately to their formula rent, then we would generate additional in rental income. However, we cannot predict with any certainty when the additional income might be received so our projections do not take account of such income. The maximum income that could be achieved is in the region of £300,000.

8.13 To mitigate the risks to our rental income stream, alternative income streams will be explored, though we have to recognise the scope to make a material contribution is very limited. The HRA team now provide management services to North Downs Housing in return for a fee charged as a proportion of the rent.

8.14 **Governance:** We now have greater control of the business in our hands. The Council, despite the degree of central Government control, has always managed the service on business lines.

The Executive has committed itself to continue managing the service as a business imposing clear financial discipline. Though it has a strong desire to expand the stock, it has in place appropriate governance structures to prevent the business becoming over-stretched or unduly exposed to avoidable risks.

8.15 Tenants, through the Tenants' Action Group, form part of the scrutiny process to ensure identified risks are properly managed.

8.16 Further risks such as further reform of the HRA or reopening of the settlement by the government do exist but these largely remain outside our control. It is important we closely monitor the political environment so we can respond at the earliest opportunity.

Appendices

Annexe 1: Geographical property distribution

Annexe 2: Regulatory Framework extract

Annexe 3: Key business indicators

Annexe 4: HRA Development Strategy

Annexe 1

Geographical property distribution

Area	General Needs	Sheltered
Albury	24	0
Artington	9	0
Ash	223	61
Ash Vale	63	0
Bellfields (North And South)	696	0
Burpham (Misc) Inc Gosden Hill Estate	63	0
Charlottville	32	0
Chilworth	130	37
Compton	53	0
East Horsley	37	31
Effingham	12	0
Gomshall	38	0
Guildford Park (Estate)	166	71
Holmbury St Mary	15	0
Hurtmore	29	0
Merrow 1	189	0
Merrow 2	143	0
Normandy	96	0
Park Barn	647	0
Peaslake	21	0
Pirbright	30	0
Puttenham	25	0
Ripley	82	0
Seale	3	0
Send	117	0
Shalford	50	0
Shepherds Hill	122	0
Shere	14	0
Slyfield	184	0
Stoke	105	0
Stoughton	8	0
The Mount	66	27
Tilehouse	65	39
Tongham	206	0
Town Centre	165	0
West Clandon	69	0
West Horsley	55	0
Westborough (Estate)	535	0
Wood Street	129	0
Worplesdon	35	0
TOTALS	**4,751**	**266**

Standards for registered providers **Annexe 2**

Extract from Regulatory Framework

This section sets out the standards[1] that will apply from 1 April 2012 to registered providers. It also sets out the products on which standards apply.

Consumer standards

These standards apply to all registered providers. Providers' boards and councillors are responsible for ensuring their organisation meets the consumer standards. The regulator's role is limited to setting the consumer standards and intervening only where failure of the standard could lead to risk of serious harm to tenants (the 'serious detriment test') as described in chapter five.

Tenant Involvement and Empowerment standard

1 Required outcomes

1.1 Customer service, choice and complaints

1.1.1 Registered providers shall:

a. provide choices, information and communication that is appropriate to the diverse needs of their tenants in the delivery of all standards

b. have an approach to complaints that is clear, simple and accessible that ensures that complaints are resolved promptly, politely and fairly.

1.2 Involvement and empowerment

1.2.1 Registered providers shall ensure that tenants are given a wide range of opportunities to influence and be involved in:

a. the formulation of their landlord's housing-related policies and strategic priorities

b. the making of decisions about how housing-related services are delivered, including the setting of service standards

c. the scrutiny of their landlord's performance and the making of recommendations to their landlord about how performance might be improved

d. the management of their homes, where applicable

e. the management of repair and maintenance services, such as commissioning and undertaking a range of repair tasks, as agreed with landlords, and the sharing in savings made, and

f. agreeing local offers for service delivery.

1.3 Understanding and responding to the diverse needs of tenants

[1] Sections 193 and 194 of the Housing and Regeneration Act 2008.

1.3.1 Registered providers shall:

a. treat all tenants with fairness and respect

b. demonstrate that they understand the different needs of their tenants, including in relation to the equality strands and tenants with additional support needs.

2 Specific expectations

2.1 Customer service, choice and complaints

2.1.1 Registered providers shall provide tenants with accessible, relevant and timely information about:

a. how tenants can access services

b. the standards of housing services their tenants can expect

c. how they are performing against those standards

d. the service choices available to tenants, including any additional costs that are relevant to specific choices

e. progress of any repairs work

f. how tenants can communicate with them and provide feedback

g. the responsibilities of the tenant and provider

h. arrangements for tenant involvement and scrutiny.

2.1.2 Providers shall offer a range of ways for tenants to express a complaint and set out clear service standards for responding to complaints, including complaints about performance against the standards, and details of what to do if they are unhappy with the outcome of a complaint. Providers shall inform tenants how they use complaints to improve their services. Registered providers shall publish information about complaints each year, including their number and nature, and the outcome of the complaints. Providers shall accept complaints made by advocates authorised to act on a tenant's/tenants' behalf.

2.2 Involvement and empowerment

2.2.1 Registered providers shall support their tenants to develop and implement opportunities for involvement and empowerment, including by:

a. supporting their tenants to exercise their Right to Manage or otherwise exercise housing management functions, where appropriate

b. supporting the formation and activities of tenant panels or equivalent groups and responding in a constructive and timely manner to them

c. the provision of timely and relevant performance information to support effective scrutiny by tenants of their landlord's performance in a form which registered providers seek to agree with their tenants. Such provision must include the publication of an annual report which should include information on repair and maintenance budgets

d. providing support to tenants to build their capacity to be more effectively involved.

2.2.2 Registered providers shall consult with tenants on the scope of local offers for service delivery. This shall include how performance will be monitored, reported to and scrutinised by tenants and arrangements for reviewing these on a periodic basis.

2.2.3 Where registered providers are proposing a change in landlord for one or more of their tenants or a significant change in their management arrangements, they shall consult with affected tenants in a fair, timely, appropriate and effective manner. Registered providers shall set out the proposals clearly and in an appropriate amount of detail and shall set out any actual or potential advantages and disadvantages (including costs) to tenants in the immediate and longer term. Registered providers must be able to demonstrate to affected tenants how they have taken the outcome of the consultation into account when reaching a decision.

2.2.4 Registered providers shall consult tenants at least once every three years on the best way of involving tenants in the governance and scrutiny of the organisation's housing management service.

2.3 Understanding and responding to diverse needs

2.3.1 Registered providers shall demonstrate how they respond to tenants' needs in the way they provide services and communicate with tenants.

Home standard

1 Required outcomes

1.1 Quality of accommodation

Registered providers shall:

(a) ensure that tenants' homes meet the standard set out in section five of the Government's Decent Homes Guidance[2] and continue to maintain their homes to at least this standard

(b) meet the standards of design and quality that applied when the home was built, and were required as a condition of publicly funded financial assistance[3],

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[2] 'Decent Homes Guidance' means A Decent Home: Definition and Guidance for Implementation, published by the Department for Communities and Local Government in June 2006, and any guidance issued by the department or its successors, in relation to that document.

[3] 'Financial assistance' is assistance given by the Homes and Communities Agency (HCA) under section 19(3) of the Housing and Regeneration Act, 2008; and (with effect from 1 April 2012) given by the Greater London Authority (GLA). For the purpose of this standard, it includes financial assistance provided by predecessor bodies to the HCA.

if these standards are higher than the Decent Homes Standard

(c) in agreeing a local offer, ensure that it is set at a level not less than these standards and have regard to section six of the Government's Decent Homes Guidance.

1.2 Repairs and maintenance

Registered providers shall:

(a) provide a cost-effective repairs and maintenance service to homes and communal areas that responds to the needs of, and offers choices to, tenants, and has the objective of completing repairs and improvements right first time

(b) meet all applicable statutory requirements that provide for the health and safety of the occupants in their homes.

2 Specific expectations

2.1 Quality of accommodation

2.1.1 Registered providers may agree with the regulator a period of non-compliance with the Decent Homes Standard, where this is reasonable. Providers shall ensure their tenants are aware of the reasons for any period of non-compliance, their plan to achieve compliance and then report on progress delivering this plan.

2.2 Repairs and maintenance

2.2.1 Registered providers shall ensure a prudent, planned approach to repairs and maintenance of homes and communal areas. This should demonstrate an appropriate balance of planned and responsive repairs, and value for money. The approach should include: responsive and cyclical repairs, planned and capital work, work on empty properties, and adaptations.

2.2.2 Registered providers shall co-operate with relevant organisations to provide an adaptations service that meets tenants' needs.

Tenancy standard

1 Required outcomes

1.1 Allocations and mutual exchange

1.1.1 Registered providers shall let their homes in a fair, transparent and efficient way. They shall take into account the housing needs and aspirations of tenants and potential tenants. They shall demonstrate how their lettings:

(a) make the best use of available housing

(b) are compatible with the purpose of the housing

(c) contribute to local authorities' strategic housing function and sustainable communities

There should be clear application, decision-making and appeals processes.

1.1.2 Registered providers shall enable their tenants to gain access to opportunities to exchange their tenancy with that of another tenant, by way of internet-based mutual exchange services.

1.2 Tenure

1.2.1 Registered providers shall offer tenancies or terms of occupation which are compatible with the purpose of the accommodation, the needs of individual households, the sustainability of the community, and the efficient use of their housing stock.

1.2.2 They shall meet all applicable statutory and legal requirements in relation to the form and use of tenancy agreements or terms of occupation.

2 Specific expectations

2.1 Allocation and mutual exchange

2.1.1 Registered providers shall co-operate with local authorities' strategic housing function, and their duties to meet identified local housing needs. This includes assistance with local authorities' homelessness duties, and through meeting obligations in nominations agreements.

2.1.2 Registered providers shall develop and deliver services to address under-occupation and overcrowding in their homes, within the resources available to them. These services should be focused on the needs of their tenants, and will offer choices to them.

2.1.3 Registered providers' published policies shall include how they have made use of common housing registers, common allocations policies and local letting policies.

Registered providers shall clearly set out, and be able to give reasons for, the criteria they use for excluding actual and potential tenants from consideration for allocations, mobility or mutual exchange schemes.

2.1.4 Registered providers shall develop and deliver allocations processes in a way which supports their effective use by the full range of actual and potential tenants, including those with support needs, those who do not speak English as a first language and others who have difficulties with written English.

2.1.5 Registered providers shall minimise the time that properties are empty between each letting. When doing this, they shall take into account the circumstances of the tenants who have been offered the properties.

2.1.6 Registered providers shall record all lettings and sales as required by the Continuous Recording of Lettings (CORE) system.

2.1.7 Registered providers shall provide tenants wishing to move with access to clear and relevant advice about their housing options.

2.1.8 Registered providers shall subscribe to an internet based mutual exchange service (or pay the subscriptions of individual tenants who wish to exchange), allowing:

(a) a tenant to register an interest in arranging a mutual exchange through the mutual exchange service without payment of a fee

(b) the tenant to enter their current property details and the tenant's requirements for the mutual exchange property they hope to obtain

(c) the tenant to be provided with the property details of those properties where a match occurs

2.1.9 Registered providers shall ensure the provider of the internet based mutual exchange service to which they subscribe is a signatory to an agreement, such as HomeSwap Direct, under which tenants can access matches across all (or the greatest practicable number of) internet based mutual exchange services.

2.1.10 Registered providers shall take reasonable steps to publicise the availability of any mutual exchange service(s) to which it subscribes to its tenants.

2.1.11 Registered providers shall provide reasonable support in using the service to tenants who do not have access to the internet.

2.2 Tenure

2.2.1 Registered providers shall publish clear and accessible policies which outline their approach to tenancy management, including interventions to sustain tenancies and prevent unnecessary evictions, and tackling tenancy fraud, and set out:

(a) The type of tenancies they will grant.

(b) Where they grant tenancies for a fixed term, the length of those terms.

(c) The circumstances in which they will grant tenancies of a particular type.

(d) Any exceptional circumstances in which they will grant fixed term tenancies for a term of less than five years in general needs housing following any probationary period.

(e) The circumstances in which they may or may not grant another tenancy on the expiry of the fixed term, in the same property or in a different property.

(f) The way in which a tenant or prospective tenant may appeal against or complain about the length of fixed term tenancy offered and the type of tenancy offered, and against a decision not to grant another tenancy on the expiry of the fixed term.

(g) Their policy on taking into account the needs of those households who are vulnerable by reason of age, disability or illness, and households with children, including through the provision of tenancies which provide a reasonable degree of stability.

(h) The advice and assistance they will give to tenants on finding alternative accommodation in the event that they decide not to grant another tenancy.

(i) Their policy on granting discretionary succession rights, taking account of the needs of vulnerable household members.

2.2.2 Registered providers must grant general needs tenants a periodic secure or assured (excluding periodic assured shorthold) tenancy, or a tenancy for a minimum fixed term of five years, or exceptionally, a tenancy for a minimum fixed term of no less than two years, in addition to any probationary tenancy period.

2.2.3 Before a fixed term tenancy ends, registered providers shall provide notice in writing to the tenant stating either that they propose to grant another tenancy on the expiry of the existing fixed term or that they propose to end the tenancy.

2.2.4 Where registered providers use probationary tenancies, these shall be for a maximum of 12 months, or a maximum of 18 months where reasons for extending the probationary period have been given and where the tenant has the opportunity to request a review.

2.2.5 Where registered providers choose to let homes on fixed term tenancies (including under Affordable Rent terms), they shall offer reasonable advice and assistance to those tenants where that tenancy ends.

2.2.6 Registered providers shall make sure that the home continues to be occupied by the tenant they let the home to in accordance with the requirements of the relevant tenancy agreement, for the duration of the tenancy, allowing for regulatory requirements about participation in mutual exchange schemes.

2.2.7 Registered providers shall develop and provide services that will support tenants to maintain their tenancy and prevent unnecessary evictions.

2.2.8 Registered providers shall grant those who were social housing tenants on the day on which section 154 of the Localism Act 2011 comes into force, and have remained social housing tenants since that date, a tenancy with no less security where they choose to move to another social rented home, whether with the same or another landlord. (This requirement does not apply where tenants choose to move to accommodation let on Affordable Rent terms).

2.2.9 Registered providers shall grant tenants who have been moved into alternative accommodation during any redevelopment or other works a tenancy with no less security of tenure on their return to settled accommodation.

Neighbourhood and Community standard

1 Required outcomes

1.1 Neighbourhood management

Registered providers shall keep the neighbourhood and communal areas associated with the homes that they own clean and safe. They shall work in partnership with their tenants and other providers and public bodies where it is effective to do so.

1.2 Local area co-operation

Registered providers shall co-operate with relevant partners to help promote social, environmental and economic wellbeing in the areas where they own properties.

1.3 Anti-social behaviour

Registered providers shall work in partnership with other agencies to prevent and tackle anti-social behaviour in the neighbourhoods where they own homes.

2 Specific expectations

2.1 Neighbourhood management

Registered providers shall consult with tenants in developing a published policy for maintaining and improving the neighbourhoods associated with their homes. This applies where the registered provider has a responsibility (either exclusively or in part) for the condition of that neighbourhood. The policy shall include any communal areas associated with the registered provider's homes.

2.2 Local area co-operation

Registered providers, having taken account of their presence and impact within the areas where they own properties, shall:

(a) identify and publish the roles they are able to play within the areas where they have properties

(b) co-operate with local partnership arrangements and strategic housing functions of local authorities where they are able to assist them in achieving their objectives

2.3 Anti-social behaviour

2.3.1 Registered providers shall publish a policy on how they work with relevant partners to prevent and tackle anti-social behaviour (ASB) in areas where they own properties.

2.3.2 In their work to prevent and address ASB, registered providers shall demonstrate:

(a) that tenants are made aware of their responsibilities and rights in relation to ASB

(b) strong leadership, commitment and accountability on preventing and tackling ASB that reflects a shared understanding of responsibilities with other local agencies

(c) a strong focus exists on preventative measures tailored towards the needs of tenants and their families

(d) prompt, appropriate and decisive action is taken to deal with ASB before it escalates, which focuses on resolving the problem having regard to the full range of tools and legal powers available

(e) all tenants and residents can easily report ASB, are kept informed about the status of their case where responsibility rests with the organisation and are appropriately signposted where it does not

(f) provision of support to victims and witnesses

Annexe 3

Key business indicators

Indicator	Monitoring period
% of rent collected	Quarterly
Arrears as a percentage of debit	Quarterly
Write offs as % rent roll	Annual
Former tenant arrears	Annual
% repairs completed in timescale	Quarterly
% satisfaction with repairs service	Quarterly
% repairs completed on first visit	Quarterly
% revenue spend against profile	Quarterly
% capital spend against budget	Quarterly
Average maintenance cost/unit/week	Annual
Gas % safety checks completed on time	Quarterly
Average time taken to complete non- urgent repairs (days)	Annual
Average SAP rating	Annual
% Non decent homes	Annual
Average management cost/unit/week	Annual
% satisfaction with ASB case handling	Quarterly
% satisfaction with ASB case outcome	Quarterly
% new tenancies first visited within 4 weeks	Quarterly
Number of complaints received and resolved at first stage	Quarterly
% complaints dealt within target	Quarterly
Sickness - No of days lost due to sickness absence	Monthly

Annexe 4

Agenda item number: 5
Appendix 1

Housing Revenue Account

Development Strategy

1.0 Introduction

1.1 One of the Council's key objectives is to enable the provision of more affordable housing in the borough. There are a range of housing providers operating in our area and a number of delivery mechanisms exist to support the achievement of this objective.

1.2 The Housing Revenue Account Business Plan offers a further option – that of direct development.

1.3 The demand for affordable housing in this area greatly outstrips supply and this position will not change in the foreseeable future. Whilst any contribution the HRA is able to make is welcomed, it can only form part of a wider delivery strategy.

1.4 This paper focuses on how we can deliver on the element of the HRA Business Plan dealing with providing additional affordable homes in the borough.

1.5 In order to achieve this, three strands need to be addressed. These are:

- funding
- land availability
- capacity.

2.0 Funding

2.1 The HRA Business Plan is robust and has scope to support a development programme. The HRA has already delivered 92 dwellings without having the ability to fund any of the programme through borrowing.

2.2 The recent announcement by Government means that this Council can, for the first time since 2012, make its own decision to borrow without Government constraints. Naturally any borrowing undertaken by the HRA must be affordable and not create a material risk for the core business.

2.3 The HRA has, largely due to the strategic decision not to repay debt, been able to build up reserves which can support a development programme. The reserves built up to date, reflect the inherent lag development programmes have particularly when complex sites are involved.

The HRA now has three funding options to draw on to support its development programme.

These are:

- HRA revenue generated reserves
- Usable capital receipts under the 1 for 1 programme
- HRA borrowing

2.4 The new option of HRA borrowing allows the Council to expand its development programme and/or reducing the rents charged on new dwellings through an internal subsidy.

Whilst social rents (those charged for pre-2012 stock) are more attractive to tenants, charging such rents on new developments would not be sustainable over the long term. Scope does exist to reduce rent below the 70% of market rent or LHA rent to some degree. This would however reduce the numbers of dwellings built.

2.5 The circumstances around each development will vary and so will the delivery cost. It is therefore proposed to review our approach on a case by case basis having regard to the impact on the overall development pipeline. Any reductions likely to be considered are unlikely to be below 60% market rent unless external grant funding can be obtained.

2.6 The Business Plan envisages applying £2.5 million of any annual operating surplus to the reserve to support major repairs and improvement programme. The balance will be applied to the new build reserve and the associated development programme.

This is felt to be a prudent approach that acknowledges the fact the majority of our stock is now around 70 years old.

2.7 Over the next 10 years, we are projecting the following resources will be available to support a development programme:

Operating surpluses	£30 million
RTB receipts	£20 million
HRA reserves	£50 million
HRA borrowing	£50 million
	£150 million

At this stage it can only be indicative as we have already seen considerable changes in the financial arrangement for the HRA in just 6 years, each having financial impacts on the capacity of the HRA to deliver a development programme.

2.8 This projection is based on a number of assumptions:

- Right to Buy sales continue at 20-25 per year, generating a usable receipt of £100,000
- Operating surpluses remain possible having regard to interest rates, inflation and an ongoing policy not to repay debt

- HRA borrowing continues to be permitted and remains possible within the Prodential Borrowing Code.

2.9 In practise each or all of these assumptions will change over time, however the option, for example to increase borrowing, may be possible to offset a reduced contribution from other sources.

2.10 The Business Plan takes account of the projected £45.8 million (1 April 2019) in the new build reserve and one-for-one receipts arising from Right to Buy sales. These have been identified as being predominantly available to support development activities in the borough. This reserve offers the ability to translate the desire to carry out direct development into reality.

The reserve has allowed us to compensate for our inability to increase total HRA borrowing in the early stage of the business plan and will now allow some flexibility on the rent charged for new dwellings, particullary for larger homes.

2.11 Under the settlement, we are currently in the region of £8.5 million per annum better off. However, it is essential we adequately protect our existing asset base and associated income stream. We also need to recognise the potential impact of welfare reform and the predicted ongoing low inflationary environment for the short-term.

Some provision may be required to mitigate the refinancing risk associated with the £45 million variable rate finance due for repayment in 2022.

2.12 The Business Plan applies £11.01 million of the projected surplus in 2019-20 as follows:

Contribution to reserve to support major repairs and improvement programme	£2,500,000
New build reserve	£8,508,500

2.13 The last call on the operating surplus will be the new build reserve and associated programme. This is felt to be a prudent approach.

2.14 A sensitivity analysis identifies inflation as our largest financial risk in the short term impacting on both income and expenditure projections. Any development programme will need to take account of this to ensure the HRA is at no time overstretched and existing services materially put at risk.

2.15 The other principle risk involves welfare reform and the downward pressure the Government is exerting on the cost of benefits. Many tenants are receiving some form of financial support from the state and some will struggle to pay their rent.

2.16 Whilst the HRA, through its reserves can develop on the basis if we do not recover our costs. This is only possible in the short term and is not a sustainable model.

In order for the Council to have a long-term on-going development programme, it is important we develop a model that enables individual developments to break-even at some point.

2.17 Experience shows that on average a property will require a major refit in the region of every 25 years. Taking this into account and the need to develop a sustainable development model, we should aim for developments to break-even within 30 to 35 years of construction. In exceptional cases, this could be extended to 40 years.

2.18 To achieve this without external subsidy, rents need to be set in the range of 65%-100% of market rents. As rents approach open market rents levels, the ability of those on our waiting list to pay the rents rapidly diminishes.

2.19 Specific software to assess the viability of individual schemes that is widely used across the sector is now routinely used to assess sites, particularly where land acquisition is involved.

2.20 Looking ahead, we will need to develop models that generate cross-subsidies if we are to continue offering properties at rents our tenants can afford and at a scale that makes a significant contribution to meeting demand in the borough. Registered providers are increasingly developing models that incorporate elements of market sale and/or rent as a way of delivering the level of cross-subsidy sought.

2.21 Local authorities are restricted in ways that other providers are not. There are significant disadvantages to developing outside the local authority framework which include VAT and Corporation Tax liabilities and increased borrowing costs. We will need to develop arms-length models that may enable us to develop a wider range of schemes than current rules permit.

3.0 Land

3.1 This is our greatest constraint. Historically, land on our housing estates has been identified and used to facilitate development by Housing Associations. The majority of the more obvious sites ranging from garage sites and open space to decommissioned sheltered units have already been developed.

3.2 The new Local Plan, once approved, will offer greater opportunities than currently exist and will represent a sea-change in development capacity across the Borough.

This, together with the creation of the Council’s housing company, North Downs Housing Ltd, creates the ability to deliver longer and mixed tenure schemes. It also allows the option of cross-subsidy across tenures – something not previously available to support the Council’s wider housing provision agenda.

3.3 The HRA is already working with private land owners to bring forward developments through new development frameworks and in this way we plan to increase the number of development opportunities open to the HRA.

The HRA is also looking to play a significant role in the Slyfield development and has already planned to allocate a minimum of £50 million to deliver affordable development on the site.

3.4 Schedule 1 lists a number of sites that have some redevelopment potential.

4.0 Capacity

4.1 **Technical:** We have already increased capacity and will look to recruit additional resources as required.

4.2 In common with other providers, we call on external consultants as required together with construction partners. This is a cost effective approach when faced with what will be an inevitably fluctuating workload.

Some development would be procured through a design and build route where the level of risk transfer could be accurately assessed. In other cases separate design and construction partners may be used.

4.3 To ensure we achieve quality developments cost effectively, it is important we maintain a strong and professional client presence which is adequately resourced.

In order to achieve this and formulate a long-term development programme, a New Homes Delivery Officer is being recruited to support the New Homes Delivery Manager. These posts are responsible for the delivery of individual projects, which together, create a viable and deliverable development programme.

4.4 **Suppliers:** As the pace of development in the Borough picks up a capacity issue within the construction sector may develop. It is too early to say how the market will respond to this pressure however new forms of construction models are being developed which reduce the demand for skilled site workers in the numbers traditionally deployed.

4.5 **Applicants:** There is some uncertainty surrounding the ability of those on our current housing needs register to pay Affordable Rents which can be up to 80 percent of market rents. Already it is becoming apparent that some who need larger accommodation find it particularly challenging but we need to see how tenants on our recently completed developments fair. The plan though envisages we retain the option of greater flexibility on rent levels charged on new developments.

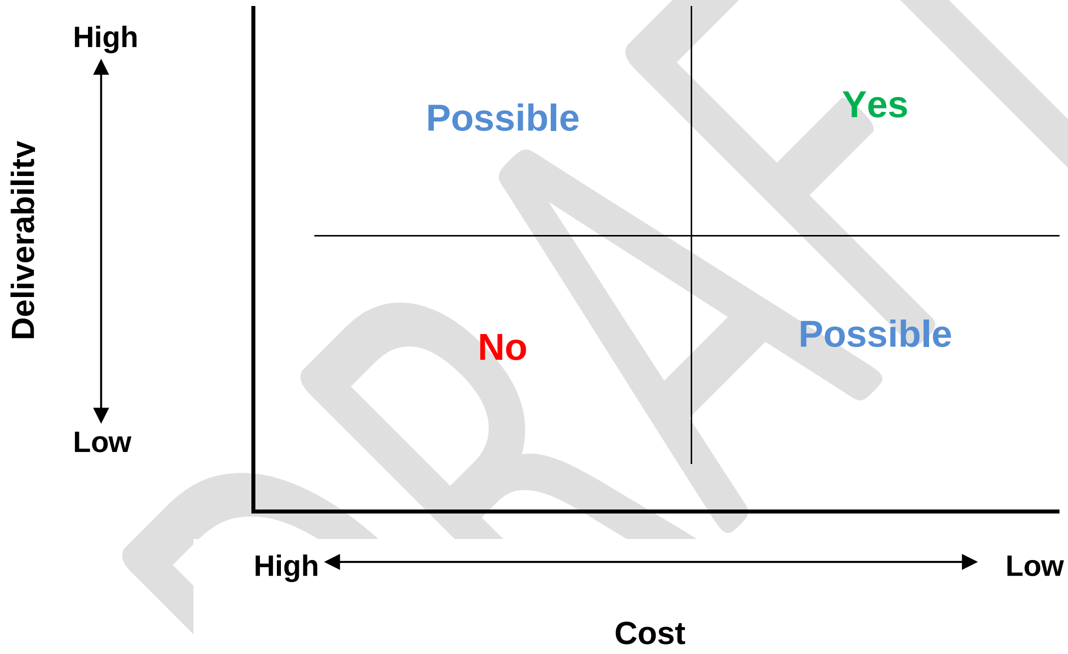
5.0 Scheme viability

5.1 It is important that we only develop when it is appropriate to do so and where an individual development makes a positive contribution to the long term viability of the business. Whilst there are always good reasons to provide additional affordable housing, it is important this desire does not create unnecessary risk.

5.2 It is proposed to use the development matrix overleaf to guide our decision making. It does not provide definitive answers but will help us to focus on the most viable projects. The criteria are indicative and will be reviewed on an annual basis.

New developments can also deliver additional social benefits. An example would be the regeneration of a run down area. Such factors where a scheme is only marginally viable can be a deciding factor as to whether to proceed or not.

Development Viability Matrix



5.3 **Relevant factors:** The factors listed below will inform the development matrix. They will need to be reviewed on an annual basis to take account of market conditions.

	Factor	Low	High
Cost:	Land	< £30,000/plot	> £60,000/plot
	Payback	< 30 years	> 35 years
	NPV	Positive	Negative
Deliverability:	Land	Open market	Owned by Council

Timescale	> 5 years	< 3 years
Planning consent	No	Yes
Demand	Limited	High
Increases stock utilisation	No	Yes
Community support	None	Strong
Decant requirements	Yes	No

6.0 **Alternatives**

6.1 Development is the preferred route as it increases the total housing stock in the Borough, however, the numbers of affordable units in the borough can be achieved by changing the tenure of existing properties. Purchasing properties on the open market is an option that could achieve an increase in the number of affordable housing units.

6.2 Properties originally sold under the Right to Buy scheme are a natural target group. Many of these properties however represent entry level dwellings for the owner-occupation market. Purchasing such properties reduces the number available to this group of purchasers.

6.3 The cost of acquiring such properties will be greater than developing new properties on our own land and in many cases developing on land subject to Section 106 affordable housing obligations. Older properties will inevitably require significant investment sooner than newly constructed properties and have higher maintenance costs.

6.4 Though the number of units converted into affordable housing units can be achieved more quickly than constructing units, it is not the most cost effective route and reduces the number of entry level units available. Perhaps, more importantly, it does not increase the total number of dwellings in the borough.

6.5 Alternative delivery vehicles are starting to be developed across the sector that investment capacity. Unfortunately, they do not address the most immediate issue we face, that of land availability.

2018- 19 Housing delivery status

Site	Timescale	Status
Lakeside Close, Ash	N/A	Complete
New Road, Gomshall	N/A	Complete
Wyke Avenue site, Normandy	N/A	Complete
Guildford Park car park.	2022	Enabling works in progress, detailed design of MSCP being finalised
Phase 1 and 2 garage sites	N/A	Complete
Ladymead, Guildford	Summer 2019	Under construction
Former Apple Tree public house site , Park Barn	Spring 2019	Under construction

Housing development pipeline – sites under consideration

Site	Net Gain
Ash Site A	>50
Ash Site B	>10
Ash Site C	TBC
Ash, Site D	>50
Bright Hill Car Park	>25
East Horsley Site A	5-10
Guildford Park Site A	<5
Lido Overspill Car Park	>10
Park Barn Site A	<5
Park Barn Site B	>10
Pirbright Site A	<5
Send Site A	TBC
Send Site B	>25
Send Site C	<5
Slyfield Site A	<5
Slyfield SARP	>200
Town Centre Site A	<5
Town centre Site B	<5
Westborough Site A	>10

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HOUSING REVENUE ACCOUNT - BUDGET SUMMARY

2018-19 Actual £	2019-20 Actual £	Analysis	2020-21 Estimate £	2020-21 Projection £	2021-22 Estimate £
		Borough Housing Services			
738,104	793,019	Income Collection	689,140	668,787	684,649
1,036,217	1,164,320	Tenants Services	888,840	1,230,913	1,259,070
81,030	122,998	Tenant Participation	148,880	114,599	117,245
69,865	107,717	Garage Management	101,690	94,367	95,099
59,064	41,744	Elderly Persons Dwellings	75,280	43,280	43,779
584,036	575,851	Flats Communal Services	513,510	601,168	611,716
423,867	414,254	Environmental Works to Estates	444,460	429,677	430,894
5,676,678	6,265,983	Responsive & Planned Maintenance	5,857,920	3,793,321	5,857,920
121,665	137,128	SOCH & Equity Share Administration	139,780	147,322	150,489
8,790,527	**9,623,015**		**8,859,500**	**7,123,434**	**9,250,861**
		Strategic Housing Services			
419,543	485,497	Advice, Registers & Tenant Selection	715,830	665,119	681,991
217,026	201,203	Void Property Management & Lettings	212,220	181,031	184,820
9,700	5,120	Homelessness Hostels	5,120	5,120	5,248
155,194	175,717	Supported Housing Management	159,700	153,752	157,954
426,311	527,717	Strategic Support to the HRA	382,340	467,493	476,346
1,227,774	**1,395,255**		**1,475,210**	**1,472,515**	**1,506,359**
		Community Services			
938,878	883,927	Sheltered Housing	904,640	734,460	872,642
		Other Items			
5,638,889	5,640,147	Depreciation	5,525,000	5,528,730	5,528,730
(45,515)	5,059,974	Revaluation and other Capital items	0	0	0
163,276	160,590	Debt Management	150,000	150,000	150,000
343,578	36,359	Other Items	402,380	403,543	402,380
17,057,407	**22,799,267**	**Total Expenditure**	**17,316,730**	**15,412,682**	**17,710,972**
(31,991,396)	(32,532,978)	Income	(33,136,660)	(33,484,159)	(33,732,537)
(14,933,989)	**(9,733,711)**	**Net Cost of Services(per inc & exp a/c)**	**(15,819,930)**	**(18,071,476)**	**(16,021,566)**
258,720	**251,530**	HRA share of CDC	**256,800**	**251,530**	**256,800**
(14,675,269)	**(9,482,181)**	**Net Cost of HRA Services**	**(15,563,130)**	**(17,819,946)**	**(15,764,766)**
(456,206)	(598,260)	Investment Income	(598,260)	(598,260)	(598,260)
5,159,240	5,131,995	Interest Payable	5,142,230	5,675,260	5,142,230
(9,972,235)	**(4,948,446)**	**Deficit for Year on HRA Services**	**(11,019,160)**	**(12,742,946)**	**(11,220,796)**
0	67,919	REFCUS - Revenue funded from capital	75,000	75,000	75,000
2,500,000	2,500,000	Contrib to/(Use of) RFFC	2,500,000	2,500,000	2,500,000
7,849,699	2,380,528	Contrib to/(Use of) New Build Reserve	8,433,504	8,530,888	8,433,504
(421,229)	0	Tfr (fr) to Pensions Reserve	0	0	0
0	0	Tfr (from)/to CAA re: Voluntary Revenue Provision	10,656	1,637,058	212,292
76,058	0	Tfr (from)/to CAA re: Revaluation	0	0	0
0	0	Tfr (from)/to CAA re: REFCUS	0	0	0
(30,543)	0	Tfr (from)/to CAA re: Intangible assets	0	0	0
(1,750)	0	Tfr (from)/to CAA re: rev. inc. from sale of asset	0	0	0
0	**0**	**HRA Balance**	**0**	**(0)**	**0**
(2,500,000)	(2,500,000)	Balance Brought Forward	(2,500,000)	(2,500,000)	(2,500,000)
(2,500,000)	**(2,500,000)**	**Balance Carried Forward**	**(2,500,000)**	**(2,500,000)**	**(2,500,000)**

2018-19 Actual £	2019-20 Projection £	Analysis Borough Housing Services	2020-21 Estimate £	2020-21 Projection £	2021-22 Estimate £
(29,236,342)	(29,570,473)	Rent Income - Dwellings	(29,977,450)	(29,967,996)	(30,507,420)
(208,349)	(208,349)	Rent Income - Rosebery Hsg Assoc	(208,350)	(159,003)	(212,100)
(206,530)	(225,551)	Rents - Shops, Buildings etc	(316,830)	(316,830)	(322,533)
(718,083)	(753,058)	Rents - Garages	(759,740)	(759,740)	(785,571)
(30,369,304)	**(30,757,431)**	**Total Rent Income**	**(31,262,370)**	**(31,203,569)**	**(31,827,625)**
(140,122)	(113,577)	Supporting People Grant	(144,180)	(144,180)	(144,180)
(1,023,033)	(1,098,353)	Service Charges	(1,116,020)	(1,114,559)	(1,136,108)
(9,144)	(15,339)	Legal Fees Recovered	(28,840)	0	(28,840)
(51,614)	(53,277)	Service Charges Recovered	(57,730)	(506,317)	(58,769)
(398,179)	(495,001)	Miscellaneous Income	(527,520)	(515,534)	(537,015)
(31,991,396)	**(32,532,978)**	**Total Income**	**(33,136,660)**	**(33,484,159)**	**(33,732,537)**

Agenda item number: 5
Appendix 3

Housing Revenue Account - Fees and Charges 2021-22

		2018-19 £ From 1 April 2018	2019-20 £ From 1 April 2019	2020-21 £ From 1 April 2020	2021-22 £ From 1 April 2021	Change %
To be approved by Council						
Sheltered Units						
Guest Room Fees (per night);						
Dray Court		18.50	19.05	20.19	21.40	6.0%
Japonica Court		20.15	20.75	22.00	23.31	6.0%
St Martin's Court		22.70	23.35	24.75	26.24	6.0%
St Martha's Court		22.40	23.05	24.43	25.90	6.0%
Tarragon Court		21.85	22.50	23.85	25.28	6.0%
Millmead Court		19.40	20.00	21.20	22.47	6.0%
Function Room Hire						
Voluntary /Charity Organisations	- P/H	13.50	13.90	14.46	15.18	5.0%
	- P/D	67.00	69.00	71.76	75.35	5.0%
Education/Social Services	- P/H	16.00	16.50	17.16	18.02	5.0%
	- P/D	100.00	103.00	107.12	112.48	5.0%
Social/Private Hire	- P/H	20.15	20.75	21.58	22.66	5.0%
	- P/D	107.50	110.75	115.18	120.94	5.0%
Service charge (per week):						
Dray Court		57.71	59.20	66.79	68.00	1.8%
Japonica Court		61.43	65.20	71.62	72.91	1.8%
St Martha's Court		67.04	64.48	72.00	73.30	1.8%
Millmead Court		52.36	53.78	60.93	62.02	1.8%
St Martin's Court		57.66	61.33	68.96	70.20	1.8%
Tarragon Court		52.61	54.09	61.58	62.69	1.8%
Friary House (61 flats)						
Heating, Electricity, Cleaning, Caretaking and Security Services (per wk)		16.39	16.81	17.65	17.97	1.8%
Garages (on Housing Estates) (*VAT is applied at the standard rate on private lets only)*						
High demand area (non residents) (per week)		19.00	19.65	20.63	21.33	3.4%
High demand area (per week)		11.56	11.95	12.55	12.97	3.4%
Elsewhere (per week)		9.50	9.82	10.31	10.66	3.4%
Castle Cliffe						
Gas and Electricity Charges (per week)		9.08	12.10	12.71	12.93	1.8%
Malthouse Court						
Gas and Electricity Charges (per week)		12.94	9.79	10.28	10.46	1.8%
Pound Court						
Electricity; Grounds Maintenance (per week)		6.49	5.41	5.68	5.78	1.8%
Flats						
Where cleaning provided to communal areas;						
Sandmore (Laundry and Communal Facilities, per week)		4.50	4.37	4.59	4.67	1.8%
Decorating charge *(Note: charge is per room)*		1.58	1.63	1.71	1.74	1.8%
Supported Housing						
Service charge per week:						
William Swayne House:						
- Self Contained bedsits		110.78	111.41	115.31	117.38	1.8%
- Self Contained flat		112.79	113.62	117.60	119.71	1.8%
William Swayne Place		43.93	43.63	45.16	45.97	1.8%
Dene Road		73.46	69.30	71.73	73.02	1.8%
79 York Road		39.38	39.13	40.50	41.23	1.8%
Caxtons		60.86	60.49	62.61	63.73	1.8%
Dene Court		82.75	81.27	84.11	85.63	1.8%
Sold Flats Service Charges - Solicitors' Enquiry						
Sales/purchases		132.50	136.50	142.64	151.20	6.0%
Remortgages		68.20	70.20	73.36	77.76	6.0%
Sold Flats Service Charge Management Fee		173.00	178.50	186.53	197.72	6.0%
Consent Fees						
Consent - Application in Advance		103.00	106.00	110.77	117.42	6.0%
Consent - Retrospective Application		176.00	181.00	189.15	200.49	6.0%

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2021/22 Capital Programme - HRA

Project & Category	Description	Estimate	Notes
		£	
Retentions & minor carry-forward	Retentions and minor carry forward from projects in progress up to 31 March 2021	40,000	
Modern Homes			
Kitchen, bathroom and electrical upgrades	Renew kitchens, bathrooms and electrical installations where existing are life expired and in poor condition	1,650,000	Cyclical modernisation to maintain decent housing and modern facilities.Replacements scheduled for 2021/22 from our asset management data. Properties pre-surveyed to ensure asset requires replacement.
Void Properties - refurbishment	Refurbishment of individual properties to enable them to be relet	660,000	Estimated allowance for 40 major void properties requiring extensive work throughout based on current demand
Structural			
Structural works - various properties	Structural works including structural investigation and remedial works due to foundation subsidence or other structural issues.	420,000	Repairs and major works to structurally defective properties which includes underpinning and decant costs where necessary due the extent of works required
Doors & Windows			
Renewal of doors and door entry systems to three storey flats: 29-39 Rye Close 41-51 Rye Close 193-203 Park Barn Drive 221-231 Park Barn Drive	Replacement of external main entrance doors and side screens and installation of new door entry systems	30,000	Doors life expired. Additional security wil be provided by door entry systems
Replacement of windows and doors	Replace life expired and unserviceable windows & doors with double glazed UPVC	355,000	Includes Palmers Lodge - 28 flats Collens Field - 8 houses Friars Croft - 12 flats

Roof Renewal			
Pitched roof replacement including chimneys, fascias, soffits & rainwater gutters/downpipes	Renew life expired roof coverings and associated works	305,000	Various properties including - Georgelands (flats) Burnt Common Cottages (3) Send Rd (1) Quarry Rd (5) Rickford Hill (6) Thatchers Lane (5)
External Wall Insulation			
External wall insulation system to solid wall properties	Provision of external wall insulation to solid wall properties to address poor thermal insulation (year 3 of 4 year programme)	332,000	2021/22 programme mainly for "Swedish style" properties with single skin external walls - Glebe Cottages (6 no) and masonry built properties in Stag Hill (4 no)
Mechanical & Electrical			
Central heating boiler upgrades. Various locations	Upgrading existing central heating installations with high efficiency systems	500,000	Annual programme of domestic gas boiler replacement
Domestic Air Source Heat Pump heating systems Various locations	Replacement of aging electric heating systems with high efficiency air source heat pump central heating systems	100,000	Budget allows for installations in void property where previous tenant has declined system
Lift refurbishment.	Continuation of phased programme to replace obsolete lift controllers	50,000	Upgrade 1 No lift controller at Bedford House (year 3 of 5 year programme) plus door closers on all lifts (following insurance recommendations)
Lift replacement	St Marthas Court - stairlift installaton	50,000	4 no stairlifts which provide an access contingency when main lifts have failed or are out of use

Lift replacement	Friary House - replace lift controller and associated works	35,000	Replacement of life expired lift components
CCTV	Installation of CCTV at St Marthas Court, St Martins Court, Millmead Court and Tarragon Court	20,000	Security provision to supported housing schemes with part time on site management
Electrical testing and smoke detectors	Electrical testing including remedial work and wired in smoke detector installation where required	435,000	Includes testing & associated repairs to communal areas in blocks of flats. Start of rolling annual programme
General			
Replacement of external canopies to blocks of flats	Phased replacement programme of defective canopies to block entrance doors with lightweight grp canopies	90,000	Phase 1 - 2021/22
Asbestos Removal - Hazel Court	Removal, disposal and replacement of ceiling beneath tank room under fully controlled asbestos removal conditions	20,000	Required to ensure safe tanks inspection & contractor access. Temporary protection currently in place but long term solution required.
Garage forecourt resurfacing programme	Resurfacing of forecourt areas to garage blocks where existing surface in poor condition.	100,000	Various sites - continuation of rolling annual planned maintenance programme. Concentrating on highest use sites in high density residential estates

35 & 35 A The Mount	Repairs to the external fabric of listed block comprising two leasehold flats. Recommendation by independent survey.	40,000	Remedial works to include the following : repair roof coverings, chimney stacks, high level joinery, windows and replace vertical tile hangings. Leasehold full cost recoverable.
Resurfacing of Access Roads	Resurfacing of access roads at Mundays Borough, Riverside and Wodehouse Place	130,000	Works will include improvements to access road, part of car park and bin stores at Wodehouse Place
Condition Appraisals	Annual programme of condition appraisal surveys	50,000	Annual programme budget allowance
Fire protection works	Prioritised repair non-urgent remedial works comprising of containment, doors upgrades/replacement, signage, etc	150,000	
Mobility Scooter Enclosures	Purchase of additional mobile scooter enclosures for installation on bases prepared in 2020/21.	100,000	Dray Court, Japonica Court, St Marthas Court Works to address Fire Risk Assessment recommendation to prevent obstruction.
Condition Appraisal works	Prioritised repair plus non-urgent remedial works recommended by Condition appraisal assessment	150,000	
	Sub Total	5,812,000	

Other Capital			
Environmental improvements	General environmental improvements at sites to be agreed & subject to resident consultation.	50,000	
Disabled adaptations Various locations	Works to alter, adapt Council owned dwellings for the benefit of people with disability.	650,000	
Software systems	Provision to upgrade essential business software	30,000	
Programme support.	Programme support & development to support HRA Business Plan	40,000	
	Total	**6,582,000**	

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GUILDFORD BOROUGH COUNCIL - HOUSING INVESTMENT PROGRAMME 2018-19 to 2023-24: HRA APPROVED PROGRAMME

	Project Budget	2017-18 Actual	Project Spend at 31-03-18	2018-19 Estimate	Carry Forward	Expenditure as at 16/11/2018	2018-19 Projected Outturn	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	Total Project Exp
	£000	£000	£000	£000		£000	£000	£000	£000	£000	£000	£000	£000
Acquisition of Land & Buildings	10,700	202	400	2,800	7,500	259	3,100	0	1,800	1,800	1,800	1,800	10,700
New Build													
Lakeside Close, Ash	5,100	336	4,991	0		23	22	0	0	0	0	0	5,013
Guildford Park	75	615	640	0	(565)	264	264	0	0	0	0	0	904
Appletree pub site	3,200	131	555	2,476	169	1,306	2,307	338	0	0	0	0	3,200
Slyfield Green (Corporation Club)	2,448	523	2,376	200	(128)	0	72	0	0	0	0	0	2,448
Willow Way	1,000	773	773	300	(73)	178	227	0	0	0	0	0	1,000
Garage sites-	2,500	0	0	1,100	(158)			0	0	0	0	0	0
Pond Meadow		500	500			62	314	0	0	0	0	0	814
Rowan Close		544	544			4	314	0	0	0	0	0	858
Great Goodwin Drive		513	513			429	314	0	0	0	0	0	827
The Homestead	500	429	429	50	21	326	71	0	0	0	0	0	500
Fire Station/Ladymead	2,000	0	0	1,800	200	271	767	1,196	25	0	0	0	1,988
Bright Hill	500	0	0	475	25	0	500	0	0	0	0	0	500
Various small sites & feasibility/Site preparation	1,000	0	0	0			0	0	0	0	0	0	1,000
Pipeline projects	9,425							575	1,825	3,325	1,825	1,875	9,425
Redevelopment bid 13	533							533					533
Redevelopment bid 14	300							300					300
Schemes to promote Home-Ownership													
Equity Share Re-purchases	annual	99	annual	400		143	400	400	400	400	400	400	annual
Major Repairs & Improvements													
Retentions & minor carry forwards	annual	0	annual	30		0	30	0	0	0	0	0	annual
Kitchens & Bathrooms	annual	1,097	annual	1,025		375	953	0	0	0	0	0	annual
Doors and Windows	annual	203	annual	60	180	121	240	0	0	0	0	0	annual
Structural	annual	380	annual	1,475	225	354	1,022	0	0	0	0	0	annual
Energy efficiency: Central heating	annual	1,214	annual	1,155		679	1,346	0	0	0	0	0	annual
General	annual	1,040	annual	1,455	170	841	1,302	0	0	0	0	0	annual
Grants													
Cash Incentive Scheme	annual	0	annual	75		0	75	0	0	0	0	0	annual
TOTAL APPROVED SCHEMES	39,281	8,600	11,723	14,876	7,566	5,635	13,640	3,342	4,050	5,525	4,025	4,075	40,012

GUILDFORD BOROUGH COUNCIL - HOUSING INVESTMENT PROGRAMME 2018-19 to 2023-24: HRA PROVISIONAL PROGRAMME

	Project Budget £000	2017-18 Actual £000	Project Spend at £000	2018-19 Estimate £000	2018-19 Projected Outturn £000	2019-20 Estimate £000	2020-21 Estimate £000	2021-22 Estimate £000	2022-23 Estimate £000	2023-24 Estimate £000	Total Project Exp £000
Acquisition of Land & Buildings	10,000	0	0	0	0	0	0	3,000	3,000	4,000	10,000
New Build											
Guildford Park	16,000	0	0	4,830	422	406	6,760	7,201	26	0	14,815
Bright Hill	3,000	0	0	3,000	20	0	1,500	1,480	0	0	3,000
Slyfield (25/26 £5m; 26/27 £44m)	1,000	0	0	0	0	0	0	0	1,000	0	1,000
Redevelopment bid 13							3,197	5,861	1,066	0	10,124
Redevelopment bid 14							1,000	1,500	500	0	3,000
Major Repairs & Improvements											
Major Repairs & Improvements	annual		annual			5,150	5,500	5,500	5,500	5,500	annual
Retentions & minor carry forwards	annual		annual								annual
Modern Homes: Kitchens and bathrooms	annual		annual								annual
Doors and Windows	annual		annual								annual
Structural	annual		annual								annual
Energy efficiency: Central heating	annual		annual								annual
General	annual		annual								annual
Grants											
Cash Incentive Scheme	annual		annual			75	75	75	75	75	annual
Total Expenditure to be financed	**30,000**	**0**	**0**	**7,830**	**442**	**5,631**	**18,032**	**24,617**	**11,167**	**9,575**	**41,939**

GUILDFORD BOROUGH COUNCIL - HOUSING INVESTMENT PROGRAMME 2018-19 to 2023-24: HRA RESOURCES AND FUNDING STATEMENT

	2017-18 Actual	2018-19 Estimate	2018-19 Projected Outturn	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
	£000	£000	£000	£000	£000	£000	£000	£000
EXPENDITURE								
Approved programme	8,600	14,876	13,640	3,342	4,050	5,525	4,025	4,075
Provisional programme	0	7,830	442	5,631	18,032	24,617	11,167	9,575
Total Expenditure	**8,600**	**22,706**	**14,082**	**8,973**	**22,082**	**30,142**	**15,192**	**13,650**
FINANCING OF PROGRAMME								
Capital Receipts	3,022	400	400	400	400	400	400	400
1-4-1 recepits	1,307	5,109	2,614	1,004	4,832	7,250	2,765	2,303
Contribution from Housing Revenue a/c (re cash incentives)	0	75	75	75	75	75	75	75
Future Capital Programme reserve	0	0	0	0	0	0	0	0
Major Repairs Reserve	3,934	5,200	4,893	5,150	5,500	5,500	5,500	5,500
New Build Reserve	0	11,922	6,101	2,344	11,275	16,917	6,452	5,373
Grants and Contributions	0	0	0	0	0	0	0	0
Total Financing (= Total Expenditure)	**8,264**	**22,706**	**14,082**	**8,973**	**22,082**	**30,142**	**15,192**	**13,650**

RESERVES - BALANCES	2017-18 Actual	2018-19 Estimate	2018-19 Projected Outturn	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
	£000	£000	£000	£000	£000	£000	£000	£000
Reserve for Future Capital Programme (U01035)								
Balance b/f	28,329	30,829	30,829	33,329	35,829	38,329	40,829	43,329
Contribution in year	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Used in year	0	0	0	0	0	0	0	0
Balance c/f	**30,829**	**33,329**	**33,329**	**35,829**	**38,329**	**40,829**	**43,329**	**45,829**
Major Repairs Reserve (U01036)								
Balance b/f	6,396	8,277	7,991	9,598	9,977	9,977	9,977	9,977
Contribution in year	5,529	6,500	6,500	5,529	5,500	5,500	5,500	5,500
Used in Year	(3,934)	(5,200)	(4,893)	(5,150)	(5,500)	(5,500)	(5,500)	(5,500)
Balance c/f	**7,991**	**9,577**	**9,598**	**9,977**	**9,977**	**9,977**	**9,977**	**9,977**
New Build Reserve (U01069)								
Balance b/f	37,356	43,496	44,919	45,789	51,687	48,818	40,475	42,768
Contribution in year	7,563	3,000	6,970	8,241	8,406	8,574	8,745	8,920
Used in Year	0	(11,922)	(6,100)	(2,344)	(11,275)	(16,917)	(6,452)	(5,373)
Balance c/f	**44,919**	**34,574**	**45,789**	**51,687**	**48,818**	**40,475**	**42,768**	**46,316**
Usable Capital Receipts: 1-4-1 receipts (T01011)								
Balance b/f	6,211	6,641	7,093	6,142	7,666	5,443	877	874
Contribution in year	2,189	1,221	1,663	2,529	2,609	2,684	2,762	2,841
Used in Year	(1,307)	(5,109)	(2,614)	(1,004)	(4,832)	(7,250)	(2,765)	(2,303)
Balance c/f	**7,093**	**2,753**	**6,142**	**7,666**	**5,443**	**877**	**874**	**1,412**

Note: a contribution to this reserve is dependent on the number of RTB sales in the year determined in the HRA self financing model. There are many variables to the calculation of the 1:4:1 contribution. As an estimate, I have used a model provided by Sector which is based on our assumption of RTB sales

	2017-18 Actual	2018-19 Estimate	2018-19 Projected Outturn	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
Usable Capital Receipts - HRA Debt Repayment (T01010)								
Balance b/f	3,428	3,851	3,867	4,158	4,819	5,502	6,207	6,935
Contribution in year	439	664	290	661	683	705	728	752
Used in Year	0	0	0	0	0	0	0	0
Balance c/f	**3,867**	**4,515**	**4,158**	**4,819**	**5,502**	**6,207**	**6,935**	**7,687**

Note: each RTB sale generates a contribution to this reserve toward debt repayment determined in the HRA self financing model. A small number of sales are anticipated each year.

	2017-18 Actual	2018-19 Estimate	2018-19 Projected Outturn	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
Usable Capital Receipts - pre 2013-14 (T01008)								
Balance b/f	14,861	13,361	12,760	6,760	0	0	0	0
Contribution in year	0	0	0	0	0	0	0	0
Used in Year (HRA = above)	0	0	0	0	0	0	0	0
Used in Year (GF Housing Co)	(2,101)	(13,361)	(6,000)	(6,760)	0	0	0	0
Used in Year (GF Housing - DFG)	0	0	0	0	0	0	0	0
Balance c/f	**12,760**	**0**	**6,760**	**0**	**0**	**0**	**0**	**0**

Note: Can only be used for HRA capital expenditure, affordable housing and regeneration schemes as set by GBC policy

	2017-18 Actual	2018-19 Estimate	2018-19 Projected Outturn	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
Usable Capital Receipts - post 2013-14 (T01012)								
Balance b/f	2,938	2,428	422	0	0	0	0	0
Contribution in year	506	200	286	289	292	295	298	298
Used in Year (HRA = above)	(3,022)	(475)	(420)	(69)	(72)	(75)	(78)	(475)
Used in Year (GF Housing)	0	(220)	(288)	(220)	(220)	(220)	(220)	(220)
Balance c/f	**422**	**1,933**	**0**	**0**	**0**	**0**	**0**	**(397)**

Note: Can only be used for HRA capital expenditure, affordable housing and regeneration schemes as set by the Government

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Corporate Governance and Standards Committee Report
Ward(s) affected: All
Report of Director of Resources
Author: Vicky Worsfold
Tel: 01483 444834
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Lead Councillor responsible: Tim Anderson
Tel: 07710 328560
Email: tim.anderson@guildford.gov.uk
Date: 14 January 2021

Capital and Investment Strategy 2021-22 to 2025-26

Executive Summary

[NB. The figures in this report highlighted in yellow will need to be updated prior to the meeting.]

The Capital and Investment strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future sustainability.

Decisions made now, and during the period of the strategy on capital and treasury management will have financial consequences for the Council for many years into the future. This report therefore includes details of the capital programme new bids plus the requirements of the Prudential Code and the investment strategy covering treasury management investments, commercial investments plus the requirements of the Treasury Management Code and the Ministry of Housing, Communities and Local Government (MHCLG) Statutory Guidance.

<u>Capital programme</u>
The Council has an ambitious Corporate Plan and in order to achieve the targets within that, we need to invest in our assets, via capital expenditure.

The Council has a current underlying need to borrow for the general fund capital programme of £400 million. We are anticipating one new bid, details of which will be summarised and circulated prior to the meeting.

Some capital receipts or revenue streams may arise as a result of investment schemes, but in most cases are currently uncertain and it is too early to make assumptions. Some information has been included in the capital vision highlighting the potential income. It is likely there are cash-flow implications of the development schemes, where income will come in after the five-year time horizon and the expenditure will be incurred earlier in the programme.

All projects will be funded by general fund capital receipts, grants and contributions, reserves and finally borrowing. We do not currently know how each scheme will be funded and, in the case of development projects, what the delivery model will be – this report, shows a high-level position. To ensure the Council demonstrates that its capital expenditure plans are affordable, sustainable and prudent, we set Prudential Indicators that must be monitored each year (shown in **Appendix 1**).

The capital programme includes several significant regeneration schemes, which we have assumed will be financed from General Fund resources. However, subject to detailed design of the schemes, there may be scope to fund them from HRA resources rather than General Fund resources in due course. Detailed funding proposals for each scheme will be considered when the Outline Business Case for each scheme is presented to the Executive for approval.

Main areas of expenditure in the capital programme are:

- £24 million – Strategic Property Acquisitions
- £32 million – town centre transport schemes
- £25 million – Ash road bridge
- £42 million – North Downs Housing / Guildford Holdings
- £14 million – Midleton redevelopment
- £265 million – Weyside Urban Village

Appendix 2 (to follow) will contain a summary of the new bid submitted, **Appendices 3 to 7** show the position and profiling of the current capital programme (2020-21 to 2024-25) and **Appendix 8** the capital vision schemes.

This report also includes the Council's Minimum Revenue Provision policy and the Prudential Indicators. The details are in section 5 of this report.

Treasury Management
Treasury management is the control and management of the Council's cash, regardless of its source. It covers management of the daily cash position, investments and borrowing.

Officers carry out the treasury management function within the parameters set by the Council each year in **Appendix 1** to this report and in accordance with the approved treasury management practices.

The budget for investment income in 2021-22 is £1.684 million, based on an average investment portfolio of £79.8 million, at an average rate of 2.18%. The budget for debt interest paid is £5.656 million, of which £5.06 million relates to the HRA.

Non-financial investments and investment strategy
Councils can invest to support public services by lending to or buying shares in other organisations (service investments) or to earn investment income (commercial investments where this is the main purpose). Both are termed non-financial investments (i.e. not treasury management investments).

Investment property is valued at £153.4 million as per the 2019-20 Statement of Accounts, with rent receipts of £8.4 million and a current yield of 6.3%.

The Council has invested £14.3 million in our housing company – North Downs Housing (NDH). This is via 40% equity to Guildford Holdings Limited (£5.7 million) (who in turn pass the equity to NDH) and 60% loan direct to NDH (£8.6 million) at a rate of base plus 5% (currently 5.1%). The loan is a repayment loan in line with the NDH business plan.

Due to the specialised nature of treasury management and capital finance, there is a glossary of terms at **Appendix 12.**

Recommendation to Executive

Subject to Council approving the budget on 10 February, the Executive is asked to agree the following:

(1) That the following schemes be removed from the capital programme because the remit of the schemes, if they were to proceed, would be different to the business case that was originally approved in the programme:

- Museum £18.26 million
- Public realm £1.6 million
- Bike Share £530,000
- Town centre gateway regeneration £3.473 million

(2) That should any of the schemes be moved forward in future, a new business case be presented to councillors.

(3) That the affordability limit for schemes to be funded by borrowing be set as per paragraph 4.32 in **Appendix 1** to this report.

Recommendation to Council

The Executive is also asked to recommend to Council:

(1) That the General Fund capital estimates, as shown in **Appendices 3 and 4** (current approved and provisional schemes), as amended to include such bids as may be approved by the Executive at its meeting on 26 January 2020, **Appendix 5** (schemes funded from reserves) and **Appendix 6** (s106 schemes), be approved

(2) That the Minimum Revenue Provision policy, referred to in section 5 of this report be approved.

(3) That the capital and investment strategy be approved, specifically the Investment Strategy and Prudential Indicators contained within this report and in **Appendix 1.**

<u>Reasons for Recommendation:</u>

- To enable the Council to approve the Capital and Investment strategy for 2021-22 to 2024-25
- To enable the Council, at its budget meeting on 10 February 2021 to approve the funding required for the new capital investment proposals

1. Purpose of Report

1.1 The Local Government Act 2003 requires the Council to have regard to the CIPFA Treasury Management Code of Practice (“TM Code”), and specifically the Prudential Code when determining how much it can afford to borrow.

1.2 The Capital and Investment Strategy gives an 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 risk is managed and the implications for future financial sustainability.

1.3 As such, the report also invites the Council to consider the General Fund (GF) Capital Programme, and the new schemes the Council may wish or need to undertake in the next five years.

1.4 The Council must put aside resources where the Council finances capital expenditure by debt (internal or external borrowing), to repay that debt in later years. This cost is charged to the revenue account annually, and forms part of the Council Tax cost to taxpayers and is known as Minimum Revenue Provision (MRP). The annual MRP statement for 2020-21 is included in section 5 of this report.

1.5 The Council must have an approved investment strategy, and the implications associated with that detailed in the capital and investment strategy. This includes financial and non-financial assets, for example investment property and commercial activity.

1.6 The requirement to report in accordance with the CIPFA TM Code, and the MHCLG Investment Guidance is incorporated within this report. CIPFA also recommends the UK Money Markets Code to its members as good practice to which they should adhere.

2. Strategic Priorities

2.1 A comprehensive and well-managed capital programme supports all the fundamental themes of the Corporate Plan and the Council’s strategic priorities.

2.2 Treasury Management is a key function in enabling the Council to achieve financial excellence and value for money. This report, and the strategies within it, is designed to help the Council achieve the best use of its resources and it therefore underpins the Council’s strategic framework and delivery of the Corporate Plan. We have an ambitious Corporate Plan in the period, and therefore the capital programme, plus aspirations for the longer-term and effective treasury management supports the financial sustainability of that.

3. Background

3.1 The Local Government Act 2003 requires the Council to have regard to the CIPFA Treasury Management Code of Practice (“TM Code”), and specifically the Prudential Code when determining how much it can afford to borrow.

3.2 The objectives of the Prudential Code are to ensure, within a clear framework, capital expenditure plans are affordable, prudent and sustainable. This then ties treasury management in with the Prudential Code ensuring that treasury management decisions are taken in accordance with good professional practice and that capital investment decisions are taken once the Council has determined how much money it can afford to borrow for capital purposes.

3.3 To demonstrate that the Council has fulfilled these objectives, this report details the Prudential Indicators that must be set and monitored each year.

3.4 We must put aside resources where the Council finances capital expenditure by borrowing (internal or external), to repay that debt in later years. This code is charged to the revenue account annually and is known as Minimum Revenue Provision (MRP). The annual MRP statement for 2021-22 is included in section 5 of this report. There is not an earmarked reserve for MRP, it is represented in the balance sheet as increased cash.

3.5 The Council invests its money for three broad purposes:

- because it has surplus cash as a result of day-to-day activities, for example when income is received in advance of expenditure (treasury management investments)
- to support local public services by lending to or buying shares in other organisations (service investments)
- to earn investment income (commercial investments where this is the main purpose)

3.6 Under the CIPFA TM Code and the MHCLG Investment guidance, we are required to provide details of each of these purposes in the investment strategy.

3.7 The UK Money Markets Code (April 2017, revised in December 2020) is a voluntary code of practice which CIPFA recommends authorities follow as good practice. It is endorsed by the Money Markets Committee (MMC) and has been developed to provide a common set of principles in order to promote the integrity and effective functioning of the UK money markets.

3.8 The details of the principles in the Money Markets Code can be found in **Appendix 10**.

4. Capital Expenditure and Financing

4.1 Capital expenditure is where the Council spends money on assets, e.g. property or vehicles that will be used for more than one year. In Local Government, this includes expenditure on assets owned by other bodies, and loans or grants to other bodies enabling them to buy assets.

4.2 The Council has an ambitious Corporate Plan and medium to long-term aspirations within the Borough. As such, we have an approved capital programme, and ask officers to submit bids for capital funding each year covering at least a five-year period. These bids are linked to the Corporate Plan and the

Council's strategic priorities, ensuring the expenditure meets the key objectives of the Council.

4.3 We have adopted good practice guidance as set out in the HM Treasury Green Book for Public Sector business cases in developing bids for funding and eventual business case submission for capital expenditure. This is particularly the case for projects over £1 million.

Current capital programme (appendices 3 to 8)

4.4 A copy of the [1]current capital programme is attached at **Appendices 3 to 8**, together with a schedule of the latest resource availability for, and financing, of the programme.

4.5 The actual financing[2] of each financial year's capital programme is determined in the year in question as part of the preparation of the Council's statutory accounts preparation.

4.6 If we do not finance the expenditure from existing resources, for example capital receipts or reserves, it will create a borrowing requirement. If we take out physical loans to meet that borrowing requirement (replacing cash we have spent), then external borrowing is in place. If there are no physical loans, then the Council has internal borrowing. This means that we are using cash relating to items in the balance sheet in the interim for capital funding purposes.

4.7 All projections are based on the current estimates for schemes and level of resource availability. If costs increase, and/or additional capital resources are received, the methods of financing and the level of borrowing required will vary accordingly.

4.8 Officers calculate the interest estimates (both investment and borrowing interest) according to planned capital expenditure. We assume around actual expenditure of 50% of the provisional programme in the financial year. This also feeds into the MRP calculations, and the liability benchmark, to ensure we are not being over prudent in our budgeting.

New capital schemes

4.9 Service managers bid annually in September to include projects in the Council's capital programme, to be reviewed against corporate plan priorities and fundamental themes whilst having regard to our underlying need to borrow for the current capital programme and the implications for the revenue account.

4.10 Bids are reviewed by CMT, and the JEABBTG from a councillor perspective. Any comments from that group are detailed later in the report.

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[1] The revised estimates for 2020-21 is the original estimate approved by Council in February 2018, plus any unspent approved expenditure from 2019-20, now planned for 2020-21, plus any amendments or additions to schemes approved during the financial year.

[2] Some of the schemes are funded from earmarked reserves (reserves put aside for a specific reason), and grants and contributions, for example ICT and Car Parks maintenance reserve, and s106 contributions

4.11 Bids are initially placed on the provisional capital programme. All bids are then subject to a further outline business case and further approval before expenditure can be incurred on the project.

4.12 We are expecting one new bid for 2021-22, a summary of which will be circulated prior to the meeting.

4.13 The Council has a current underlying need to borrow for the general fund capital programme of £400 million.

4.14 For planning purposes, we have currently assumed we will borrow internally for all schemes, but in doing so we are projecting a need to borrow externally.

4.15 The most economically advantageous method of financing (use of available capital resources, external borrowing or leasing) will be determined in the year(s) in which we incur the expenditure. This is part of the day-to-day treasury management activity of the Council and depends on the resources available.

4.16 It is important to include schemes in the provisional programme so the Council can produce a realistic five-year programme and include the financial implications in the outline budget. It also gives councillors an indication as to what schemes are being developed, and when they may be progressed.

Prudential Indicators

4.17 The Local Government Act 2003 requires the Council to have regard to the Prudential Code when determining how much it can afford to borrow. The objectives of the Prudential Code are:

- the expenditure plans of local authorities are affordable, prudent and sustainable
- treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved
- how these risks will be managed to levels that are acceptable to the organisation
- capital investment decisions are taken once the Council has determined how much money it can afford to borrow for a capital purpose

4.18 The Prudential Code covers all capital expenditure and investment decisions and should consider all potential long-term liabilities relevant to the authority. This includes the consideration of investments and liabilities of subsidiary companies.

4.19 The responsibility for decision making and ongoing monitoring in respect of capital expenditure, investment and borrowing, including Prudential Indicators, remains with full Council. However, officers present the bids to the JEABBTG, this report to the Corporate Governance and Standards Committee, the Executive and full Council, enabling a broad range of Councillor scrutiny. Monitoring is undertaken regularly by the Corporate Governance and Standards Committee.

4.20 The Council's capital expenditure plans are a key driver of treasury management activity. The outputs of the capital expenditure plan are reflected in prudential indicators, which are designed to assist councillors when making decisions.

4.21 To demonstrate we have fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of capital expenditure

4.22 This indicator is a summary of the Council's capital programme and financing of the programme, summarised in the table below.

4.23 The HRA is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised by, other local services. HRA expenditure and financing is therefore recorded separately.

4.24 All capital expenditure must be financed either from external sources (e.g. grants and contributions), the Council's own resources (revenue, reserves or capital receipts), or debt (borrowing or leasing). Planned financing is shown in the table below.

CAPITAL EXPENDITURE SUMMARY	**2020-21 Approved £000**	**2020-21 Outturn £000**	**2020-21 Variance £000**	**2020-21 Estimate £000**	**2021-22 Estimate £000**	**2022-23 Estimate £000**	**2023-24 Estimate £000**	**2024-25 Estimate £000**
General Fund Capital Expenditure								
- Main Programme	65,188	45,261	(19,927)	41,630	9,260	9,261	12,348	0
- Provisional schemes	102,356	1,188	(101,168)	103,593	108,096	55,853	72,978	34,881
- Schemes funded by reserves	3,984	3,005	(979)	1,975	500	500	0	0
- S106 Projects	0	142	142	0	0	0	0	0
Total Expenditure	**171,528**	**49,596**	**(121,932)**	**147,198**	**117,856**	**65,614**	**85,326**	**34,881**
Financed by :								
Capital Receipts	0	(2,086)	(2,086)	(95)	0	0	0	0
Capital Grants/Contributions	(41,368)	(12,257)	29,111	(51,415)	(10,515)	(7,650)	(5,600)	0
Capital Reserves/Revenue	(10,964)	(6,692)	4,272	(2,195)	(720)	(720)	0	0
Borrowing	(119,196)	(28,561)	90,635	(93,493)	(106,621)	(57,244)	(79,726)	(34,881)
Financing - Totals	**(171,528)**	**(49,596)**	**121,932**	**(147,198)**	**(117,856)**	**(65,614)**	**(85,326)**	**(34,881)**
Housing Revenue Account Capital Expenditure								
- Main Programme	14,930	13,966	(964)	5,525	4,025	4,075	1,400	400
- Provisional schemes	12,457	250	(12,207)	42,012	22,792	16,695	5,575	5,575
Total Expenditure	**27,387**	**14,216**	**(13,171)**	**47,537**	**26,817**	**20,770**	**6,975**	**5,975**
Financed by :								
- Capital Receipts	(6,783)	(2,498)	4,285	(12,869)	(6,653)	(4,839)	(400)	(400)
- Capital Reserves/Revenue	(20,604)	(11,619)	8,985	(24,668)	(10,164)	(5,932)	3,425	4,425
- Borrowing	0	0	0	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Financing - Totals	**(27,387)**	**(14,117)**	**13,270**	**(47,537)**	**(26,817)**	**(20,770)**	**(6,975)**	**(5,975)**

4.25 Initially we will finance capital expenditure from our own resources. If we do not have enough resources to finance all the planned expenditure, there will be an increase in the underlying need to borrow, and therefore the capital financing requirement (CFR).

4.26 The table above shows most of our capital expenditure will be financed from borrowing due to the availability of capital receipts and reserves.

Estimates of CFR and Gross Debt as shown against the CFR

4.27 The CFR is the cumulative balance of unfinanced capital expenditure ("debt") less provision made for repayment of the debt, known as Minimum Revenue Provision (MRP).

4.28 Debt is only a temporary source of finance (since loans and leases must be repaid), and this is, therefore, replaced over time by other financing, usually from revenue, via MRP. The Council's MRP statement is in section 5 of this report. We can also make a voluntary revenue provision if we wish.

4.29 The Council is required to make reasonable estimates of the total CFR over at least the forthcoming year and the following two years.

4.30 Any estimated capital expenditure in para 4.24 which is shown to be funded from borrowing increases the CFR.

4.31 The table below shows the Council's estimated CFR, level of reserves and borrowing to calculate the Council's overall borrowing requirement.

Guildford BC Balance Sheet Summary and Projections in £'000 - last updated 6 Jan 2021							
31st March:	2019	2020	2021	2022	2023	2024	2025
Loans Capital Financing Req.	294,706	312,124	339,398	432,132	536,640	615,962	711,455
Less: External Borrowing	(212,702)	(192,665)	(192,435)	(147,435)	(147,435)	(137,435)	(127,435)
Internal (Over) Borrowing	**82,004**	**119,459**	**146,963**	**284,697**	**389,205**	**478,527**	**584,020**
Less: Usable Reserves	(164,974)	(168,628)	(176,489)	(186,701)	(199,100)	(213,116)	(227,031)
Less: Working Capital Surplus	(12,361)	(12,361)	(12,361)	(12,361)	(12,361)	(12,361)	(12,485)
(Investments) / New Borrowing	**(95,331)**	**(61,530)**	**(41,887)**	**85,635**	**177,744**	**253,050**	**344,504**
Net Borrowing Requirement	117,371	131,135	150,548	233,070	325,179	390,485	471,939
Preferred Year-end Position	45,000	45,000	45,000	45,000	45,000	45,000	45,450
Liability Benchmark (year-end)	**162,371**	**176,135**	**195,548**	**278,070**	**370,179**	**435,485**	**517,389**
Peak to Trough Cash Flow	(7,388)	(7,462)	(7,536)	(7,612)	(7,688)	(7,765)	(7,842)
Liability Benchmark (mid-year)	**154,983**	**168,674**	**188,011**	**270,459**	**362,492**	**427,721**	**509,547**

Housing Revenue Account - Summary and Projections in £000							
31st March:	2019	2020	2021	2022	2023	2024	2025
HRA Loans CFR	197,024	207,024	217,024	227,024	237,024	237,024	237,024
HRA Reserves	(116,224)	(119,420)	(127,510)	(137,593)	(151,112)	(165,935)	(179,818)
HRA Working Capital	0	0	0	0	0	0	0
HRA Borrowing	(192,895)	(192,665)	(192,435)	(147,435)	(147,435)	(137,435)	(127,435)
HRA Cash Balance	**(112,095)**	**(105,061)**	**(102,921)**	**(58,004)**	**(61,523)**	**(66,346)**	**(70,229)**

General Fund - Summary and Projections in £000							
31st March:	2019	2020	2021	2022	2023	2024	2025
GF Loans CFR	97,682	105,100	122,374	205,108	299,616	378,938	474,431
GF Reserves	(48,750)	(49,208)	(48,979)	(49,108)	(47,988)	(47,181)	(47,214)
GF Working Capital	(12,361)	(12,361)	(12,361)	(12,361)	(12,361)	(12,361)	(12,485)
GF Borrowing	(19,807)	0	0	0	0	0	0
GF Cash Balance	**16,764**	**43,531**	**61,034**	**143,639**	**239,267**	**319,396**	**414,733**

4.32 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 cash and investment balances are kept to a minimum level at the end of each year. Our minimum level has been set at £45 million.

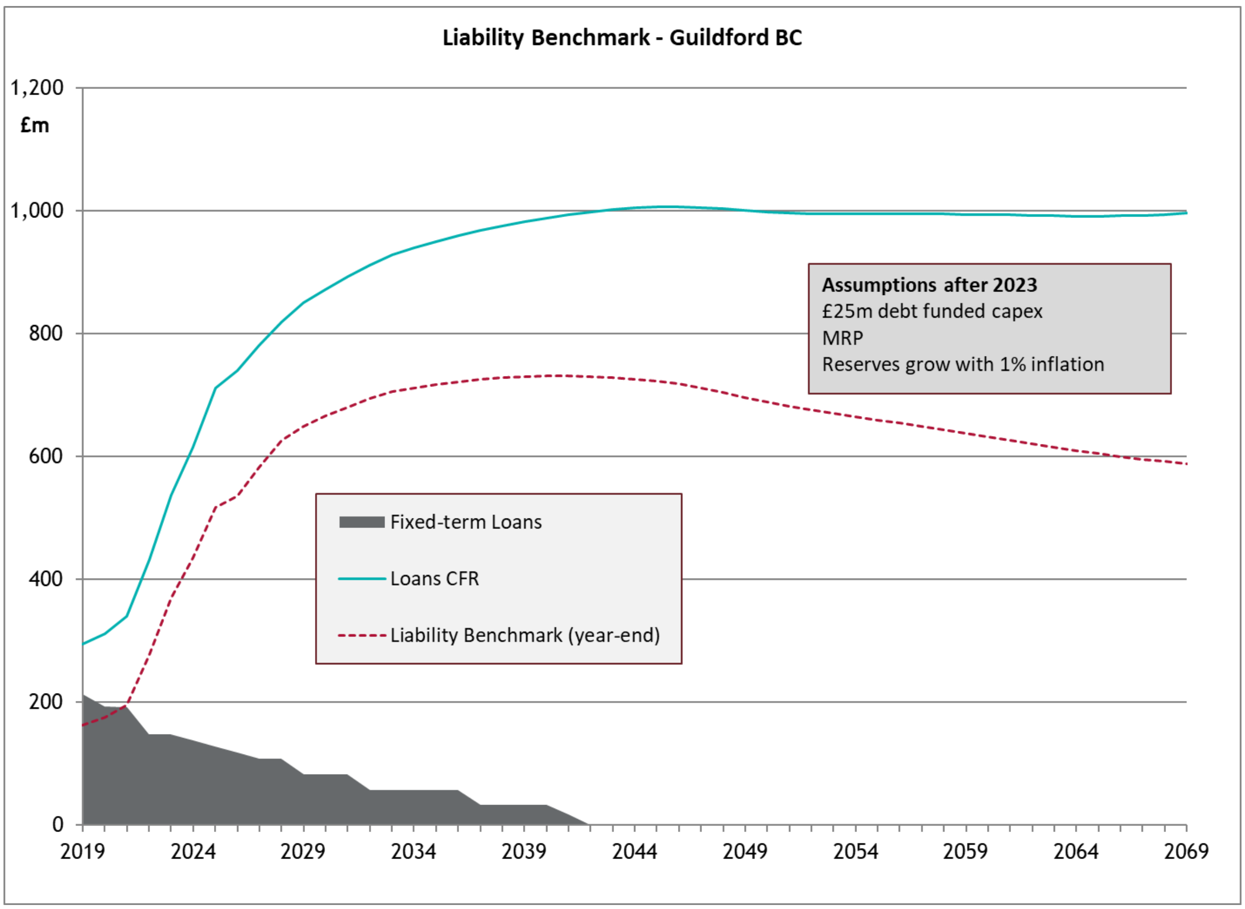
4.33 The GF CFR is forecast to increase by £369 million over the period (April 2021 to March 2025), as capital expenditure financed by borrowing is greater than resources put aside for debt repayment.

4.34 The HRA CFR is also forecast to rise and the Council undertakes its house building programme funded by borrowing.

4.35 Gross debt against the CFR is a key indicator of prudence. The aim is to ensure that debt does not, except in the short-term, exceed the total of the CFR in the previous year, plus the estimates of any additional CFR for the current and next two financial years. This is to ensure debt is only for a capital purpose.

4.36 The table above shows that debt is expected to remain below the CFR during the period shown.

4.37 The liability benchmark is also shown below in a graphical format:



4.38 This graph clearly shows that while the CFR is stable, based on future assumptions, the liability benchmark is reducing marginally taking into account assumed capital expenditure in future years and assumed increases in reserves and MRP payments.

Operational boundary and authorised limit for external debt

4.39 The Council is legally required to set an annual affordable borrowing limit. This is the maximum the Council can borrow. In line with statutory guidance, a lower operational boundary is also set as a warning level should debt approach that limit.

4.40 The operational boundary is the most likely level of borrowing in year, directly linked to capital expenditure plans and the CFR and cash-flow requirements.

4.41 We set a separate limit for the HRA, which is now important to monitor due to the removal of the debt cap

Operational Boundary of External Debt	2020-21 Approved £000	2020-21 Revised £000	2021-22 Estimate £000	2022-23 Estimate £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000
Borrowing - General Fund	234,166	127,376	234,166	303,386	399,686	507,776	605,856
Borrowing - HRA	217,024	217,024	217,024	227,024	237,024	237,024	237,024
Other Long Term Liabilities	26,000	26,000	26,000	26,000	26,000	26,000	26,000
Total	**477,190**	**370,400**	**477,190**	**556,410**	**662,710**	**770,800**	**868,880**

4.42 The authorised limit gives headroom for significant cash-flow movements. We are required to set a limit for other long-term liabilities, for example finance leases. We have included £26 million for items that can be classed as a finance lease, particularly with the introduction of IFRS16[3] in April 2021.

Authorised Limit for External Debt	2020-21 Approved £000	2020-21 Revised £000	2021-22 Estimate £000	2022-23 Estimate £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000
Borrowing - General Fund	220,326	186,876	288,066	362,086	463,486	578,176	682,956
Borrowing - HRA	217,024	217,024	217,024	227,024	237,024	237,024	237,024
Other Long Term Liabilities	26,000	26,000	26,000	26,000	26,000	26,000	26,000
Total	**463,350**	**429,900**	**531,090**	**615,110**	**726,510**	**841,200**	**945,980**

4.43 Officers monitor the Council's debt level against the authorised limit on a daily basis against all items on the balance sheet (long and short-term borrowing overdrawn bank balances and long-term liabilities).

Ratio of financing costs to net revenue stream

4.44 This is an indicator of affordability and highlights the revenue implications of the capital programme, by identifying the proportion of the revenue budget required to meet financing costs associated with capital spending, net of investment income.

4.45 Although capital expenditure is not charged directly to the revenue account, interest payable on loans and MRP are charged, offset by any investment income receivable. The net annual charge is known as financing costs and is compared to the net revenue stream (i.e. the amount funded from Council Tax, Business Rates, and general government grants, and also for the HRA its income).

[3] New lease standard which reclassifies all leases, subject to certain minimum criteria, for lessees as a finance lease, and therefore on-balance sheet. Operating leases will no longer exist for lessees.

4.46 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Director of Resources therefore needs to be satisfied that the proposed capital programme is prudent, affordable and sustainable. This will be by looking at the overall gearing ratios, local indicators and affordability ratios/indicators.

4.47 If there are negative figures, it means the interest receivable is higher than interest payable.

4.48 The table shows the financing costs as a % of net revenue stream

	2019-20 Approved	2019-20 Outturn	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
General Fund	6.47%	0.60%	8.07%	24.80%	33.03%	61.78%	67.70%
HRA	30.13%	31.46%	31.03%	31.29%	30.37%	30.35%	31.45%

4.49 The GF outturn is lower than estimate because investment income is anticipated to be higher than budgeted due to more cash than expected in the year and interest paid on borrowing lower due to slippage in the capital programme. The 2020-21 estimate is higher than 2019-20 outturn because of the increasing MRP and reducing cash balances. The large increase from 2021-22 relates to an increase in the MRP budget and a large increase in interest payable as external loans are taken out – a direct result of increasing capital expenditure.

4.50 The HRA indicator is reducing slightly because of the reducing debt interest costs as one of the Council's loans is being repaid, and interest on HRA reserves is increasing in line with expected balances in reserves.

5. Minimum Revenue Provision (MRP)

5.1 Where the Council finances capital expenditure by borrowing, the CFR will increase and we must put aside resources, from revenue, to repay that debt in later years, known as MRP. MRP only applies to the GF.

5.2 The Local Government Act 2003 requires local authorities to have regard to the MHCLG's Guidance on MRP, most recently revised in 2018.

5.3 The Guidance aims to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

5.4 The Guidance recommends a maximum useful life of 50 years for all assets, unless the Council has an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years.

5.5 MRP becomes chargeable in the financial year after the expenditure is incurred or if a scheme is not complete when the asset becomes operational.

5.6 Based on the Council's estimate of its CFR on 31 March 2021, and unfinanced capital expenditure in 2020-21 of £40 million, the budget for MRP for 2021-22 and future years is:

2021-22	£2.4 million
2022-23	£2.5 million
2023-24	£3.1 million

5.7 Profiling of capital expenditure is key in determining the impact of MRP on the revenue account.

MRP Policy

5.8 The Council will use the asset life method as its main method of applying MRP but will use the annuity method for investment property.

5.9 Where appropriate, for example in relation to capital expenditure on development, we may use an annuity method starting in the year after the asset becomes operational.

5.10 Where we acquire assets ahead of a development scheme, we will charge MRP based on the income flow of the asset or as service benefit is obtained. Therefore, where construction, major refurbishment or redevelopment of an asset occurs, we will not charge MRP during the period of construction, refurbishment or redevelopment. MRP will not be charged from the date a property is vacant (if the development starts within 12 months of the vacation date). MRP will be charged in the financial year after the asset has returned to operational use.

5.11 We will apply a life of 50 years for the purchase of land and schemes which are on land (for example transport schemes).

5.12 Where loans are made to other bodies for their capital expenditure, no MRP will be charged, where the other body is making principal repayments of that loan as well as interest. However, the capital receipts generated by the loan principal repayments on those loans will be put aside to reduce the CFR.

5.13 For investments in shares classed as capital expenditure, we will apply a life related to the underlying asset in which the share capital has been invested.

5.14 We will apply a prudent approach to determining which schemes are financed from capital resources and which ones will be subject to MRP. For example, we feel it is prudent to apply capital resources to those schemes that have a shorter estimated life. We will determine this annually as part of closing the accounts.

5.15 Generally, the asset life for MRP will be matched to the life used for depreciation purposes. Estimated life periods will be determined under delegated powers to the Chief Finance Officer.

6. Treasury Management

6.1 Treasury management is concerned with keeping enough 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 of overdrafts in the bank current account.

6.2 The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

6.3 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance (s151 officer) and staff, as per the Treasury Management Practices (TMPs), who must act in line with the treasury management strategy approved by Council in February each year. Treasury management activity is presented to the Corporate Governance and Standards Committee as part of the Council's financial monitoring report throughout the year. Corporate Governance and Standards Committee is responsible for scrutinising treasury management decisions.

6.4 The Council currently has £193 million long-term borrowing which is all related to the HRA at an average rate of 3.20% and a cost of £5.09 million in interest. Short term borrowing, falling on the general fund, is expected to cost £0.3 million at an average rate of 0.85%. The Council's average investment portfolio is £105 million at an average rate of 1.73%, generating £1.9 million of interest.

Borrowing strategy

6.5 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. These objectives are often conflicting, and the Council therefore needs to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher.

6.6 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The Liability benchmark in paragraphs 4.31 to 4.38 show that we are meeting the statutory guidance.

6.7 The detailed borrowing strategy can be found in **Appendix 1** section 5.

Investment strategy

6.8 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.

6.9 The contribution that treasury management investments make to the objectives of the Council is to support effective treasury management activities. Interest receipts of the council are budgeted to be £1.68 million in 2021-22.

6.10 The Council's policy on treasury management is to prioritise security 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 banks to minimise the risk of loss. Money that will be held for longer-terms is invested more widely, including bonds, shares and property to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external manager makes decisions on which investments to buy and the Council may request its money back at short notice.

6.11 The detailed investment strategy can be found in **Appendix 1** section 5.

7. Asset management / non-financial investments

Property asset management

7.1 To ensure that capital assets continue to be of use in the long-term, the Council has an asset strategy and asset management framework. These include the following objectives:

- for operational properties to operate at full potential in the delivery of services, assessing them against performance criteria and investing where necessary to ensure they remain fit for purpose and improve service capability
- for investment properties to achieve a maximum return by actively managing and reviewing properties, reduce risk, and enhance income, negotiate leases on the best possible terms, invest where necessary to retain their value and sell high cost or underperforming assets
- for all buildings to be held to a high standard of repair, by undertaking regular condition surveys and linking the output of the condition survey to an identifiable programme of works
- for all works to provide value for money by undertaking cost analysis and options appraisals to determine whether to fund capital improvements and ensure robust procedures are followed when arranging works to encourage competitive and best value pricing
- for all properties to be fully compliant with statutory requirements including health and safety and energy efficiency regulations.

Investments for service purposes

7.2 The Council makes investments to assist local public services, including loans to and buying shares in local service providers, local small businesses to promote economic growth, and the Council's subsidiary companies. Considering the public service objective, the Council is willing to take more risk than with treasury investments; however, it still plans for such investments to at least break even after all costs.

7.3 Opportunities on service investments are initiated by the relevant service leader and any decisions are made by the Director of Resources. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

7.4 The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk and ensure that total exposure to service loans remains proportionate to the size of the Council, we will undertake independent due diligence before entering into a loan or purchasing shares.

7.5 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures in the Statement of Accounts will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

7.6 The Council invests and has purchased shares in Guildford Holdings Company (40% equity shares then transferred into North Downs Housing). A small amount has been used to purchase shares in the Guildford Credit Union (BOOM) and the Broadband for Surrey Hills (B4SH). The projected future investment in the Council's companies are detailed in the capital programme. It is not expected to increase exposure to BOOM or B4SH.

Other non-treasury investments

7.7 The Council had acquired its investment properties over several years to facilitate the economic development of the borough and generate rental income that helps support the wider financial position of the Council.

7.8 Compared with other investment types, property is relatively difficult to sell and convert into cash at short notice and can take a considerable amount of time to sell in certain market conditions. Therefore, the size of the investment property portfolio is compared, on a monthly basis, against the value of the Council's treasury management investments.

7.9 Investment property is valued at £153.4 million as per the 2019-20 Statement of Accounts, with rent receipts of £8.4 million.

7.10 With financial return being the main objective, the Council accepts higher risk on commercial investment properties than treasury investments. The principal risk exposures include fluctuating capital values, vacancies, tenant defaults and rising financing costs. All these factors can have an impact on the net financial return to the Council. The Council mitigates the risks through the choice of more secure property investments using the criteria described above and keeping a balanced portfolio spread across different property types. Officers prepare detailed cash flow models for each prospective investment acquisition in order to appraise the cash flow risk and the IRR of the investment.

7.11 In accordance with government guidance, the Council considers a property Investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. The Council values investment property annually.

7.12 If the fair value assessment of the portfolio in the accounts is at or above purchase cost, the underlying asset provides security for the capital investment. Should the valuation be lower than the purchase cost, the Council will report this in the capital and investment annual report, along with the consequences of the loss on security of investments and any revenue consequences arising.

7.13 Performance is also reviewed regularly throughout the year and an investment fund portfolio report submitted annually to the Property Review Group.

7.14 In accordance with the Council's Constitution, the Director of Service Delivery is authorised to acquire investment property up to £1 million in consultation with the relevant Lead Councillor, where budget provision exists in the approved general fund capital programme. Investment property acquisitions must be in consultation with the Chief Finance Officer in line with the criteria set out in the asset investment strategy. Where there isn't an approved budget in the capital programme, committee approval will be sought in line with the financial regulations.

7.15 The property investment strategy provides a robust and viable framework for the acquisition of commercial properties located within the borough. This will direct investment in assets that local businesses occupy as well as those nationally or internationally that contribute to growth in the local economy. There will be continual evaluation of the property investment portfolio to meet the Council's priorities and ensure it is fit for purpose.

7.16 We will also consider new opportunities as they arise. For example, the Council recognises that another major industrial site is coming to the end of its physical life where our tenants want to reinvest. The Council will support redevelopment plans by tenants to improve their sites and the estate, which again may instigate capital investment by the Council alongside income generation. We also set aside proceeds from investment property sales that are not performing, to allow us to purchase new property within the Borough.

Liabilities

7.17 On the face of the Council's balance sheet, there is £113.6 million of other long-term liabilities which relates to the pension fund liability.

7.18 The Council is committed to making future payments to cover its share of the pension fund deficit - valued at £2.9 million as per the 2019-20 statement of accounts.

7.19 We have also set aside £2.8 million to cover risks of Business Rates appeals plus other smaller provisions. We have not allowed for any financial guarantees but have identified one relating to the Electric Theatre.

7.20 The Council is also at risk of having to pay for levies relating to our liability for asbestos but has not put aside money into a provision because it is not yet certain. Details can be found in the 2019-20 Statement of Accounts.

7.21 Decisions on incurring new discretional liabilities are taken by the relevant service leader and the Director of Resources.

7.22 A new accounting standard, IFRS16 – accounting for leases, comes into effect from 1 April 2021 (delayed from 1 April 2020). The key change is that accounting for lessees (i.e. leasing in assets) will change, and there will no longer be a distinction between finance and operating leases. The Council is currently working though the implications, but it will mean an increase in the assets and liabilities of our balance sheet.

Proportionality

7.23 Due to the level of non-financial investments, the Council has identified the proportion of income from these types of investments against gross service expenditure.

	2018-19 Actual £000	2019-20 Outturn £000	2020-21 Budget £000	2021-22 Budget £000	2022-23 Budget £000	2023-24 Budget
Gross Service Expenditure	111,763	113,426	111,923	103,101	104,447	105,863
Investment property income	8,903	9,052	7,665	7,664	7,692	7,692
Treasury management income	1,985	1,920	1,685	1,547	1,564	1,797
Investment income %	10%	10%	8%	9%	9%	9%

7.24 The table shows that the income from both investment property and treasury management income ("investment income") contributes around 8% to 10% to the gross cost of services across the Council.

8. Knowledge and skills

8.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Resources and Financial Services Manager (s151 and Deputy s151 respectively) are both qualified accountants with many years' post qualification experience. The Deputy Head of Asset Management is a qualified chartered surveyor and member of the Royal Institution of Chartered Surveyors (RICS) as are members of the Asset Management team. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury), and RICS.

8.2 Where Council staff do not have the knowledge and skills required, use is made of external advisors and consultants that are specialist in their field. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

8.3 Under the new MiFID regulations, for the Council to be able to "opt-up" to professional status, the Council is required to state the knowledge and skills of key staff involved in the treasury decision making – this is a mandatory criterion. Financial Institutions decide whether the Council can opt-up, and there is comfort in that where the Council is accepted as a professional client; we have the required level of skills and knowledge expected by the financial institution of key treasury staff.

9. Risks

9.1 Officers submit bids with a proposed timeframe for the project to be completed. This is put into the capital programme and feeds into the liability benchmark (to determine where we may need to borrow – at a high level), cash flow forecasts (projecting investment income and possible borrowing costs feeding into the medium-term financial strategy) and the MRP projections (again, feeding into the medium-term financial strategy).

9.2 The capital programme predicts the Council's underlying need to borrow. This is the starting point to determine whether the Council needs to borrow externally, and for what period. If the profiling of the capital programme is significantly wrong, this means the Council will have budgeted less investment income, more external borrowing interest and more MRP than it needs to. All these are a cost to the revenue budget and therefore the council taxpayer.

9.3 Officers are working to minimise this impact and meet on a quarterly basis to review the capital programme and adjust the profiling. The medium-term financial strategy is updated continually with the latest interest and MRP projections taking account of the latest capital programme profile to ensure the most realistic position is presented in the revenue budget.

9.4 Slippage in the capital programme could also mean costs are higher than originally budget because of price inflation and changing market conditions. To help mitigate this, the Council has a capital contingency fund budget of £5 million each year acting as an additional budget included in the borrowing calculations across the programme as a whole. Each scheme also has contingencies built into the individual budgets.

Treasury management risks

9.5 The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out the 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.

9.6 Overall responsibility for treasury management remains with the Council. Treasury management activity involves risk and cannot be eliminated. The effective identification and management of risks are integral to the Council's treasury management objectives.

9.7 Treasury management activity needs to be managed to maximise investment income and reduce debt interest whilst maintaining the Council's exposure to risk.

9.8 Inflation is also a key factor. Investments are made and earn a return. If inflation is high, and investment returns are low, the investment return is not keeping up with inflation and the Council is, therefore, losing money.

9.9 Risk indicators relating to treasury management are in Appendix 1 section 7.

Risks relating to non-financial assets

9.10 There are some key identifiable risks of investing in property.

9.11 A downturn in the property market could lead to falling rents or higher vacancies meaning that rental income may not cover borrowing costs.

9.12 In addition, a downturn could lead to a fall in property values which could impact capital receipts if the Council wanted to sell the property to use the receipts for other purposes.

9.13 The Council mitigates these by having a diverse investment property portfolio, a review of tenant covenant strength prior to becoming a tenant, including a review of the company finances and credit checks. The Council will also request rent deposits where appropriate. In addition, we undertake a prudent cash flow model for each prospective investment in order to appraise the cash flow risk and the internal rate of return of the investment, and we keep abreast of the latest property market information to inform decisions.

10. Consultations

10.1 The Lead Councillor for Resources supports the recommendations in this report.

11. Financial Implications

11.1 The financial implications are covered throughout the report, and in the appendices.

11.2 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by an income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream (i.e. the amount funded from Council Tax, business rates and general government grants).

11.3 The budget for treasury management investment income in 2021-22 is £1.68 million, based on an average investment portfolio of £78.9 million, at a weighted average rate of 2.18%. The budget for debt interest paid is £5.65 million, of which £5.058 million relates to the HRA. If actual levels of investments and borrowing, and actual interest rates differ from that forecast, performance against budget will be correspondingly different.

11.4 Income from investment property is estimated to be £7.664 million in 2021-22.

11.5 The MRP budget is £2.4 million in 2021-22

11.6 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for many years into the future. The Director of Finance is comfortable that the proposed capital programme is prudent, affordable and sustainable.

Risk indicators

11.7 The Council has set the following quantitative indicators to allow readers to assess the total risk exposure as a result of investment decisions.

Total risk exposure

11.8 This indicator shows the total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and the guarantees the Council has issued over third-party loans.

Total Investment Exposure	2018-19 Actual £000	2019-20 Forecast £000	2020-21 Forecast £000
Treasury management investments	95,628	105,165	78,906
Service investments: Loans	4,619	8,998	13,498
Service investments: Shares	3,183	6,103	9,103
Investment property	161,244	148,244	148,244
Total Investments	**264,674**	**268,510**	**249,751**

How investments are funded

11.9 Government guidance is that we should show how these investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

11.10 The Council is not expected to borrow externally for any of the investment exposure in the table at para 14.6, within this timeframe. The only exception in the medium term could be the service investments in shares (Guildford Holdings) and loans (North Downs Housing).

Rate of return achieved

11.11 This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Councillors should note that due to the complex nature of the local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investments net rate of return	2018-19 Actual £000	2019-20 Forecast £000	2020-21 Forecast £000
Treasury management investments	1.38%	1.42%	1.14%
Service investments: Loans	5.75%	5.75%	5.75%
Service investments: Shares	0.00%	0.00%	0.00%
Investment property	6.30%	5.50%	5.50%

11.12 Further indicators can be seen in **Appendix 1**, section 3.

12. Legal Implications

12.1 Various professional codes, statutes and guidance regulate the Council's capital and treasury management activities. These are:

- the Local Government Act 2003 ("the 2003 Act"), provides the statutory powers to borrow and invest and prescribes controls and limits on these activities, and in particular within the Local Authority (Capital Finance and Accounting) (England) Regulations 2003

- the 2003 Act permits the Secretary of State to set limits on either the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken
- Statutory Instrument (SI) 3146 2003 ("the SI"), as amended, develops the controls and powers within the 2003 Act
- the SI requires the Council to undertake borrowing activity with regard to the Prudential Code. The Prudential Code requires indicators to be set – some of which are absolute limits – for a minimum of three forthcoming years
- the SI also requires the Council to operate the overall treasury management function with regard to the CIPFA TM Code
- under the terms of the Act, the Government issued 'Investment Guidance' to structure and regulate the Council's investment activities. The emphasis of the Guidance is on the security and liquidity of investments
- Localism Act 2011

13. Human Resource Implications

13.1 where additional resources are required to deliver schemes identified within this report, officers have included this in the bid or have submitted a revenue bid.

14. Equality and Diversity Implications

14.1 This duty has been considered in the context of this report and it has been concluded that there are no equality and diversity implications arising directly from this report

15. Climate Change/Sustainability Implications

15.1 There are no specific implications as a result of the report, however, capital bids have been made for some schemes relating to reducing carbon.

16. Executive Advisory Board comments

16.1 This report will be considered by the Joint EAB on 7 January 2021 and comments and recommendations will be reported at the meeting.

17. Summary of Options

17.1 Officers have detailed the options within each new capital bid.

17.2 The MHCLG Guidance and the CIPFA TM Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer, having consulted with the Lead Councillor for Resources, believes the strategy represents an appropriate balance between risk and cost effectiveness. Some alternative strategies and risk management implications are:

Alternative	Impact on income /	Impact on risk management

	expenditure	
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses, from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to higher impact in the event of a default; however, long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is unlikely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

18. Conclusion

18.1 The information included in this report shows the position of the current approved capital programme. Bids for future years that are viewed as essential projects have been submitted by officers.

18.2 If all schemes proceed within the timescales indicated, there will be an underlying need to borrow of £400 million by 31 March 2025.

18.3 The information in this report, and the Appendices, shows the Council has adopted the principles of best practice and complied with the relevant statute, guidance and accounting standards.

19. Background Papers

None

20. Appendices

Appendix 1: Detailed capital and investment strategy
Appendix 2: Schedule of new GF capital bids for 2021-22 to 2025-26 (to follow)
Appendix 3: Schedule of approved GF capital programme
Appendix 4: Schedule of provisional GF capital programme
Appendix 5: Schedule of reserves funded capital schemes
Appendix 6: Schedule of s106 funded schemes

Appendix 7: Summary of resources and financial implications
Appendix 8: Treasury Management Policy Statement
Appendix 9: Money Market Code Principles
Appendix 10: Arlingclose Economic and Interest Rate Forecast November 2020
Appendix 11: Credit rating equivalents and definitions
Appendix 12: Glossary

Capital, Treasury and Investment Strategy - detail

1. Introduction

1.1 A capital strategy is the foundation of proper long-term planning of capital investment in assets and how it is to be delivered. It needs to link into the Council's overall corporate objectives and strategic priorities.

1.2 Council's need to invest in their assets, as they are the most valuable resource (termed as non-financial assets throughout the report).

1.3 Capital expenditure is defined as:

"*Money spent on acquiring or upgrading fixed assets, to increase the life of the asset or improve its productivity or efficiency to the organisation*"

1.4 Capital planning is about investment in assets and is, therefore, linked to asset planning. Council assets have been acquired using public money, so they have an obligation to protect the value of those assets. Failure to do this means assets will gradually deteriorate and in the long-term this puts the Council's ability to fulfil its basic responsibilities at risk.

1.5 An integral part of a capital strategy is how the programme is financed. This is inexplicitly linked to treasury management and informs the resources available for treasury investments.

1.6 Treasury management is an important part of the overall management of the Council's finances. Council's may borrow or invest for any purpose related to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs.

1.7 The CIPFA definition of treasury management is:

"the management of the organisations 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"

1.8 Statutory requirements, the CIPFA Code of Practice for Treasury Management in the public services (the TM Code) and the CIPFA Prudential Code regulate the Council's treasury activities.

1.9 MHCLG requires authorities to prepare an investment strategy, which comprises both treasury and non-treasury investments.

1.10 An authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (treasury management investments)

- to support local public services by lending to or buying shares in other organisations (service investments)
- to earn investment income (commercial investments where this is the main purpose)

1.11 The Local Government Act 2003, require Local Authorities to have regard to the Prudential Code. The Prudential Code, last revised in 2017, requires Local Authorities to determine a capital strategy. The strategy is to have regard to:

Capital expenditure

- an overview of the governance process for the approval and monitoring of capital expenditure
- a long-term view of capital expenditure plans
- an overview of asset management planning
- any restrictions around borrowing or funding of ongoing capital finance

Debt and borrowing and treasury management

- a projection of external debt and use of internal borrowing to support capital expenditure
- provision for the repayment of debt over the life of the underlying asset
- authorised limit and operational boundary for the following year
- the approach to treasury management including processes ,due diligence and defining the risk appetite

Commercial activity

- the Council's approach to commercial activities, including processes, ensuring effective due diligence and defining the risk appetite including proportionality in respect of overall resources

Other long-term liabilities

- an overview of the governance process for approval and monitoring and ongoing risk management of any other financial guarantees and other long-term liabilities.

Knowledge and skills

- a summary of the knowledge and skills available to the Council and confirmation that these are commensurate with the risk appetite.

1.12 Included in these regulations and codes of practice, we are required to set Prudential and Treasury Indicators for assessing the prudence, affordability and sustainability of capital expenditure and treasury management decisions. The MHCLG investment guidance also suggest some local indicators.

1.13 The following sections of the strategy outline the Council's balance sheet and treasury position, capital expenditure and treasury management strategy.

1.14 In order to understand the context of the capital and investment strategy (where we are going and how we will get there), it is important to understand where we are now.

2. External Context

Economic Background

2.1 The impact on the UK from Covid-19, together with the UK's exit from the EUand future trading arrangements, will remain a major influence on the Council's treasury management strategy for 2021-22.

2.2 UK Consumer Price Inflation (CPI) for September is 0.5% year on year. The unemployment rate rose to 4.5% and employment rate fell to 75.6%. This is expected to deteriorate due to the ongoing impact of Covid-19 on the jobs market, particularly when various government job retention schemes start to unwind in 2021 where unemployment is expected to peak at 7.75% in Q2 2021.

2.3 GDP growth fell by 19.8% in the second quarter of 2020. Monthly GDP figures have shown the economy is recovering but remains well below the pre-pandemic peak.

2.4 The Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than previous forecasts of 9%. The BoE also forecasts the UK economy will take until Q1 2022 to reach its pre-pandemic level.

2.5 The Bank of England maintained Bank Rate to 0.1% in November 2020 and extended its QE programme by £150 million to £895 million. There was no mention of potential future negative rates.

Credit outlook

2.6 The credit ratings of many UK institutions were downgraded due to the sovereign downgrade.

2.7 The potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, as does the UK not achieving a Brexit deal, suggesting a cautious approach to bank deposits in 2021-22 remains advisable.

Interest rate forecast

2.8 Arlingclose are forecasting that BoE base rate will remain at 0.1% until at least the end of 2023.

2.9 Gilt yields are expected to remain very low in the medium term while short term yields are likely to remain below or at zero until such time the BoE rules out negative rates or growth/inflation prospects improve.

3. Balance sheet and treasury position

Balance Sheet

3.1 The Council has a strong asset backed balance sheet

	Balance at 31 March 2019 £'000	£'000		Balance at 31 March 2020 £'000	£'000	
Long term assets	937,854			947,265		
Short term assets	22,924			14,392		
		960,778	91%		961,657	89%
Long term investments	45,100			43,109		
Short term investments	55,691			74,418		
		100,791	9%		117,527	11%
Total assets		**1,061,569**			**1,079,184**	
Current liabilities	(37,975)			(36,915)		
Long term liabilities	(115,983)			(113,567)		
		(153,958)	42%		(150,482)	39%
Short term borrowing	(20,337)			(44,493)		
Long term borrowing	(192,665)			(192,435)		
		(213,002)	58%		(236,928)	61%
Total liabilities		**(366,960)**			**(387,410)**	
Net assets		**694,609**			**691,774**	

3.2 The summary balance sheet shows that cash investments make up only 11% of the Councils assets. Investment property makes up 16% of the long-term assets (being £153 million). The largest proportion of our liabilities is long-term borrowing, which is all HRA debt.

Financial Stability/Sustainability

3.3 Gearing is a measure of financial leverage, demonstrating the degree to which activities are funded by our own money or by debt. The higher the leverage, the more risky the company is considered to be because of the financial risk and that they must continue to service its debt regardless of the level of income or surplus. Gearing can be calculated by using the debt ratio (total debt / total assets), and is the proportion of our assets that are financed by debt.

	2018-19 Actual (£000)	2019-20 Estimate (£000)	2019-20 Outturn (£000)	2020-21 Estimate (£000)	2021-22 Estimate (£000)	2022-23 Estimate (£000)	2023-24 Estimate (£000)
Total debts	366,960	413,555	408,174	513,197	575,236	651,476	651,476
Total assets	1,061,569	1,157,327	1,145,799	1,319,566	1,425,037	1,533,889	1,558,526
Debt Ratio %	35%	36%	36%	39%	40%	42%	42%

3.4 This shows that our gearing is low, which is because of our strong asset base, and projecting forwards capital spend will continue to grow our asset base.

3.5 Future years' estimates are based on adding the budgeted cost of capital investment onto the assets, and adding the assumed debt funded expenditure (not external debt as shown in the liability benchmark) to the debt figure to give an idea how the financial stability of the Council will be evolving.

Local indicators

3.6 The Local Government Association (LGA) use a number of different financial indicators to assess the financial sustainability of Councils' as part of their financial diagnostic tool. We have chosen to use the following as local indicators:

- Total debt as a % of long term assets
- Ratio of equity by net revenue expenditure
- Un-ringfenced reserves as a % of net revenue expenditure
- Working capital as a % of net revenue expenditure
- Short term liability pressure (short term liabilities as a % of total liabilities)
- Total investments as a % of net revenue expenditure
- Investment property as a % of net revenue expenditure

3.7 Suggested MHCLG local indicators are:

Indicator	**Description**
Debt to net service expenditure (NSE) ratio	Gross debt as a percentage of net service expenditure
Commercial income to NSE ratio	Dependence on non-fees and charges income to deliver core services. Fees and Charges are to be netted off gross service expenditure to calculate the NSE
Investment cover ratio	The total net income from property investments, compared to the interest expense
Loan to value ratio	The amount of debt compared to the total asset value
Target income returns	Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties
Benchmarking of returns	As a measure against other investments and against other Councils' property portfolios
Gross and net income	The income received from the investment portfolio at a gross level and net level (less costs) over time
Operating costs	The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-investments expands
Vacancy levels and tenant exposures for non-financial investments	Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is as productive as possible

3.8 These indicators will be calculated on an actual basis and will form part of the outturn report.

Treasury position

3.9 The following table shows the Council's current treasury position, which is the next step to moving forward from the balance sheet.

	March 19 Actual £'000	Nov 19 position £'000
Investments		
Managed in-house		
Call Accounts	0	0
Notice Accounts - UK	8,000	8,000
Money Market Funds	13,229	17,332
Temporary Fixed Deposits	6,000	15,000
Long term Fixed Deposits	27,500	27,500
Certificates of Deposit	0	0
Unsecured bonds	2,300	0
Covered Bonds	18,850	15,850
Revolving credit facility	7,500	5,000
Total investments managed in-house	**83,379**	**88,682**
Pooled Funds		
Total pooled funds investments	**11,829**	**16,214**
Total Investments	**95,209**	**104,896**
Borrowing		
Temporary borrowing	20,000	45,000
Long-term borrowing (PWLB)	193,010	193,010
Long-term borrowing (LAs)	0	0
Total borrowing	**213,010**	**238,010**
Net investments / (borrowing)	**(117,801)**	**(133,114)**

3.10 The table shows the position at the start of the financial year (included in the balance sheet), and the position at the end of November 2020 (the latest position).

3.11 Investment balances are slightly higher lower, due to more temporary borrowing. The net borrowing position has increased since March 2019 by £15.5 million because there is a net increase in external borrowing as a result of expenditure on the capital programme.

4. Capital expenditure

4.1 To understand the movement in our balance sheet over the medium term, it is important to understand the anticipated capital expenditure and capital receipts over that time.

4.2 The Council has an ambitious Corporate Plan and medium to long-term aspirations within the Borough. There is, therefore, a number of processes in place to ensure the capital programme is approved and monitored for good governance.

4.3 The Council has the following parts to its capital programme:

- Capital vision
- Approved programme
- Provisional programme
- Reserves funded programme
- S106 funded programme

4.4 The Council splits the schemes into three types to enable us to review the amount of spend on statutory items against those which we are expecting a financial return from as part of our regeneration plans:

a) development for financial reasons - those schemes that are for economic growth, regeneration, redevelopment and income generation purposes, including housing schemes
b) development for non-financial reasons - those schemes that are for economic growth, regeneration, redevelopment, including housing schemes and infrastructure and
c) non-development essential schemes (i.e. those that must be done to keep our fixed assets in an acceptable condition) - those schemes that need to be undertaken for statutory/compliance reasons, are required to maintain service provision at existing levels (or prevent cost escalation) or are infrastructure schemes

4.5 Type (a) ‘development schemes for financial reasons’ are required to provide a positive or neutral impact on the Councils’ GF revenue account. It is envisaged that this is achieved by the revenue income generated by the completed scheme/project being greater than the capital financing costs on the GF revenue account.

4.6 Type (b) ‘development schemes for non-financial reasons’ are required to provide regeneration in the borough to support economic growth in the borough.

4.7 Type (c) ‘essential schemes’ often do not have cashable savings or efficiencies associated with them, but often prevent further cost escalation of services, or, in the case of infrastructure will act as a catalyst for type (b) schemes. Essential schemes often have revenue costs associated with them, particularly if funded from borrowing.

4.8 The capital programme covers a 5 to 10-year period, with more emphasis on the first five years.

4.9 Any projects that are expected to be delivered after the first five years of the programme, or those where the scheme has not yet been fully identified are placed on the Councils’ Capital Vision. The vision enables us to model the potential financial impact of these schemes, and be aware of the potential schemes to be brought forward onto the GF capital programme in future.

4.10 Many of the bids in the capital programme are development projects, and their expenditure and income profile can span beyond the five-year timeframe. The Councils’ capital programme, is therefore, a prudent one. Any income arising as a result of a development project that is outside the five years or is currently only estimated is shown in the capital vision. Any development projects will be subject to a thorough business case, which will assess the delivery model, and officers will ensure that they are financially viable before they can proceed.

4.11 The Council maintains a provisional programme to be able to produce a realistic five year programme, and include the financial implications in the outline budget. It also gives Councillors an indication as to what schemes are being investigated, and an indication as to when these schemes may be progressed.

4.12 Under the financial regulations, schemes that are fully funded by s106 receipts or grants and contributions can be added to the capital programme, where they have been approved by the relevant Lead Councillor and relevant Director in consultation with the Financial Services Manager.

4.13 During the year, the Capital Monitoring Group (CMG) meets on a quarterly basis to review the scheduling of the capital programme. The group consists of officer representatives across the Council from different departments to give a joined up approach.

4.14 The capital programme is also reviewed by CMT and Corporate Governance and Standards Committee (CGSC) as part of the regular financial monitoring for months 2, 4, 7, 10 and 11 and then as part of the final accounts report.

4.15 The proposed financing of the capital programme assume available resources will be used in the following order:

a) capital receipts from the sale of assets (after applying the flexible use of capital receipts policy if applicable)
b) capital grants and contributions
c) earmarked reserves
d) the general fund capital schemes reserve
e) revenue contributions
f) internal borrowing
g) external borrowing

4.16 The actual financing of each years' capital programme is determined in the year in question, as part of the preparation of the Councils' statutory accounts.

4.17 Capital expenditure is split between the General Fund (GF) (incorporating non-HRA housing) and HRA housing. This strategy focusses on the GF capital programme. The HRA produces its 30-year business plan that is approved by Council in February each year, shown in a separate report.

4.18 Our current approved capital programme, revised in year for updates in the programme and for the new bids approved by the Executive is as follows:

CAPITAL EXPENDITURE SUMMARY	2020-21 Approved £000	2020-21 Outturn £000	2020-21 Variance £000	2020-21 Estimate £000	2021-22 Estimate £000	2022-23 Estimate £000	2023-24 Estimate £000	2024-25 Estimate £000
General Fund Capital Expenditure								
- Main Programme	65,188	67,513	2,325	19,922	9,260	9,261	11,862	0
- Provisional schemes	102,356	10,948	(91,408)	93,833	108,096	55,853	72,978	34,881
- Schemes funded by reserves	3,984	3,625	(359)	1,385	500	500	0	0
- S106 Projects	0	142	142	0	0	0	0	0
Total Expenditure	**171,528**	**82,228**	**(89,300)**	**115,140**	**117,856**	**65,614**	**84,840**	**34,881**
Financed by :								
Capital Receipts	0	(2,086)	(2,086)	(95)	0	0	0	0
Capital Grants/Contributions	(41,368)	(12,257)	29,111	(51,415)	(10,515)	(7,650)	(5,600)	0
Capital Reserves/Revenue	(10,964)	(7,312)	3,652	(1,605)	(720)	(720)	0	0
Borrowing	(119,196)	(60,573)	58,623	(62,025)	(106,621)	(57,244)	(79,240)	(34,881)
Financing - Totals	**(171,528)**	**(82,228)**	**89,300**	**(115,140)**	**(117,856)**	**(65,614)**	**(84,840)**	**(34,881)**
Housing Revenue Account Capital Expenditure								
- Main Programme	14,930	13,966	(964)	5,525	4,025	4,075	1,400	400
- Provisional schemes	12,457	250	(12,207)	42,012	22,792	16,695	5,575	5,575
Total Expenditure	**27,387**	**14,216**	**(13,171)**	**47,537**	**26,817**	**20,770**	**6,975**	**5,975**
Financed by :								
- Capital Receipts	(6,783)	(2,498)	4,285	(12,869)	(6,653)	(4,839)	(400)	(400)
- Capital Reserves/Revenue	(20,604)	(11,619)	8,985	(24,668)	(10,164)	(5,932)	3,425	4,425
- Borrowing	0	0	0	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Financing - Totals	**(27,387)**	**(14,117)**	**13,270**	**(47,537)**	**(26,817)**	**(20,770)**	**(6,975)**	**(5,975)**

4.19 The programme has slipped in 2020-21 – estimated expenditure on the GF of £171.5 million, has been reduced to £82.2 million. The majority of this relates to expenditure on regeneration schemes and has been moved into later years.

4.20 We split expenditure on housing services between the HRA and GF housing. Any expenditure that relates to the Council's own stock, or its role as a landlord, is accounts for in the HRA capital programme. All other housing related expenditure is accounted for in the GR capital programme.

4.21 Where direct development is concerned, we normally account for site preparation and feasibility costs in the GF programme, but construction costs, most enabling works and other costs incurred after planning approval are accounted for in the HRA capital programme. This is because we bear the preparation costs regardless of who builds the structure.

New capital schemes

4.22 To ensure good governance, the Council has the following process for the capital programme.

4.23 Each year, as part of the budget cycle, officers are asked to submit bids for capital funding covering at least a five-year period, and also for the capital vision.

4.24 Any projects that are expected to be delivered after the five-year period, of those where a scheme has not yet been fully identified are placed on the Councils' Capital Vision [1](see Appendix 8). This allows us to model the potential financial impact of these schemes, and be aware of schemes that are likely to be brought forward onto the GF capital programme in future, and start planning potential funding streams for those schemes.

4.25 Many of the bids in the programme are development projects, and their expenditure and income profile could span beyond the five-year timeframe in this report. This report, therefore, shows a prudent capital programme and any income arising as a result of a development project (either revenue or capital) that is outside of the five years or is currently only estimates, is shown on the capital vision.

4.26 Some capital receipts or revenue streams may arise as a result of investment in particular schemes, but in most cases are currently uncertain and it is too early to make assumptions. Some information has been included in the capital vision highlighting the potential income. It is likely there are cash-flow implications of the development schemes, where income will come in after the five-year time horizon and the expenditure will be incurred earlier in the programme.

4.27 Each project will require a business case, in line with guidance set out in the HM Treasury Green Book ('Green book'). The following applies:

- Projects up to £200,000 – a simple business justification case will be required to justify the spending proposal
- Projects £200,000 and over – will require a 3-stage business case consisting of:
    - a strategic outline case (i.e. the capital bid)
    - a detailed outline business case evaluating the strategic case, economic case (including options appraisal), commercial viability, financial affordability and management case for change – this will be reported to the Executive at the point a project is asking for approval to be moved from the provisional to the approved capital programme

[1] Long-term schemes identified in documents such as the Corporate Plan SCC Local Transport Plan, the Councils' Regeneration Strategy, Local Plan and the emerging Infrastructure Delivery Plan.

- a final business case – setting out the procurement process and evaluation of tenders prior to the contractual commitment of expenditure

4.28 The Council has a limited amount of resources and needs to have regard to the overall affordability of the capital programme in future years. Each scheme, therefore, needs to be evaluated to ensure it meets the Councils' objectives. The criteria is as follows:

a) Each project must meet one of the five spending objectives:
   a. Economy (invest to save, i.e. to reduce cost of services)
   b. Efficiency (i.e. to improve throughput and unit costs)
   c. Effectiveness (improving outcomes for the community)
   d. Retendering to replace elements of the existing service
   e. Statutory or regulatory compliance (i.e. H&S)

b) Each scheme must be assessed against the fundamental themes within the Councils' Corporate Plan to show how well it contributes towards achieving the strategic objectives of the Council

c) Each scheme must have a cost benefit analysis, detailing the Net Present Value calculation (NPV) of both cash-flows and quantifiable economic benefits, payback period, Internal Rate of Return (IRR), Peak Debt and the assessment of its Revenue impact.

d) NPV is to be the most important criteria and must remain positive over a range of sensitivities for the Council to invest

e) NPV calculation must use the recommended treasury discount rate in the Green Book, currently at 3.5%

f) The revenue impact must be neutral or positive on the GF for all investment projects

g) All projects should assess the qualitative benefits

4.29 Bids are submitted for initial review by the officer led CMG in September. Their role is to scrutinise the bids, and review them in line with the overall capital programme. CMT will then review the updated bids, along with the financial impacts and NPV scores. Once CMT are fully supportive of the bids the relevant Lead Councillor will be given a copy, and they will be presented to Councillors in the JEABBWG for review and scrutiny in November/December before being passed through the Committee Cycle and ultimately being approved at Full Council in February.

4.30 The Council may set an affordability limit based on what the GF can afford for implications of the capital programme (primarily MRP and borrowing interest). The idea is that where there are some essential schemes that will not generate income there is an allowance in the revenue account to accommodate the revenue impact of those.

4.31 This local limit is based on the maximum increase in financing costs on the GF revenue account each year to £5 per Band D property, which is the maximum amount by which the Council can raise its Band D council tax.

4.32 The impact is that there will be a limit to the number of Essential capital schemes (ie those that need to be undertaken for statutory/compliance reasons, are required to maintain service provision at existing levels or prevent cost escalation, or are infrastructure schemes). Based on an average asset life of 25 years for MRP purposes, the limit for new essential schemes to be funded by borrowing for each financial year in the capital programme will be:

	2021-22 Projection	2022-23 Projection	2023-24 Projection	2024-25 Projection	2025-26 Projection
Affordable increase in financing costs	288,229	285,797	204,240	211,474	101,689
Maximum limit on non-development capital schemes	7,205,720	7,144,925	5,105,993	5,286,842	2,542,224

4.33 This limit does not apply to development capital schemes (i.e. those that will be undertaken for economic growth, regeneration, redevelopment or income generation purposes, titled development/infrastructure – non financial benefit and development – financial benefit) as these schemes are defined as those which are anticipated to have a neutral or positive impact on the GF revenue account or on the town. This means that annual savings or additional income achieved from an investment capital schemes is greater than its financing costs over a range of scenarios will generate a positive benefit to the financial sustainability of the Council. The approval of these schemes will be made on a case-by-case basis following submission of an outline business case.

4.34 No new bids were received for 2021-22.

4.35 Once Councillors have approved the new bids, they will be added to the provisional capital programme, unless the business case specifically recommends the scheme be implemented immediately, explaining in detail why.

4.36 Most projects over £200,000 require a further outline business case to be approved by the Executive before a project can be moved from the provisional to the approved programme, and authority is provided for officers to start implementing the project. Any project under £200,000 can be moved under delegation.

4.37 The net addition of the new bids for the GF is assumed to be funded by borrowing. The HRA new bids are assumed to be funded 1/3 capital receipts, 1/3 borrowing and 1/3 capital reserves.

5. Treasury management, borrowing and investment strategy

5.1 Treasury management is the management of the Councils' cash flows, borrowing and investments and the associated risks. The Council both borrows and invests substantial amounts of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Councils' prudent financial management.

5.2 Treasury risk management at the Council is conducted within the framework of the CIPFA Treasury Management in the Public Services: Code of Practice 2017 ('TM Code') which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Councils' legal obligation under the Local Government Act 2003 to have regard to the TM Code.

Capital Financing Requirement (CFR)

5.3 With the current treasury position, and future capital expenditure plans known, we can prepare a table showing the extent of our need to borrow for capital purposes (the CFR), and what we have borrowed, compared to our level (and projected level) of reserves. We split this between the HRA and the GF.

5.4 The CFR is derived from unfinanced capital expenditure, which arises when there are no capital receipts or reserves available to fund the capital programme.

5.5 The Councils' investments consist of usable reserves and working capital and are the underlying resources available for investment. In the table below, we are also showing a minimum investment balance of £45 million. This represents the minimum level of cash / investments we will hold at any point in time, to maintain sufficient liquidity.

5.6 The liability benchmark assumes:

- an allowance for currently known capital expenditure, until 2025-26, and then an assumed level of £25 million per annum for general capital bids, plus anticipated capital programme and capital vision items where the costs and timings can be estimated
- MRP has been allowed for based on the underlying need to borrow for the GF capital programme until 2024-25, and then projected forward based on the assumed level of capital expenditure with MRP over 25 years' repayment period
- income, expenditure and reserves are updated until 2029-30, based on estimated income and expenditure and then projected forward by using 1% inflation adjustment each year to allow for transfers to reserves each year.

Guildford BC

Balance Sheet Summary and Projections in £'000 - last updated 18 Nov 2020

31st March:	2019	2020	2021	2022	2023	2024	2025
Loans Capital Financing Req.	294,706	312,124	380,754	452,131	556,666	640,216	703,774
Less: External Borrowing	(212,702)	(192,665)	(192,435)	(147,435)	(147,435)	(137,435)	(127,435)
Internal (Over) Borrowing	**82,004**	**119,459**	**188,319**	**304,696**	**409,231**	**502,781**	**576,339**
Less: Usable Reserves	(164,974)	(168,628)	(176,489)	(186,701)	(199,100)	(213,116)	(227,031)
Less: Working Capital Surplus	(12,361)	(12,361)	(12,361)	(12,361)	(12,361)	(12,361)	(12,485)
(Investments) / New Borrowing	**(95,331)**	**(61,530)**	**(531)**	**105,634**	**197,770**	**277,304**	**336,823**
Net Borrowing Requirement	117,371	131,135	191,904	253,069	345,205	414,739	464,258
Preferred Year-end Position	45,000	45,000	45,000	45,000	45,000	45,000	45,450
Liability Benchmark (year-end)	**162,371**	**176,135**	**236,904**	**298,069**	**390,205**	**459,739**	**509,708**
Peak to Trough Cash Flow	(7,388)	(7,462)	(7,536)	(7,612)	(7,688)	(7,765)	(7,842)
Liability Benchmark (mid-year)	**154,983**	**168,674**	**229,367**	**290,457**	**382,517**	**451,975**	**501,866**

Housing Revenue Account - Summary and Projections in £000

31st March:	2019	2020	2021	2022	2023	2024	2025
HRA Loans CFR	197,024	207,024	217,024	227,024	237,024	237,024	237,024
HRA Reserves	(116,224)	(119,420)	(127,510)	(137,593)	(151,112)	(165,935)	(179,818)
HRA Working Capital	0	0	0	0	0	0	0
HRA Borrowing	(192,895)	(192,665)	(192,435)	(147,435)	(147,435)	(137,435)	(127,435)
HRA Cash Balance	**(112,095)**	**(105,061)**	**(102,921)**	**(58,004)**	**(61,523)**	**(66,346)**	**(70,229)**

General Fund - Summary and Projections in £000

31st March:	2019	2020	2021	2022	2023	2024	2025
GF Loans CFR	97,682	105,100	163,730	225,107	319,642	403,192	466,750
GF Reserves	(48,750)	(49,208)	(48,979)	(49,108)	(47,988)	(47,181)	(47,214)
GF Working Capital	(12,361)	(12,361)	(12,361)	(12,361)	(12,361)	(12,361)	(12,485)
GF Borrowing	(19,807)	0	0	0	0	0	0
GF Cash Balance	**16,764**	**43,531**	**102,390**	**163,638**	**259,293**	**343,650**	**407,052**

5.7 The liability benchmark shows the lowest risk level of borrowing – i.e. using the Councils' overall cash to fund the capital programme, and only externalising the borrowing when our minimum liquidity requirement is reached.

5.8 The differential between the CFR and the level of reserves is the Councils' overall external borrowing need. Where the external borrowing amount is lower than the CFR, it means we have internally borrowed and used non-capital receipts and reserves to initially finance capital expenditure (i.e. the Councils' overall cash). Items on the capital vision are currently excluded, mainly because the cost and/or timings of the schemes are unknown.

5.9 The Prudential Code recommends that the Councils' total debt (external borrowing) should be lower than its forecast CFR over the next three years – in other words, not over borrowing. The table shows the Councils' internal / (over) borrowing position and shows that we are expecting to comply with this recommendation.

5.10 The table shows our gross debt position against our CFR. This is one of the Prudential Indicators, and is a key indicator of prudence. This indicator aims to ensure that, over the medium-term, debt will only be for a capital purpose. We monitor this position and demonstrate prudence by ensuring that medium to long-term debt does not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years (2019-20 to 2021-22). The liability benchmark is expected to increase to £510 million by March 2025.

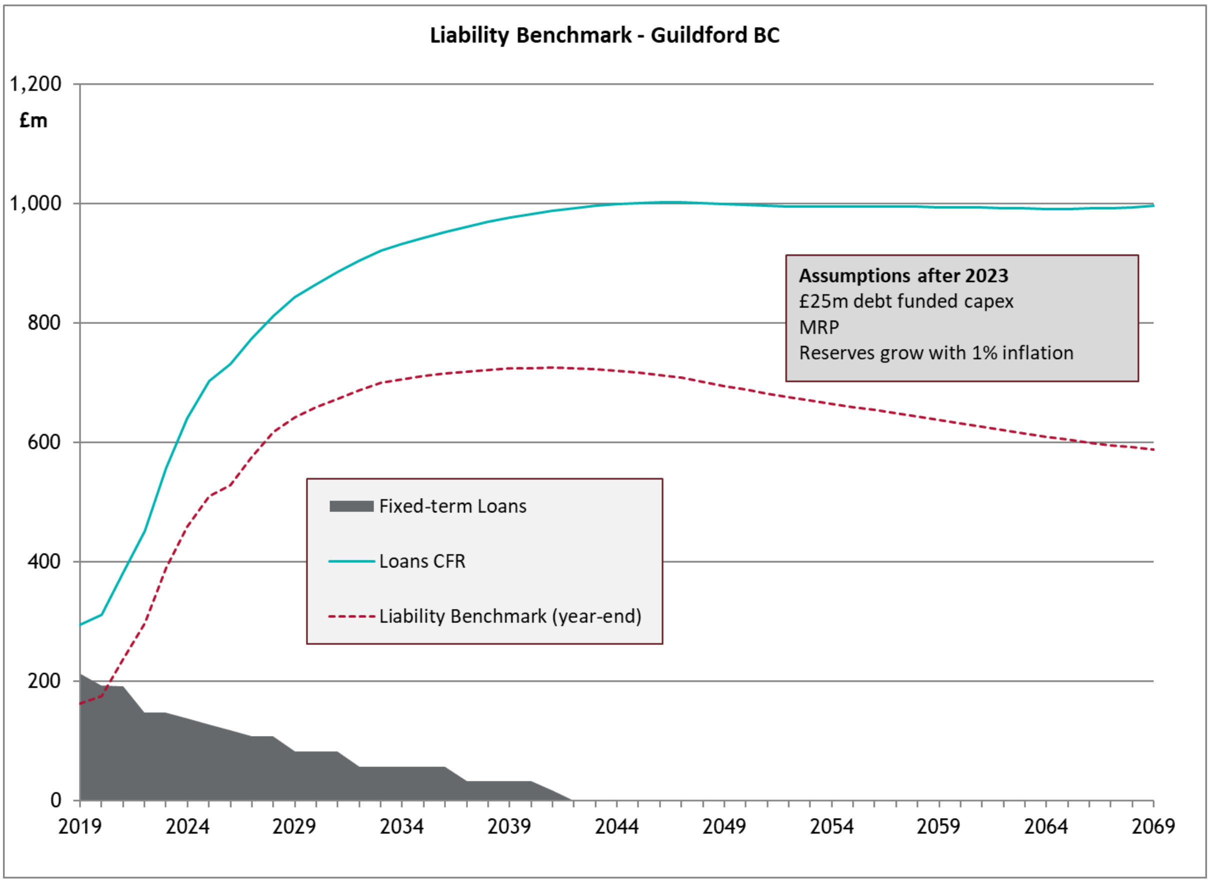
5.11 The Council has an increasing CFR due to the increasing need to borrow for the GF capital programme. The increase in estimated capital spend is more than the annual MRP. We are projecting the cash balance of the Council to reduce, whilst maintaining a good level of (core) reserves over the period shown in the table.

5.12 HRA reserves are decreasing over the early part of the period because of the HRA plans to build new social housing. Our priority is to build new homes rather than reduce debt, although moving forward the table does not include any new borrowing, to show the true cash position of the HRA, and, therefore, the requirement to refinance borrowing.

5.13 GF reserves are projected to remain stable (our core cash). The CFR is increasing sharply due to the proposed capital programme. We are projecting a small need to borrow for the Council as a whole from 2021-22, based on the current profile of the capital programme. We have taken out short-term loans in the year to cover cash flow.

5.14 Working capital is the net of debtors and creditors we have at the end of the financial year, and will vary during the year. If we owe more money to creditors than we are owed by debtors, the working capital is a negative figure (as in the table above).

5.15 The liability benchmark can also be presented graphically:



5.16 The red solid line is the liability benchmark (the lowest risk strategy). If the liability benchmark line rises above the amount of loans we have (shaded area), we need to borrow externally and no longer have any internal borrowing capacity.

Borrowing strategy

5.17 The Council's chief objective when borrowing money is to strike an appropriately low risk between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Councils' long term plans change is a secondary objective.

5.18 Given the significant cuts to public expenditure and in particular local government funding, our borrowing strategy continues to focus on affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources or to borrow short-term instead.

5.19 We will not automatically externally borrow for the GF when the cash balance is negative, although we will review the position in line with our borrowing strategy and the cash position for the Council as a whole.

5.20 When making decisions about longer-term borrowing, we will review the liability benchmark, as opposed to just the CFR, to assess the length of time we need to borrow for, according to our projections on the level of reserves we may have, as well as other factors detailed in our borrowing strategy. This helps to limit a number of treasury risks of holding large amounts of debt and investments. We will also assess borrowing based on individual projects.

5.21 By doing this, we are able to reduce net borrowing costs (despite forgone investment income) and reduce overall treasury risk.

5.22 We will undertake some modelling taking into account the projects listed in the Corporate Plan and capital vision, for example, which will tell us the potential impact on our borrowing requirement.

5.23 We will continue to monitor our internal borrowing position against the potential of incurring additional interest costs if we defer externalising borrowing into the future when long-term borrowing costs are forecast to rise modestly. Arlingclose will assist us with this ‘cost of carry’ and breakdown analysis in line with our capital spending plans. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2021-22 with a view to keeping future interest costs low, even if this causes additional cost in the short term.

5.24 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council needs to avoid this activity in order to retain access to PWLB funding.

5.25 The Council may decide to externalise our current internal borrowing, or to pre-fund future years’ requirement, providing this does not exceed the authorised borrowing limit and the highest level of the CFR in the next three years (to ensure we do not over borrow).

5.26 Its output may determine whether we arrange forward stating loans during 2021-22, where the interest is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

5.27 We may continue to borrow short-term for cash flow shortages.

Sources of borrowing

5.28 We have previously borrowed our long-term HRA borrowing from the PWLB. We will review all borrowing sources moving forwards and may explore the possibility of issuing bonds and similar instruments in order to lower interest costs and reduce over reliance on one source of funding, in line with the CIPFA Code.

5.29 We will consider, but are not limited to, the following long- and short-term borrowing sources:

- HM Treasury’s PWLB lending facility
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the local pension fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

5.30 We may also raise capital finance by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase

- sale and leaseback

Municipal Bond Agency (MBA)

5.31 UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB because:

a) borrowing authorities will be required to provide bonds investors with a guarantee to refund their investment in the event that the agency is unable to for any reason and
b) there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

Short-term and variable rate loans

5.32 These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the following interest rate exposure limits indicator, which is set to control the Councils' exposure to interest rate risk. Financial derivatives may be used to manage this interest rate risk (see below).

5.33 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

5.34 We are also required to present the maturity structure of borrowing. This indicator is set to control the Councils' exposure to refinancing risk, in terms of loans being unavailable. The upper and lower limits of on the maturity structure of borrowing will be:

Maturity Structure of borrowing		
	2020-21	
	Lower	Upper
Under 12 months	0%	50.00%
1 year to 2 years	0%	50.00%
3 years to 5 years	0%	60.00%
6 years to 10 years	0%	75.00%
11 years and above	0%	100.00%

5.35 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Debt Rescheduling

5.36 The PWLB allows local authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk and where we have enough money in reserves to fund the repayment.

Investment strategy

5.37 The CIPFA TM code requires the Council to invest its treasury funds prudently, and to have regard to the security (protecting capital sums from loss) and liquidity (keeping money readily available for expenditure when needed or having access to cash) of investments before seeking the highest rate of return, or yield. The

Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.38 Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5.39 The Covid-19 pandemic has increased the chance that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of the investment. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

5.40 Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to continue to diversify into more secure and, where possible, higher yielding asset classes during 2021-22. This is especially the case for our longer-term investments. This diversification will represent a continuation of the new strategy adopted in 2015-16.

5.41 The Council has had a review undertaken, and as such, linked to the profile of the capital programme, the optimum asset allocation is:

Overnight liquidity	5%
Long-term fixed deposits (1-3years)	21%
Unsecured bonds (1-4years)	21%
Covered bonds (1-5 years)	23%
External funds	5%
Revolving credit facility	2%
Asset backed securities	10%
Private bonds	13%

This will be reviewed annually.

5.42 Diversification is key. All investments can earn extra interest, but not all investments will default. Also, to highlight the need for security and diversification it takes a long time of earning an extra 1% of interest cover to cover the 20% to 50% loss from a default. It is unlikely we will be able to move away from unsecured deposits entirely, but the less in this category and the more diversified the portfolio is the better the spread of risk.

5.43 Under the new IRFS 9 accounting standard, the accounting of certain investments depends on the Councils' 'business model' for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and, therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Counterparty limits

5.44 Limits per counterparty on investments are shown in the table below:

Sector	Time limit	Counterparty limit	Sector limit
UK Government	50 yrs	unlimited	n/a
Local authorities and other Government entities	25 yrs	£10 million	unlimited
Secured investments	25 yrs	£10 million	unlimited
Banks (unsecured)	13 mths	£6 million	unlimited
Building Societies (unsecured)	13 mths	£6 million	£15 million
Registered providers (unsecured)	5 yrs	£6 million	£20 million
Money Market Funds	n/a	£20 million	unlimited
Strategic pooled funds	n/a	£10 million	£50 million
Real estate investment trusts	n/a	£10 million	£20 million
Other investments	5 yrs	£10 million	£20 million

5.45 The time limits shown are the maximum from the start of an investment, and operationally we could have a shorter duration.

5.46 We have set limits to try and avoid default on our investments, although this may not always be successful. By setting realistic, but prudent limits we are forcing diversification which aims to help reduce the value of a default if we are exposed to one.

5.47 Credit rating: investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.48 Secured investments: investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

5.49 Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

5.50 Government: loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

5.51 Registered providers (unsecured): loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formally known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

5.52 Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

5.53 Pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority’s investment objectives will be monitored regularly.

5.54 Bond, equity and property funds offer enhanced returns over the longer-term, but are more volatile in the short-term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting our investment objectives will be monitored regularly.

5.55 Real estate investment trusts: shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with the property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

5.56 Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority’s investment at risk.

5.57 Operational bank accounts: the Council may incur operational exposures, for example, through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the change of the Council maintaining operational continuity.

5.58 HSBC are our bankers. We may place investments with them, and on occasions we may be in a position where we have received some unexpected cash, and we may, therefore, breach the unsecured limit. We would aim for this to be for as short a duration as possible.

5.59 In addition, we may make an investment that is defined as capital expenditure by legislation, such as company shares.

5.60 We may invest in investments that are termed ‘alternative investments’. These include, by way of example, but are not limited to, things such as renewable energy bonds (solar farms) and regeneration bonds. These are asset backed bonds, offering good returns, and will enable the Council to enter new markets, thus furthering the diversification of our investment portfolio with secured investments and enhancing yield. Any investments entered into of this type will be subject to a full due diligence review.

Risk and credit ratings

5.61 Arlingclose obtain and monitor credit ratings and they notify us with any changed in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

5.62 Where credit rating agencies announce that a credit rating is on review for possible downgrade (“rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, we will limit new investments with that organisation to overnight until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.63 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the institutions in which we invest, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council’s treasury management and investment advisors.

5.64 We will not make investments with any organisation if there are substantive doubts about its credit quality, even if it meets the above criteria.

5.65 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of our investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to meet the Councils’ cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

5.66 We will measure and manage our exposure to treasury management risk by using the following indicators:

- Security: we have adopted a voluntary measure of our exposure to credit risk by monitoring the value-weighted average credit rating of our investment portfolio. This is calculated by applying a score to each investment based on credit ratings (AAA=1, AA+=2 etc) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. The average portfolio credit rating target is set for A for 2021-22.
- Liquidity: we monitor our liquidity for a given financial year using an online cash-flow system. We project forward for the financial year, and enter all known cash transactions at the beginning of the financial year and then update the position on a daily basis. This forms the basis of our investment decisions in terms of duration and value of investments made. We have set £40 million as our minimum liquidity requirement. We also have a high-level cash flow projection over four years.

5.67 Principal sums invested for periods longer than a year: the purpose of this indicator is to control the Councils' exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2020-21 Approved	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
Upper limit for total principal sums invested for longer than a year	£50m	£50m	£40m	£30m

5.68 Where we invest longer-term we strike a balance between tradeable and fixed term investments. Whilst we do not enter into the tradeable deposits with the intention of selling, we are helping mitigate the risk exposure by using these types of investments so if we have a liquidity problem we can liquidate these investments prior to maturity at nil or minimal cost.

6. Other items

6.1 There are a number of additional items the Council is obliged by CIPFA and/or MHCLG to include in our strategy.

Policy on the use of Financial Derivatives

6.2 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits).

6.3 The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

6.4 The Council will only use standalone derivatives (such as swaps, forwards, futures, and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

6.5 We may arrange financial derivative transactions with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

6.6 In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Derivative

6.7 The Council has opted up to professional client status with its providers of financial services, allowing it to access a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of our treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Policy on apportioning interest to the HRA

6.8 The Council operates a two-pooled approach to its loans portfolio, which means we separate long-term HRA and GF loans.

6.9 Interest payable and other costs or income arising from long-term loans (for example premiums and discounts on early redemption) will be charged or credited to the respective account. Differences between the value of the HRA loans pool and the HRAs underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance, which may be positive or negative.

6.10 We will charge long-term loan interest on an actual basis, as incurred.

6.11 For notional cash balances we will apply the average DMO rate for the year. This rate is the lowest credit risk investment. We apply this because if there are any investment defaults it will be a charge to the GF, regardless of whether it was HRA cash that was lost.

Appendix 2

To follow

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Agenda item number: 6
Appendix 3

GENERAL FUND CAPITAL PROGRAMME - ESTIMATED EXPENDITURE 2020-21 to 2025-26

Ref	Verto ref	Code	Directorate/Service and Capital Scheme name	Approved gross estimate	Cumulative spend at 31-03-20	2020-21 Estimate approved by Council in February	Revised estimate	Expenditure at end P8	Projected exp est by project officer	2021-22 Est for year	2022-23 Est for year	2023-24 Est for year	2024-25 Est for year	2025-26 Est for year	Future years est exp	Projected expenditure total	Grants / Contributions towards cost of scheme	Funded from Reserves	Net cost of scheme
				(a) £000	*(b)* £000	*(c)* £000	*(d)* £000	*(e)* £000	*(f)* £000	*(ii)* £000	*(iii)* £000	*(iv)* £000	*(v)* £000	*(v)* £000	*(g)* £000	*(b)+(g) = (h)* £000	*(i)* £000		*(h)-(i) = (j)* £000
			APPROVED SCHEMES																
			COMMUNITY DIRECTORATE																
			General Fund Housing																
	PR381	N51008	Disabled Facilities Grants		annual	605	605	169	605	605	605	605	605	-	2,420	3,025	(806)	-	2,219
		N51019	Better Care Fund		annual	-	-	122	-	-	-	-	-	-	-	-	-	-	-
	PR381	N51020	Home Improvement Assistance		annual	-	-	10	-	-	-	-	-	-	-	-	-	-	-
	PR381	N51021	Solar Energy Loans		annual	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		N51023	BCF TESH Project		annual	-	-	3	-	-	-	-	-	-	-	-	-	-	-
		N51024	BCF Prevention grant		annual	-	-	15	-	-	-	-	-	-	-	-	-	-	-
		N51030/32	SHIP		annual	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			General Grants to HAs		annual	100	100	-	100	100	100	100	100	-	400	500	-	-	500
		N55*	General feasibility, site preparation costs for affordable		annual	120	120	-	120	120	120	120	120	-	480	600	-	-	600
		N55011	Bright Hill Car Park Site		43	-	-	33	-	-	-	-	-	-	-	-	-	-	-
		N55014	Garage Sites-General		161	-	-	2	-	-	-	-	-	-	-	-	-	-	-
		N55017	Guildford Park feasibility					8											
		N55020	Shawfield					0											
		N55021	Site B10b feasibility		2	-	-	0	-	-	-	-	-	-	-	-	-	-	-
		N55022	Redevelopment bid 13		109	-	-	48	-	-	-	-	-	-	-	-	-	-	-
			Corporate Prorperty		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ED14(e	PR159	P72**	Void investment property refurbishment works	570	324	170	191	-	191	-	-	-	-	-	-	570	-	-	570
		P74077	Unit 2 The Billings void works	-	-	-	36	22	36	-	-	-	-	-	-			-	
ED14		P72031	5 High Street void works	-	-	-	19	8	8	11					11			-	
ED14		P72047	10 Midleton void works	230	7	-	223	68	223	-	-	-	-	-	-	230	(100)	-	130
ED21		P72022	Methane gas monitoring system	100	45	-	51	-	0	51	-	-	-	-	51	100	-	-	100
ED21a		P72046	Methane gas monitoring Depots	-	-	-	4	-	4	-	-	-	-	-	-			-	
ED22		P74058	Energy efficiency compliance - Council owned properties	245	82	137	163	0	0	163	-	-	-	-	163	245	-	-	245
ED26		P51*	Bridges -Inspections and remedial works	317	197	-	120	-	20	100	-	-	-	-	100	317	-	-	317
ED35			Electric Theatre - new boilers	120	-	-	120	-	120	-	-	-	-	-	-	120	-	-	120
ED41	PR162	P74064	The Billings roof	200	27	175	173	2	3	170	-	-	-	-	170	200	-	-	200
ED44	PR210 &	P05012	Broadwater cottage	319	93	-	226	122	226	-	-	-	-	-	-	319	-	-	319
ED45	PR257	P18190	Gunpowder mills - scheduled ancient monument	222	9	52	212	182	212	-	-	-	-	-	-	222	-	-	222
ED51(p	PR424	P10010	Guildford House Exhibition lighting	50	-	50	50	-	50	-	-	-	-	-	-	50	-	-	50
ED47	PR385	P74070	Cladding of Ash Vale units (no longer reqd)	145	5	92	140	-	-	-	-	-	-	-	-	5	-	-	5
ED53	BID97	P74072	Tyting Farm Land-removal of barns and concrete	200	8	-	192	54	192	-	-	-	-	-	-	200	-	-	200
ED56	2-1920	P74073	Foxenden Tunnels safety works	110	22	-	88	5	88	-	-	-	-	-	-	110	-	-	110
ED57	3-1920	P74074	Holy Trinity Church boundary wall	63	8	-	55	43	47	2	-	-	-	-	2	57	-	-	57
CP1	1-2021	P18414	SMP Ph1 Calorifer replacement	28	-	28	28	-	-	28	-	-	-	-	28	28	-	-	28
CP2	2-2021	P18415	SMP Main pavilion amenity club	50	-	50	50	-	50	-	-	-	-	-	-	50	-	-	50
CP3	3-2021	P18416	SMP cricket pavilion	120	-	120	120	3	4	116	-	-	-	-	116	120	-	-	120
			Office Services																
BS4	BID205	P50016	Hydro private wire - Tollhouse to Millmead	4	3	-	1	-	1	-	-	-	-	-	-	4	-		4
			COMMUNITY DIRECTORATE TOTAL	**3,092**	**1,146**	**1,699**	**3,086**	**920**	**2,299**	**1,466**	**825**	**825**	**825**	**0**	**3,941**	**7,071**	**(906)**		**6,166**
			ENVIRONMENT DIRECTORATE																
			Operational Services																
OP1/OP		P66*	Flood resilience measures (use in conjunction with grant	445	324	21	121	-	0	121	-	-	-	-	121	445	-		445
OP5	PR275	P35017	Mill Lane (Pirbright) Flood Protection Scheme	71	55	-	16	-	-	16	-	-	-	-	16	71	(19)		52
OP6	PR304	P58012	Vehicles, Plant & Equipment Replacement Programme	10,665	6,099	4,220	4,566	57	4,000	566	-	-	-	-	566	10,665	(26)		10,639
OP22		P53005	Litter bins replacement (complete)	265	112	153	153	-	-	-	-	-	-	-	-	112	-		112
OP26	PR264	P35022	Merrow lane grille & headwall construction	60	3	57	57	-	-	57	-	-	-	-	57	60	-		60
OP27	PR271		Merrow & Burpham surface water study	15	-	-	15	-	-	15	-	-	-	-	15	15	-		15
OP28	PR284		Crown court CCTV	10	-	-	10	-	-	10	-	-	-	-	10	10	-		10
OP22	5-1920		Town Centre CCTV upgrade	250	-	-	250	-	-	250	-	-	-	-	250	250	-		250
			Parks and Leisure						-										
PL11	PR141	P22062	Spectrum Roof replacement	4,000	1,680	-	271	72	120	151	-	-	-	-	151	3,100	-		3,100
		P22063/P2	Spectrum roof - steelwork ph2	-	409	-	-	-	-	-	-	-	-	-	-	-	-		-
		P22065	Spectrum roof - steelwork ph3	-	740	-	-	-	-							-			-
PL15			Infrastructure works: Guildford Commons	150	3	-	3	1	3	-	-	-	-	-	-	6	-		6
PL15(a)		P18183	Infrastructure works: Guildford Commons: Merrow	-	15	-	-	-	-	-	-	-	-	-	-	15	-		15
PL15(b)		P18184	Infrastructure works: Guildford Commons: Shalford	-	129	-	-	-	-	-	-	-	-	-	-	129	-		129
PL20(b)		P18208	Westnye Gardens play area	125	122	-	3	5	3	-	-	-	-	-	-	125	(3)		122
PL20(c)		P18224	Redevelopment of Westborough and Park barn play area	320	-	295	320	-	-	320	-	-	-	-	320	320	-		320
PL34	PR186		Stoke cemetry re-tarmac	47	-	47	47	-	-	47	-	-	-	-	47	47	-		47
PL35	PR211	P18194	Woodbridge rd sportsground replace fencing(complete)	280	262	-	19	15	19	-	-	-	-	-	-	280	-		280
PL42		P20001	Pre-sang costs	100	51	-	49	5	49	-	-	-	-	-	-	100	-		100
PL57	BID211	P18215	Parks and Countryside - repairs and renewal of paths,roads	165	121	-	44	16	44	-	-	-	-	-	-	165	-		165
PL24	PR212	P18219	Kings college astro turf	547	494	-	53	3	18	-	-	-	-	-	-	512	(401)		111
PL58	1-1920	P18220	Shalford Common - regularising car parking/reduction of	121	22	99	99	-	-	99	-	-	-	-	99	121	-		121
		P18223	Allen House Pavillion - Roof Works	30			30	-	30	-	-	-	-	-	-	30	-		30
PL60	7-1920	P18222	Traveller encampments - Bellfields Green	82	62	10	20	15	20	-	-	-	-	-	-	82	-		82
PL60	7-1920	P18226	Traveller encampments - Shalford Common	48		-	48	-	-	48	-	-	-	-	48	48	-		48
PL60	7-1920	P18231	Traveller encampments - Christchurch Spectrum	5		5	5	-	5	-	-	-	-	-	-	5	-		5
			ENVIRONMENT TOTAL DIRECTORATE	**17,801**	**10,702**	**4,907**	**6,199**	**189**	**4,311**	**1,700**	**-**	**-**	**-**	**-**	**1,700**	**16,713**	**(448)**		**16,265**
			FINANCE DIRECTORATE																
			Financial Services																
FS1	PR303		Capital contingency fund	annual	-	5,000	4,900	-	900	5,000	5,000	5,000	5,000	-	20,000	20,900	-		20,900
			RESOURCES DIRECTORATE TOTAL	**0**	**0**	**5,000**	**4,900**	**0**	**900**	**5,000**	**5,000**	**5,000**	**5,000**	**0**	**20,000**	**20,900**	**0**		**20,900**
			DEVELOPMENT/INCOME GENERATING/COST REDUCTION PROJECTS																
			Development / Infrastructure																
ED54	BID129	P74069	Rodboro Buildings - electric theatre through road and parking	450	17	280	433	6	11	422	-	-	-	-	422	450	-		450

GENERAL FUND CAPITAL PROGRAMME - ESTIMATED EXPENDITURE 2020-21 to 2025-26

Ref	Verto ref	Code	Directorate/Service and Capital Scheme name	Approved gross estimate (a) £000	Cumulative spend at 31-03-20 (b) £000	2020-21 Estimate approved by Council in February (c) £000	Revised estimate (d) £000	Expenditure at end P8 (e) £000	Projected exp est by project officer (f) £000	2021-22 Est for year (ii) £000	2022-23 Est for year (iii) £000	2023-24 Est for year (iv) £000	2024-25 Est for year (v) £000	2025-26 Est for year (v) £000	Future years est exp (g) £000	Projected expenditure total (b)+(g) = (h) £000	Grants / Contributions towards cost of scheme (i) £000	Funded from Reserves	Net cost of scheme (h)-(i) = (j) £000
ED18	PR367	P15011	Museum and castle development	1,652	188	1,020	1,464	14	14	-	-	-	1,450	-	1,450	1,652	-		1,652
ED52	PR437	P74067	Public Realm Scheme (Chapel Street/Castle	2,627	1,011	-	1,616	6	16	-	-	-	1,600		1,600	2,627	-	(1,615)	1,012
P5	PR354	P79027/P7	Walnut Bridge replacement	5,098	1,667	1,593	3,414	108	3,414	17	-	-	-	-	17	5,097	(2,482)	(950)	1,665
ED32	PR028	P79026	Internal Estate Road - CLLR Phase 1	11,139	10,571	-	568	111	568	-	-	-	-	-	-	11,139	(5,107)		6,032
P9c		P79030	Town Centre Gateway Regeneration	3,523	50	3,480	3,473	-	-	-	-	-	3,473	-	3,473	3,523	-		3,523
		P79032	SMC(West) Phase 1	4,403	1,192	2,975	3,211	252	1,553	1,658	-				1,658	4,403	(3,228)		1,175
P16	BID111	P79033	A331 hotspots	3,930	269	3,146	3,661	25	3,161	500	-	-	-	-	500	3,930	(2,939)		991
P14	PR402	P79034	Town Centre Approaches	1,033	7	816	1,026	9	603	400	-	-	-	-	400	1,010	(700)		310
P22		P79036	Ash Bridge Land acquistion	120	104	-	16	-	16	-	-	-	-	-	-	120	-		120
P21		P79037	Ash Road Bridge	4,060	1,803	2,214	2,257	412	1,000	1,257	-	-	-	-	1,257	4,060	(4,060)		-
P11	PR364 &		Guildford West (PB) station	500	-	-	500	-	-	500	-	-	-	-	500	500	-		500
			Development Financial																
	PR130	P79996	Investment in North Downs Housing (60%)	15,180	8,183	4,500	5,315	414	5,315	1,682	-	-	-	-	1,682	15,180	-		15,180
	PR130	P79997	Equity shares in Guildford Holdings ltd (40%)	10,120	5,460	3,000	3,543	277	3,543	1,117	-	-	-	-	1,117	10,120	-		10,120
ED25	PR233	P79025 /	Guildford Park - Housing for Private and infrastructure works	6,500	3,444	3,462	3,056	-	(0)	-	-	-	-	-	-	3,444	-		3,444
ED49	PR395	P72037	Middleton Ind Est Redevelopment	9,350	1,895	5,500	7,455	1,268	3,755	3,700	-	-	-		3,700	9,350			9,350
P12	PR371	P72045	Strategic property acquisitions	8,520	7,024	-	1,496	638	1,496	-	-	-	-	-	-	8,520	-		8,520
DF1	4-2021		Property acquisition	20,000		20,000	20,000		-	20,000	-	-			20,000	20,000	-	-	20,000
PL9	PR136	P05009	Rebuild Crematorium	11,822	10,381	-	1,441	394	1,441	-	-	-	-	-	-	11,822	-		11,822
ED27		P79023	North Street Development / Guild Town Centre regeneration	1,477	861	736	616	65	616	-	-	-	-	-	-	1,477	(50)		1,427
ED6	PR350	P74039 /	Slyfield Area Regeneration Project (SARP)	31,259	5,202	700	8,750	4,992	8,750	2,211	3,435	3,436	-	-	9,082	31,459	(1,677)		29,782
ED6	PR350	P79100/P1	WUV - Allotment relocation	200	158	160	-	99	-	-									
ED6	PR350	P79101	WUV - Int roads, Site clearance	-	1	-	-	-	-										
ED6	PR350	P79102	WUV - New GBC Depot	2,480	0	-	2,480	5	2,480						-	2,480			2,480
ED6	PR350	P79104	WUV - Thames Water relocation	-	8,267	-	-	436	-										
ED6	PR350	P79106	WUV - Land Purchase	-	-	-	-	1,091	-										
			DEVELOPMENT/INCOME GENERATING/COST REDUCTION	**155,443**	**67,755**	**53,582**	**75,790**	**10,623**	**37,751**	**33,464**	**3,435**	**3,436**	**6,523**	**0**	**46,858**	**152,364**	**(20,243)**	**(2,565)**	**129,556**
			APPROVED SCHEMES TOTAL	**176,336**	**79,603**	**65,188**	**89,975**	**11,732**	**45,261**	**41,630**	**9,260**	**9,261**	**12,348**	**0**	**72,499**	**197,049**	**(21,597)**	**(2,565)**	**172,887**

non-development projects total	20,893	11,848	11,606	14,185	1,109	7,510	8,166	5,825	5,825	5,825	0	25,641	44,685	(1,354)	0	43,331
development/infrastructure - non-financial benefit	38,535	16,879	15,524	21,639	943	10,356	4,754	0	0	6,523	0	11,277	38,512	(18,516)	(2,565)	17,430
development- financial benefit	116,908	50,876	38,058	54,151	9,680	27,395	28,710	3,435	3,436	0	0	35,581	113,853	(1,727)	0	112,126
TOTAL	176,336	79,603	65,188	89,975	11,732	45,261	41,630	9,260	9,261	12,348	0	72,499	197,049	(21,597)	(2,565)	172,887

Agenda item number: 6
Appendix 4

GENERAL FUND CAPITAL PROGRAMME - ESTIMATED EXPENDITURE 2020-21 to 2025-26

Ref	Verto ref	Code	Directorate / Service Units Capital Schemes	Gross estimate approved by Executive (a) £000	Cumulative spend at 31-03-20 (b) £000	2020-21 Estimate approved by Council in February (c) £000	Revised estimate (e) £000	Expenditure at end P8 (f) £000	Projected exp est by project officer (g) £000	2021-22 Est for year (i) £000	2022-23 Est for year (ii) £000	2023-24 Est for year (iii) £000	2024-25 Est for year (iv) £000	2025-26 Est for year (v) £000	2026-27 Est for year (v) £000	2027-28 Est for year (v) £000	2027-28 est for yr and SARP to 3233 (v) £000	Future years estimated expenditure (h) £000	Projected expenditure total (b) to (g)=(i) £000	Grants or Contributions towards cost of scheme (j) £000	Net total cost of scheme to the Council (i) - (j) = £000
			PROVISIONAL SCHEMES (schemes approved in principle; further report to the Executive required)																		
			COMMUNITY DIRECTORATE																		
			General Fund Housing																		
CM1(p)	BID264		Old Manor House - replacement windows (no longer reqd)	193	-	193	193	-	-	-	-	-	-	-				-	-	-	-
			Corporate Property																		
ED21(P)			Methane gas monitoring system	150	-	150	150	-	-	-	-	150	-	-	-	-	-	150	150	-	150
ED22(P)			Energy efficiency compliance - Council owned properties	950	-	950	950	-	-	-	-	950	-	-	-	-	-	950	950	-	950
ED26(P)			Bridges	370	-	370	370	-	-	370	-	-	-	-	-	-	-	370	370	-	370
ED48(p)	PR390		Westfield/Moorfield rd resurfacing	3,152	-	3,152	3,152	-	-	-	-	3,152	-	-	-	-	-	3,152	3,152	-	3,152
ED53(p)	BID97		Tyting Farm Land-removal of barns and concrete hardstanding	50	-	-	50		-	-	-	-	-	-				-	-	-	-
ED56(p)	BID261		Land to the rear of 39-42 Castle Street	10		-	10		-	-	10	-	-	-				10	10	-	10
CP4	5-2021		New House works	416		416	416		-	-								-	-	-	-
CP5	6-2021		Energy & CO2 reduction in Council non HRA properties	2,268		268	268		-	768	500	500	500	-				2,268	2,268	-	2,268
			Office Services						-												
CD3(P)			Renewables (no longer reqd)	65		-	65	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BS3(p)	BID201		Millmead House - M&E plant renewal	33		-	-		-	-	33	-	-	-				33	33	-	33
BS4(p)	BID205	P50016	Hydro private wire - Tollhouse to Millmead	82		-	82		-	-	-	-	82	-				82	82	-	82
			COMMUNITY DIRECTORATE TOTAL	**7,739**	**-**	**5,499**	**5,706**	**-**	**-**	**1,138**	**543**	**4,752**	**582**	**-**	**-**	**-**	**-**	**7,015**	**7,015**	**-**	**7,015**
			ENVIRONMENT DIRECTORATE																		
			Operational Services																		
OP5(P)			Mill Lane (Pirbright) Flood Protection Scheme	200	-	-	200	-	-	-	-	200	-	-	-	-	-	200	200	(20)	180
OP6(P)			Vehicles, Plant & Equipment Replacement Programme	780	-	780	780	-	-	780	-	-	-	-	-	-	-	780	780	-	780
OP21(P)	PR281		Surface water management plan	200	-	-	200	-	-	-	-	200	-	-	-	-	-	200	200	-	200
			Parks and Leisure						-												
PL16(P)	PR348	P04006	New burial grounds - acquisition & development	7,834	38	-	50	-	20	30	-	-	-	-	-	-	-	30	88	-	88
PL18(P)			Refurbishment / rebuild Sutherland Memorial Park Pavilion	150	-	-	-	-	-	-	-	150	-	-	-	-	-	150	150	-	150
PL41(P)	PR231		Stoke pk office accomodation & storage buildings	665	-	665	665	-	-	-	-	-	665	-	-	-	-	665	665	-	665
PL45(p)	PR388		Stoke Pk gardens water feature refurb	81	-	-	81	-	-	40	-	-	-	-	-	-	-	40	40	(29)	11
PL55(p)	BID198		Sutherland Memorial Park - electrical works COMPLETE	39	-	-	39	-	-	-	-	-	-	-				-	-	-	-
PL56(p)	BID210		Stoke Park Masterplan enabling costs	500	-	100	100	-	50	200	100	150	-					450	500	-	500
PL57(p)	BID211	P18215	Parks and Countryside - repairs and renewal of paths,roads and	1,572	-	400	772	-	50	1,122	400	-	-	-				1,522	1,572	-	1,572
PL58(p)	BID213		Sports pavillions - replace water heaters	154	-	28	28	-	28	42	42	42	-	-				126	154	-	154
PL59(p)	BID229		Millmead fish pass	60	-	-	60	-	-	60	-	-	-	-				60	60	-	60
PL60(p)	7-1920		Traveller encampments	115		115	115	-	40	75	-	-	-	-				75	115	-	115
			ENVIRONMENT DIRECTORATE TOTAL	**12,350**	**38**	**2,088**	**3,090**	**-**	**188**	**2,349**	**542**	**742**	**665**	**-**	**-**	**-**	**-**	**4,298**	**4,524**	**(49)**	**4,475**
			DEVELOPMENT/INCOME GENERATING/COST REDUCTION PROJECTS																		
			Development / Infrastructure																		
ED18(P)	PR367		Guildford Museum	16,810	-	16,810	16,810	-	-	-	-	-	16,810	-	-	-	-	16,810	16,810	(11,800)	5,010
	PR130	P79996	Investment in North Downs Housing	30,100	-	-	-	-	-	5,518	12,539	-	-	-				18,057	18,057	-	18,057
	PR130	P79997	Equity shares in Guildford Holdings ltd	-	-	-	-	-	-	3,683	8,360	-	-	-				12,043	12,043	-	12,043
P10(p)	PR316		Sustainable Movement Corrider	6,045	-	-	-	-	-	-	-	3,023	3,022	-	-	-	-	6,045	6,045	-	6,045
P11(p)	PR364		Guildford West (PB) station	4,700	-	1,700	1,700	-	-	1,000	2,000	1,700	-	-	-	-	-	4,700	4,700	(3,750)	950
P14(p)	PR402		Guildford Gyratory & approaches	10,967	-	3,500	3,500	-	-	-	-	-	10,967	-	-	-	-	10,967	10,967	(5,000)	5,967
P15(p)	BID139		Guildford bike share	530	-	-	530	-	-	-	100	430	-	-				530	530	-	530
P17(p)	BID169		Bus station relocation	500	-	500	500	-	500	-	-	-	-	-				-	500	-	500
P21(p)			Ash Road Bridge	18,440		18,440	18,440		-	18,440	-	-	-	-				18,440	18,440	(18,440)	-
P21(p)			Ash Road Footbridge	4,800		4,800	4,800		-	4,800								4,800	4,800	(4,800)	-
			Development Financial						**-**												
ED25(P)	PR233		Guildford Park - Housing for Private and infrastructure works	23,125	-	4,380	4,380	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ED49(p)	PR395		Redevelop Midleton industrial estate	5,557	-	5,557	5,557	-	-	5,557	-	-	-	-	-	-	-	5,557	5,557	-	5,557
PL51(p)	PR416		Stoke Park - Home Farm Redevelopment	4,000	-	-	-	-	-	-	-	4,000	-	-	-	-	-	4,000	4,000	-	4,000
ED16(P)	PR350		Slyfield Area Regeneration Project (SARP) (GBC share)	289,869	-	-	7,499	-	-	26,136	69,012	34,206	40,112	34,881	24,342	22,271	38,909	289,869	289,869	(54,158)	235,711
ED38(P)	PR041		North Street development	1,500	-	29,090	500	-	500	1,000	-	-	-	-	-	-	-	1,000	1,500	-	1,500
HC4(p)	PR248		Bright Hill Development	13,500	-	500	680	-	-	680	5,000	7,000	820	-	-	-	-	13,500	13,500	-	13,500
P12(p)	PR371		Strategic property acquisitions	23,292	-	9,492	9,492	-	-	23,292	-	-	-	-	-	-	-	23,292	23,292	-	23,292
DF1	4-2021		Property acquisition	20,000		-	-		-	10,000	10,000	-						20,000	20,000	-	20,000
									-												
			DEVELOPMENT/INCOME GENERATING/COST REDUCTION PROJECTS TOTAL	**473,735**	**-**	**94,769**	**74,388**	**-**	**1,000**	**100,106**	**107,011**	**50,359**	**71,731**	**34,881**	**24,342**	**22,271**	**38,909**	**449,610**	**450,610**	**(97,948)**	**352,662**
			PROVISIONAL SCHEMES - GRAND TOTALS	**493,823**	**38**	**102,356**	**83,184**	**-**	**1,188**	**103,593**	**108,096**	**55,853**	**72,978**	**34,881**	**24,342**	**22,271**	**38,909**	**460,923**	**462,149**	**(97,997)**	**364,152**

	(a)	(b)	(c)	(e)	(f)	(g)	(i)	(ii)	(iii)	(iv)	(v)	(v)	(v)	(v)	(h)	(b) to (g)=(i)	(j)	(i) - (j)
non development projects	20,089	38	7,587	8,796	-	188	3,487	1,085	5,494	1,247	-	-	-	-	11,313	11,539	(49)	11,490
development/infrastructure - non-financial benefit	92,892	0	45,750	46,280	0	500	33,441	22,999	5,153	30,799	0	0	0	0	92,392	92,892	(43,790)	49,102
development- financial benefit	380,843	0	49,019	28,108	0	500	66,665	84,012	45,206	40,932	34,881	24,342	22,271	38,909	357,218	357,718	(54,158)	303,560
TOTAL	493,823	38	102,356	83,184	0	1,188	103,593	108,096	55,853	72,978	34,881	24,342	22,271	38,909	460,923	462,149	(97,997)	364,152

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GENERAL FUND CAPITAL PROGRAMME - S106 ESTIMATED EXPENDITURE 2020-21 to 2024-25

Ref	Project Officer	Code	Service Units / Capital Schemes	Approved gross estimate (a) £000	Cumulative spend at 31-03-20 (b) £000	2020-21 Estimate approved by Council in February (c) £000	Revised estimate (d)	Expenditure at end P8 (e) £000	Projected exp est by project officer (f) £000	2021-22 Est for year (i) £000	2022-23 Est for year (ii) £000	2023-24 Est for year (iii) £000	2024-25 Est for year (iv) £000	2025-26 Est for year (v) £000	Future years est exp (g) £000	Projected expenditure total (b)+(g) = (h) £000	Grants / Contributions towards cost of scheme (i) £000	Net cost of scheme (h)-(i) = (j) £000	Total net cost approved by Executive (k) *£000*
			APPROVED SCHEMES (fully funded from S106 contributions)																
			ENVIRONMENT DIRECTORATE																
			Operational Services																
			Parks and Leisure																
S-PL36	HJ	P18177	Gunpowder mills - signage, access and woodland imps	36	20	-	16	1	16	-	-	-	-	-	-	36	**(36)**	**-**	
S-PL38	HJ	P18192	Chantry Wood Campsite	36		-	36	-	36	-	-	-	-	-	-	36	**(36)**	**-**	
S-PL47	SA	P18229	Fir Tree Garden	28	4	-	24	1	24	-	-	-	-	-	-	28	**(28)**	**-**	
S-PL48	HJ	P18230	Boardwalk Heathfield Nature Reserve	13			13	-	13							13	**(13)**		
S-PL49	SA	P18232	Waterside Playarea Muti Unit	30			30	-	30							30	**(30)**		
S-PL50	SA	P18233	Albury Playground Equip (PC)	23			23	17	23							23	**(23)**		
			ENVIRONMENT DIRECTORATE TOTAL	**166**	**24**	**-**	**142**	**19**	**142**	**-**	**-**	**-**	**-**	**-**	**-**	**166**	**(166)**	**-**	-
			APPROVED S106 SCHEMES TOTAL	**166**	**24**	**-**	**142**	**19**	**142**	**-**	**-**	**-**	**-**	**-**	**-**	**166**	**(166)**	**-**	**-**

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GENERAL FUND CAPITAL SCHEMES - PROJECTS FUNDED VIA RESERVES: ESTIMATED EXPENDITURE

Item No.	Project Officer	Code	Projects & Sources of Funding	Approved gross estimate (a) £000	Cumulative spend at 31-03-20 (b) £000	2020-21 Estimate approved by Council in February (c) £000	Revised estimate £000	Expenditure at end P8 (e) £000	Projected exp est by project officer (f) £000	2021-22 Est for year (i) £000	2022-23 Est for year (ii) £000	2023-24 Est for year (iii) £000	2024-25 Est for year (iv) £000	2025-26 Est for year (v) £000	Future years est exp (g) £000	Projected expenditure total (b)+(g) = (h) £000
			COMMUNITY DIRECTORATE													
		P59...	ENERGY PROJECTS per SALIX RESERVE:(PR220)			-		-	-	-					-	-
R-EN10	CR	P59034	LED Lighting replacement (complete)	80	61	-	19	-	(0)	-	-	-	-	-	-	61
R-EN11	CR		WRD energy reduction (no longer reqd)	70	-	-	70	-	-	-	-	-	-	-	-	-
R-EN12	7-2021		LED lighting	44		44	44	-	44	-	-	-	-	-	-	44
R-EN13	8-2021		ASHP CAB	28				-		28	-	-	-	-	28	28
			ENERGY PROJECTS per GBC INVEST TO SAVE RESERVE:													
			GBC 'Invest to Save' energy projects (to be repaid in line with savings)			-	-	-	-	-					-	-
R-EN12	CR	P59102	PV/energy efficiency projects	100	2	-	98	-	98	-	-	-	-	-	-	100
R-EN13	BID200	P59107	Park Barn Day Centre - air source heat pump	143	110	-	-	3	10	-	-	-	-	-	-	110
R-EN14	BID207	P59108	SMP - air source heat pump	28	1	28	27	-	0	27	-	-	-	-	27	28
			ENERGY RESERVES TOTAL	**493**	**174**	**72**	**258**	**3**	**152**	**55**	**-**	**-**	**-**	**-**	**55**	**371**
			BUDGET PRESSURES RESERVE													
	09-1920		Future Guildford implementation team	2,600		1,600	2,600	-	-	-	-	-	-	-	-	-
			BUDGET PRESSURES RESERVE TOTAL	**2,600**	**-**	**1,600**	**2,600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
			FINANCE DIRECTORATE													
			INFORMATION TECHNOLOGY - IT Renewals Reserve (PR265) : approved annually													
			Hardware / software budget			500	500	-	500	500	500	500	-	-	1,500	2,000
R-IT1	SW-M	P81002	Hardware	annual	annual	-	-	3	-	-	-	-	-	-	-	-
R-IT2	SW-M	P81002	Software	annual	annual	-	-	301	-	-	-	-	-	-	-	-
	AH	P81034	ICT infrastructure improvements	1,485	1,695	-	-	30	-	-	-	-	-	-	-	1,695
R-IT3	09-1920		IDOX Acolaid to Uniform	275		-	275		275	-	-	-	-	-	-	275
R-IT4	09-1920		LCTS alternative	56		50	56		56	-		-	-	-	-	56
R-IT5	09-1920	P81035	Future Guildford ICT	1,200	656	-	544	-	544	-	-	-	-	-	-	1,200
			IT RENEWALS RESERVE TOTAL	**3,016**	**2,350**	**550**	**1,376**	**334**	**1,376**	**500**	**500**	**500**	**-**	**-**	**1,500**	**5,226**
			ENVIRONMENT DIRECTORATE													
			SPECTRUM RESERVE													
R-S14			Spectrum schemes (to be agreed with Freedom Leisure)	700	168	-	532	-	532	-					-	700
			SPECTRUM RESERVE TOTAL	**700**	**168**	**-**	**532**	**-**	**532**	**-**	**-**	**-**	**-**	**-**	**-**	**700**
			CAR PARKS RESERVE													
CP1R-CP2	KMc	P37503	Car parks - install/replace pay-on-foot equipment	1,170	240	-	930	-	-	930	-	-	-	-	930	1,170
			Car Parks - Lighting & Electrical improvements:													
R-CP8	KMc/KS	P37520	- Castle car park (PR000299) deck surfacing	325	251	-	6	-	6	-	-	-	-	-	-	257
R-CP18	BID177	P37525	- Deck Millbrook car park	2,000	-	1,000	1,000	-	-	-	-	-	-	-	-	-
R-CP14	KMc/RH	P37514	Lift replacement (PR000293)	841	307	187	534	158	534	-	-	-	-	-	-	841
R-CP17	KMc/RH	P37522	Leapale rd MSCP drainage (PR000433)	90	26	-	64	-	16	-	-	-	-	-	-	42
R-CP19	BID194	P37523	Structural works to MSCP	300	50	-	250	-	-	100	-	-	-	-	100	150
R-CP20	10-1920	P37524	MSCP- Deck surface replacement & barriers	652	526	-	126	0	83	-	-	-	-	-	-	609
R-CP21	08-2021	P37526	Additional barriers Farnham Rd	15		15	15		15		-	-	-	-	-	15
R-CP22	08-2021	P37527	Deck surface replacement (stair cores)Farnham Rd	70		70	70		70		-	-	-	-	-	70
R-CP23	08-2021	P37529	Deck surface replacement Leapale Rd	400		400	400		10	390	-	-	-	-	390	400
R-CP24	08-2021	P37528	Signage replacement Leapale Rd(no longer reqd)	30		30	30		-		-	-	-	-	-	-
R-CP25	08-2021	P37530	Structural repairs roof turret timbers Castle St	60		60	60		60		-	-	-	-	-	60

Agenda item number: 6
Appendix 6

GENERAL FUND CAPITAL SCHEMES - PROJECTS FUNDED VIA RESERVES: ESTIMATED EXPENDITURE

Item No.	Project Officer	Code	Projects & Sources of Funding	Approved gross estimate (a) £000	Cumulative spend at 31-03-20 (b) £000	2020-21 Estimate approved by Council in February (c) £000	Revised estimate £000	Expenditure at end P8 (e) £000	Projected exp est by project officer (f) £000	2021-22 Est for year (i) £000	2022-23 Est for year (ii) £000	2023-24 Est for year (iii) £000	2024-25 Est for year (iv) £000	2025-26 Est for year (v) £000	Future years est exp (g) £000	Projected expenditure total (b)+(g) = (h) £000
			CAR PARKS RESERVE TOTAL	**5,953**	**1,401**	**1,762**	**3,485**	**158**	**794**	**1,420**	**-**	**-**	**-**	**-**	**1,420**	**3,615**
			SPA RESERVE :													
		P20...	SPA schemes (various)	100	annual	-	151	-	151	-	-	-	-	-	-	151
R-SPA1		P201..	Chantry Woods					-	-						-	
R-SPA2		P202..	Effingham					-	-						-	
R-SPA3		P203..	Lakeside					-	-						-	
R-SPA4		P204..	Riverside					-	-						-	
R-SPA5		P205..	Parsonage					-	-						-	
			SPA RESERVE TOTAL	**100**	**-**	**-**	**151**	**-**	**151**	**-**	**-**	**-**	**-**	**-**	**-**	**151**
			GRAND TOTALS	**12,862**	**4,093**	**3,984**	**8,402**	**494**	**3,005**	**1,975**	**500**	**500**	**-**	**-**	**2,975**	**10,063**

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GENERAL FUND CAPITAL PROGRAMME : SUMMARY OF RESOURCES AND FINANCIAL IMPLICATIONS

1.0 **AVAILABILITY OF RESOURCES - NOTES :**

1.1 The following balances have been calculated taking account of estimated expenditure on the approved capital schemes

1.2 The actuals for 2019-20 have not been audited.

1.3 **Funding assumptions:**

1. All capital expenditure will be funded in the first instance from available capital receipts and the General Fund capital programme reserve.
2. Once the above resources have been exhausted in any given year, the balance of expenditure will be financed from borrowing, both internally and externally, depending upon the Council's financial situation at the time.

1.4 These projections are based on estimated project costs, some of which will be 'firmed up' in due course. Any variations to the estimates and the phasing of expenditure will affect year on year funding projections.

2.0 **Capital receipts - Balances (T01001)**	**2019-20 Actuals £000**	**2020-21 Budget £000**	**2020-21 Est Outturn £000**	**2021-22 Estimate £000**	**2022-23 Estimate £000**	**2023-24 Estimate £000**	**2024-25 Estimate £000**	**2025-26 Estimate £000**
Balance as at 1 April	40	0	95	95	0	0	0	21,641
Add estimated usable receipts in year	12,087	0	2,086	0	0	0	21,641	27,117
Less applied re funding of capital schemes	(12,032)	0	(2,086)	(95)	0	0	0	0
Balance after funding capital expenditure as at 31 March	**95**	**0**	**95**	**0**	**0**	**0**	**21,641**	**48,758**

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GENERAL FUND CAPITAL PROGRAMME : SUMMARY OF RESOURCES AND FINANCIAL IMPLICATIONS

during year = outturn (col v, actual = col u)

3.0 **Capital expenditure and funding - summary**	**2019-20 Actuals £000**	**2020-21 Budget £000**	**2020-21 Est Outturn £000**	**2021-22 Estimate £000**	**2022-23 Estimate £000**	**2023-24 Estimate £000**	**2024-25 Estimate £000**	**2025-26 Estimate £000**
Estimated captial expenditure								
Main programme - approved	45,685	65,188	45,261	41,630	9,260	9,261	12,348	0
Main programme - provisional	0	102,356	1,188	103,593	108,096	55,853	72,978	34,881
s106	86	0	142	0	0	0	0	0
Reserves	2,300	3,984	3,005	1,975	500	500	0	0
GF Housing	0	0	0	0	0	0	0	0
Total estimated capital expenditure	**48,071**	**171,528**	**49,596**	**147,198**	**117,856**	**65,614**	**85,326**	**34,881**
To be funded by:								
Capital receipts *(per 2.above)*	(18,111)	0	(2,086)	(95)	0	0	0	0
Contributions	(8,421)	(41,368)	(12,257)	(51,415)	(10,515)	(7,650)	(5,600)	0
R.C.C.O. :								
Other reserves	(2,300)	(4,204)	(6,692)	(2,195)	(720)	(720)	0	0
	0	0	0	0	0	0	0	0
	(28,832)	(45,572)	(21,035)	(53,705)	(11,235)	(8,370)	(5,600)	0
Balance of funding to be met from (i) the Capital Reserve, and (ii) borrowing	(19,239)	(125,956)	(28,561)	(93,493)	(106,621)	(57,244)	(79,726)	(34,881)
Total funding required	**(48,071)**	**(171,528)**	**(49,596)**	**(147,198)**	**(117,856)**	**(65,614)**	**(85,326)**	**(34,881)**

4.0 **General Fund Capital Schemes Reserve (U01030)**	**2019-20 Actuals £000**	**2020-21 Budget £000**	**2020-21 Est Outturn £000**	**2021-22 Estimate £000**	**2022-23 Estimate £000**	**2023-24 Estimate £000**	**2024-25 Estimate £000**	**2025-26 Estimate £000**
Balance as at 1 April	894	0	0	0	0	0	0	0
Add: General Fund Revenue Budget variations	0	0	0	0	0	0	0	0
Contribution from revenue	0	0	0	0	0	0	0	0
	894	0	0	0	0	0	0	0
Less: Applied re funding of capital programme	(894)	0	0	0	0	0	0	0
Balance after funding capital expenditure etc.as at 31 March	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Estimated shortfall at year-end to be funded from borrowing	**18,346**	**125,956**	**28,561**	**93,493**	**106,621**	**57,244**	**79,726**	**34,881**

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GENERAL FUND CAPITAL PROGRAMME : SUMMARY OF RESOURCES AND FINANCIAL IMPLICATIONS

5.0 Housing capital receipts (pre 2013-14) - estimated availability/usage for Housing, Affordable Housing and Regeneration projects - GBC policy	2019-20 Actuals £000	2020-21 Budget £000	2020-21 Est Outturn £000	2021-22 Estimate £000	2022-23 Estimate £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000
Balance as at 1 April (T01008)	9,559	6,760	3,618	(0)	0	0	0	0
Add: Estimated receipts in year	0	0	0	0	0	0	0	0
Less: Applied re Housing (General Fund) capital programme	0	0	0	0	0	0	0	0
Less: Applied re Housing company	(5,941)	(6,760)	(3,618)	0	0	0	0	0
	3,618	0	(0)	0	0	0	0	0
Less: Applied on regeneration schemes	0	0	0	0	0	0	0	0
Housing receipts - estimated balance in hand at year end	**3,618**	**0**	**(0)**	**0**	**0**	**0**	**0**	**0**

5.1 Housing capital receipts (post 2013-14) - estimated availa availability/usage for Housing, Affordable Housing and Regeneration projects only (statutory (impact CFR))	2019-20 Actuals £000	2020-21 Budget £000	2020-21 Est Outturn £000	2021-22 Estimate £000	2022-23 Estimate £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000
Balance as at 1 April (T01012)	0	0	0	0	0	0	0	0
Add: Estimated receipts in year	520	289	520	289	292	295	298	301
Less: Applied re Housing (General Fund) capital programme	(139)	(220)	(220)	(220)	(220)	(220)	(220)	(220)
Less: Applied re Housing Improvement programme	(381)	(69)	(299)	(69)	(72)	(75)	(78)	(81)
	0	0	0	0	0	0	0	0
Less: Applied on regeneration schemes	0	0	0	0	0	0	0	0
Housing receipts - estimated balance in hand	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

	2019-20	2020-21 Budget	2020-21 Est Outturn	2021-22	2022-23	2023-24	2024-25	2025-26	Total £'000s
6.1 Estimated annual borrowing requirement	**18,346**	**125,956**	**28,561**	**93,493**	**106,621**	**57,244**	**79,726**	**34,881**	**400,527**
Bids for funding (net)		0	0	0	0	0	0	0	0
Total estimated borrowing requirement if all bids on Appendix 1 appro		**125,956**	**28,561**	**93,493**	**106,621**	**57,244**	**79,726**	**34,881**	**400,527**

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Treasury management policy statement

Background

The Council adopts the key recommendations of the CIPFA's Treasury Management in the Public Services: Code of Practice (the TM Code), as described in Section 5 of the TM Code.

The Council will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- suitable treasury management practices (TMP's), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities

CIPFA requirement

The Council is required to adopt the following to define the policies and objectives of its treasury management activities.

1. The Council defines its treasury management activities are:

   "the management of the Council's 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"

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the Council's risk implications, and any financial instruments entered into to manage these risks

3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Council's requirements

The Council is also required to detail its high-level policies for borrowing and investments

1. The Council (i.e. full council) will receive reports on its treasury management policies, practices and objectives including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its closed, in the form prescribed in the TMPs

2. The Council delegates responsibility for the
   a. implementation and monitoring of its treasury management practices and policies to the Corporate Governance and Standards Committee and
   b. execution and administration of treasury management decisions, along with changes to the TMP's to the Chief Finance Officer, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

3. The Council nominates the Corporate Governance and Standards Committee to be responsibility for ensuring effective scrutiny of the treasury management strategy and policies

4. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk, refinancing risk and maturity risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt

5. The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned in investments remain important but are secondary considerations.

Money Market Code Principles

The money market code has been developed to provide a common set of principles in order to promote the integrity and effective functioning of the UK money markets.

It is intended to promote a fair, effective and transparent market in which a diverse set of UK market participants, supported by resilient infrastructure, are able to confidently and effectively transact in a manner that is consistent with the highest standards of behaviour.

The code is based on six underpinning principles in order to promote an open, fair and effective market:

Ethics

1. UK Market Participants are expected to behave in an appropriate and professional manner

Governance and Risk Management

2. UK Market Participants should have an applicable governance framework that facilitates responsible participation in the UK Markets and provides for comprehensive oversight of such activity at an appropriately senior level of management. There should be clear and defined internal escalation routes
3. UK Market Participants are expected to maintain a vigorous control environment to effectively identify, measure, monitor, manage and report on the risks associated with their engagement in the UK market

Information Sharing, Confidentiality and Communications

4. UK Market Participants are expected to be clear, accurate, professional, and not misleading in their communications, and to protect relevant confidential information to support effective communication

Execution, Surveillance, Confirmations and Settlement

5. UK Market Participants are expected to exercise appropriate care when negotiating, executing and settling transactions
   UK Market Participants are expected to put in place effective and efficient processes to promote the secure, smooth, and timely settlement of transactions

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Appendix 10

Arlingclose Economic forecast

Economic background: The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements with the bloc, will remain a major influence on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in November 2020 and also extended its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but no mention was made of the potential future use of negative interest rates. Within the latest forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

UK Consumer Price Inflation (CPI) for September 2020 registered 0.5% year on year, up from 0.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 1.3% from 0.9%. The most recent labour market data for the three months to August 2020 showed the unemployment rate rose to 4.5% while the employment rate fell to 75.6%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In August, the headline 3-month average annual growth rate for wages were 0% for total pay and 0.8% for regular pay. In real terms, after adjusting for inflation, total pay growth fell by -0.8% while regular pay was up 0.1%.

GDP growth fell by -19.8% in the second quarter of 2020, a much sharper contraction from -2.0% in the previous three months, with the annual rate falling -21.5% from -1.6%. All sectors fell quarter-on-quarter, with dramatic declines in construction (-35.7%), services (-19.2%) and production (-16.3%), and a more modest fall in agriculture (-5.9%). Monthly GDP estimates have shown the economy is recovering but remains well below its pre-pandemic peak. Looking ahead, the BoE's November Monetary Policy Report forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in October, the third successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time with further monetary stimulus expected later in 2020.

The US economy contracted at an annualised rate of 31.7% in Q2 2020 and then rebounded by 33.1% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.

Credit outlook: After spiking in late March as coronavirus became a global pandemic, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 is likely to be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, as does the UK not achieving a Brexit deal, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast: The Authority’s treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.5% and 0.75% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is below

<u>Arlingclose Economic & Interest Rate Forecast - November 2020</u>
Underlying assumptions:

- The medium-term global economic outlook remains weak. Second waves of Covid cases have prompted more restrictive measures and further lockdowns in Europe and the UK. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.
- The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise.
- Although these measures supported a sizeable economic recovery in Q3, the imposition of a second national lockdown in England during November will set growth back and likely lead to a fall in GDP in Q4.
- Signs of a slowing economic recovery were already evident in UK monthly GDP and PMI data, even before the latest restrictions. Despite some extension to fiscal

support measures, unemployment is expected to rise when these eventually come to an end in mid-2021.

- This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets continue to price in a chance of negative Bank Rate.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, the development of a vaccine or if the UK leaves the EU without a deal.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- Additional monetary loosening through increased financial asset purchases was delivered as we expected. Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.
- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain in the near term, as the government continues to react to the escalation in infection rates and the Brexit transition period comes to an end.

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.10	-0.20	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.05	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.15	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60
10yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.30	0.30	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.55	0.55
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.70	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.85
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
50yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.60	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%   PWLB HRA Rate = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

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Credit Rating Equivalents and Definitions

	Fitch	Moody's	Standard & Poor's
Long Term Investment Grade	AAA	Aaa	AAA
	AA+ AA AA-	Aa1 Aa2 Aa3	AA+ AA AA-
	A+ A A-	A1 A2 A3	A+ A A-
	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-
Sub Investment Grade	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-
	B+ B B-	B1 B2 B3	B+ B B-
	CCC+ CCC CCC-	Caa1 Caa2 Caa3	CCC+ CCC CCC-
	CC+ CC CC-	Ca1 Ca2 Ca3	CC+ CC CC-
	C+ C C-	C1 C2 C3	C+ C C-
	D		D or SD

Fitch	Moody's	Standard & Poor's
AAA Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in the case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.	**Aaa** Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.	**AAA** An obligator rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Poors.
AA Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	**Aa** Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.	**AA** An obligator rated 'AA' has very strong capacity to meets its financial commitments. It differs from the highest rated obligators only to a small degree.
A High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.	**A** Obligations rated A are considered upper-medium grade and are subject to low credit risk.	**A** An obligator rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories.
BBB Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.	**Baa** Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.	**BBB** An obligator rated 'BBB' has adequate capacity to meets its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligator to meet its financial commitments.

Glossary

Affordable Housing Grants – grants given to Registered Providers to facilitate the provision of affordable housing.

Arlingclose – the Council's treasury management advisors

Authorised Limit – the maximum amount of external debt at any one time in the financial year

Bail in risk – Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail-in" a bank before taxpayers are called upon.

A bail in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.

Balances and Reserves – accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure

Bank Rate – the Bank of England base rate

Banks – Secured – covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the banks assets, which limits the potential losses in the unlikely event of insolvency and means they are exempt from bail in.

Banks – Unsecured – accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. Subject to the risk of credit loss via a bail in should the regular determine that the bank is failing or likely to fail.

Bonds – Bonds are debt instruments issued by government, multinational companies, banks and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is also set at the outset.

Capital expenditure – expenditure on the acquisition, creation or enhancement of capital assets

Capital Financing Requirement (CFR) – the Council's underlying need to borrow for a capital purpose, representing the cumulative capital expenditure of the Council that has not been financed

Certainty rate – the government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.

Certificates of deposit – Certificates of deposit (CDs) are negotiable time deposits issued by banks and building societies and can pay either fixed or floating rates of interest. They can be traded on the secondary market, enabling the holder to sell the CD to a third party to release cash before the maturity date.

CIPFA - the Chartered Institute of Public Finance and Accountancy. The institute is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work, in public service bodies, in the national audit agencies and major accountancy firms.

CLG – Department for Communities and Local Government

Corporates – loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Corporate bonds – Corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments. The key difference between corporate bonds and government bonds is the risk of default.

Cost of Carry - Costs incurred as a result of an investment position, for example the additional cost incurred when borrowing in advance of need, if investment returns don't match the interest payable on the debt.

Counterparty – the organisation the Council is investing with

Covered bonds – a bond backed by assets such as mortgage loans (covered mortgage bond). Covered bonds are backed by pools of mortgages that remain on the issuer's balance sheet, as opposed to mortgage-backed securities such as collateralised mortgage obligations (CMOs), where the assets are taken off the balance sheet.

Credit default swaps (CDS) – similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. The buyer effectively pays a premium against the risk of default.

Credit Rating – an assessment of the credit worthiness of an institution

Creditworthiness – a measure of the ability to meet debt obligations

Derivative investments – derivatives are securities whose value is derived from the some other time-varying quantity. Usually that other quantity is the price of some other asset such as bonds, stocks, currencies, or commodities.

Diversification / diversified exposure – the spreading of investments among different types of assets or between markets in order to reduce risk.

Derivatives – Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded ‘over the counter’.

DMADF – Debt Management Account Deposit Facility operated by the DMO where users can place cash in secure fixed-term deposits. Deposits are guaranteed by the government and therefore have the equivalent of the sovereign credit rating.

DMO – debt management office. An Executive Agency of Her Majesty’s Treasury (HMT) with responsibilities including debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.

EIP Loans – Equal Instalments of Principal. A repayment method whereby a fixed amount of principal is repaid with interest being calculated on the principal outstanding

European Investment Bank (EIB) – The European Investment Bank is the European Union’s non-profit long-term lending institution established in 1958 under the Treaty of Rome. It is a “policy driven bank” whose shareholders are the member states of the EU. The EIB uses its financing operations to support projects that bring about European integration and social cohesion.

Finance Lease - a finance lease is a lease that is primarily a method of raising finance to pay for assets, rather than a genuine rental. The latter is an operating lease. The key difference between a finance lease and an operating lease is whether the lessor (the legal owner who rents out the assets) or lessee (who uses the asset) takes on the risks of ownership of the leased assets. The classification of a lease (as an operating or finance lease) also affects how it is reported in the accounts.

Floating rate notes – Floating rate notes (FRNs) are debt securities with payments that are reset periodically against a benchmark rate, such as the three month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.

Government – loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail in, and there is an insignificant risk of insolvency.

Gilts – long term fixed income debt security (bond) issued by the UK Government and traded on the London Stock Exchange

Housing Grants – see Affordable Housing Grants

Illiquid – cannot be easily converted into cash

Interest rate risk – the risk that unexpected movements in interest rates have an adverse impact on revenue due to higher interest paid or lower interest received.

Liability benchmark – the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero)

LIBID – London Interbank BID Rate – the interest rate at which London banks are willing to borrow from one another

LIBOR - London Interbank Offer Rate – the interest rate at which London banks offer one another. Fixed every day by the British Bankers Association to five decimal places.

Liquidity risk – the risk stemming from the inability to trade an investment (usually an asset) quickly enough to prevent or minimise a loss.

Market risk – the risk that the value of an investment will decrease due to movements in the market.

Mark to market accounting – values the asset at the price that could be obtained if the assets were sold (market price)

Maturity loans – a repayment method whereby interest is repaid throughout the period of the loan and the principal is repaid at the end of the loan period.

Minimum Revenue Provision (MRP) - the minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing

Money Market - the market in which institutions borrow and lend

Money market funds – an open-end mutual fund which invests only in money markets. These funds invest in short-term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (e.g. £1 per unit) but the interest rates does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:

- <u>Constant net asset value (CNAV)</u> refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at £1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share class), though some may choose to accumulate the income, or add it on to the NAV (accumulating share class). The NAV of accumulating CNAV funds will vary by the income received.
- <u>Variable net asset value (VNAV)</u> refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary

by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.

This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.

Money Market Rates – interest rates on money market investments

Multilateral Investment banks – International financial institutions that provide financial and technical assistance for economic development

Municipal Bonds Agency – An independent body owned by the local government sector that seeks to raise money on the capital markets at regular interval to on-lend to participating local authorities.

Non Specified Investments - all types of investment not meeting the criteria for specified investments.

Operational Boundary – the most likely, prudent but not worse case scenario of external debt at any one time

Pooled Funds – investments are made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification and professional money management.

Project rate – the government has reduced by 40 basis points (0.40%) the interest rates on loans via the Public Works Loans Board (PWLB) for lending in respect of an infrastructure project nominated by a Local Enterprise Partnership (LEP).

Prudential Code – a governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good practice.

Prudential Indicators – indicators set out in the Prudential Code that calculates the financial impact and sets limits for treasury management activities and capital investment

PWLB (Public Works Loans Board) - a central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow to finance capital spending from this source.

Registered Providers (RPs) – also referred to as Housing Associations.

Repo - A repo is an agreement to make an investment and purchase a security (usually bonds, gilts, treasuries or other government or tradeable securities) tied to an agreement to sell it back later at a pre-determined date and price. Repos are secured investments and sit outside the bail-in regime.

Reserve Schemes – category of schemes within the General Fund capital programme that are funded from earmarked reserves, for example the Car Parks Maintenance reserve or Spectrum reserves.

Sovereign – the countries the Council are able to invest in

Specified Investments - Specified investments are defined as:

a. denominated in pound sterling;
b. due to be repaid within 12 months of arrangement;
c. not defined as capital expenditure; and
d. invested with one of:
    i. the UK government;
    ii. a UK local authority, parish council or community council, or
    iii. a body or institution scheme of high credit quality

Stable Net Asset Value money market funds – the principle invested remains at its invested value and achieves a return on investment

Subsidy Capital Financing Requirement – the housing capital financing requirement set by the Government for Housing Subsidy purposes

SWAP Bid – a benchmark interest rate used by institutions

Temporary borrowing – borrowing to cover peaks and troughs of cash flow, not to fund spending

Treasury Management – the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risk associated with those activities and the pursuit of optimum performance with those risks.

Treasurynet – the Council's cash management system

Treasury Management Practices – schedule of treasury management functions and how those functions will be carried out

Treasury Management Strategy Statement – also referred to as the TMSS.

Voluntary Revenue Provision – a voluntary amount charged to an authority's revenue account and set aside towards repaying borrowing.

Working capital – timing differences between income and expenditure (debtors and creditors)