GUILDFORD BOROUGH

Tom Horwood
Joint Chief Executive of Guildford
and Waverley Borough Councils

www.guildford.gov.uk

Contact: Andrea Carr
Committee Services
01483 444058

16 January 2023

Dear Councillor

Your attendance is requested at a remote meeting of the **JOINT EXECUTIVE ADVISORY BOARD** to be held on **TUESDAY 24 JANUARY 2023** at **7:00 pm**. The meeting can be accessed remotely via Microsoft Teams.

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: 652 104 460#

Yours faithfully

Tom Horwood
Joint Chief Executive

MEMBERS OF THE JOINT EXECUTIVE ADVISORY BOARD

Councillor Paul Abbey
Councillor Jon Askew
Councillor Christopher Barrass
The Mayor, Councillor Dennis Booth
Councillor Ruth Brothwell
Councillor Colin Cross
Councillor Graham Eyre
Councillor Andrew Gomm
Councillor Angela Goodwin
Councillor Angela Gunning
Councillor Diana Jones
Councillor Steven Lee
Councillor Ann McShee
Councillor Bob McShee
The Deputy Mayor, Councillor Masuk Miah
Councillor Ramsey Nagaty
Councillor Jo Randall
Councillor Tony Rooth
Councillor Will Salmon
Councillor Pauline Searle
Councillor Fiona White
Councillor Catherine Young

Councillor David Bilbé (Substitute)
Councillor Chris Blow (Substitute)
Councillor Guida Esteves (Substitute)
Councillor Gillian Harwood (Substitute)
Councillor Liz Hogger (Substitute)
Councillor Nigel Manning (Substitute)
Councillor Ted Mayne (Substitute)
Councillor Marsha Moseley (Substitute)
Councillor Susan Parker (Substitute)
Councillor Maddy Redpath (Substitute)
Councillor Paul Spooner (Substitute)
Councillor James Walsh (Substitute)
Councillor Keith Witham (Substitute)

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.

Please contact us to request this document in an alternative format

THE COUNCIL'S STRATEGIC FRAMEWORK (2021- 2025)

Our Vision:

A green, thriving town and villages where people have the homes they need, access to quality employment, with strong and safe communities that come together to support those needing help.

Our Mission:

A trusted, efficient, innovative, and transparent Council that listens and responds quickly to the needs of our community.

Our Values:

- We will put the interests of our community first.
- We will listen to the views of residents and be open and accountable in our decision-making.
- We will deliver excellent customer service.
- We will spend money carefully and deliver good value for money services.
- We will put the environment at the heart of our actions and decisions to deliver on our commitment to the climate change emergency.
- We will support the most vulnerable members of our community as we believe that every person matters.
- We will support our local economy.
- We will work constructively with other councils, partners, businesses, and communities to achieve the best outcomes for all.
- We will ensure that our councillors and staff uphold the highest standards of conduct.

Our strategic priorities:

<u>Homes and Jobs</u>

- Revive Guildford town centre to unlock its full potential
- Provide and facilitate housing that people can afford
- Create employment opportunities through regeneration
- Support high quality development of strategic sites
- Support our business community and attract new inward investment
- Maximise opportunities for digital infrastructure improvements and smart places technology

<u>Environment</u>

- Provide leadership in our own operations by reducing carbon emissions, energy consumption and waste
- Engage with residents and businesses to encourage them to act in more environmentally sustainable ways through their waste, travel, and energy choices
- Work with partners to make travel more sustainable and reduce congestion
- Make every effort to protect and enhance our biodiversity and natural environment.

<u>Community</u>

- Tackling inequality in our communities
- Work with communities to support those in need
- Support the unemployed back into the workplace and facilitate opportunities for residents to enhance their skills
- Prevent homelessness and rough-sleeping in 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 **ELECTION OF CHAIRMAN FOR THE MEETING**

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

3 **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.

4 **MINUTES** (Pages 5 - 8)

To confirm the minutes of the meeting of the Joint Executive Advisory Board (EAB) held on 10 May 2022.

5 **CAPITAL AND INVESTMENT STRATEGY 2023-24 AND 2027-28** (Pages 9 - 86)

6 **HOUSING REVENUE ACCOUNT (HRA) BUDGET 2023-24** (Pages 87 - 106)

7 **GENERAL FUND BUDGET 2023-24 AND MEDIUM-TERM FINANCIAL PLAN 2024-25 TO 2026-27**

Report is to follow.

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JOINT EXECUTIVE ADVISORY BOARD

10 May 2022

* Councillor Ruth Brothwell (Chairman)
* Councillor Ramsey Nagaty (Vice-Chairman)

Councillor Paul Abbey
Councillor Jon Askew
Councillor Christopher Barrass
Councillor Richard Billington
Councillor Dennis Booth
Councillor Colin Cross
Councillor Graham Eyre
* Councillor Andrew Gomm
Councillor Angela Goodwin
* Councillor Angela Gunning
Councillor Steven Lee
* Councillor Ann McShee
* Councillor Bob McShee
Councillor Masuk Miah
* Councillor George Potter
* Councillor Jo Randall
* Councillor Tony Rooth
Councillor Will Salmon
* Councillor Pauline Searle
* Councillor Fiona White
Councillor Catherine Young

* Present

Councillors Joss Bigmore and John Redpath were also in attendance.

51 ELECTION OF CHAIRMAN FOR THE MEETING

The Joint Executive Advisory Board (JEAB)

RESOLVED

that Councillor Ruth Brothwell be elected as Chairman for this meeting.

52 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from Councillors Paul Abbey, Jon Askew, Christopher Barrass, Colin Cross, Graham Eyre, Angela Goodwin, Will Salmon and Catherine Young. There were no substitutions.

53 LOCAL CODE OF CONDUCT AND NOTIFICATION OF DISCLOSABLE PECUNIARY INTERESTS

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

54 MINUTES

Subject to the substitution of the word 'Crematorium' for the word 'Cemetery' in minute number 49 relating to the Memorial Wall, the minutes of the meeting of the Joint Executive Advisory Board held on 10 January 2022 were confirmed as a correct record, and would be signed by the Chairman at the earliest opportunity.

55 SUBMISSION OF LOCAL PLAN: DEVELOPMENT MANAGEMENT POLICIES

The Joint EAB was invited to consider the Submission Local Plan: Development Management Policies. The Lead Councillor with portfolio responsibility for Strategic Planning introduced the Plan, which was the second part of the Borough's overall Local Plan. Once adopted the Plan would, together with the adopted Local Plan: Strategy and Sites document, fully supersede the existing Local Plan 2003 and become part of the Council's Development Plan. The Plan provided the more detailed policies to be utilised by Development Management in the determination of planning applications and contained chapters relating to housing, economy, protection, design, and infrastructure. The Plan had been considered by the Local Plan Panel on two occasions and been subject to a Regulation 19 public consultation.

In his introduction to the Plan, the Lead Councillor invited comments thereon from the Joint EAB, drawing attention to the fact that it consisted of a suite of policies that were interdependent to a certain extent and that individual policies should not be considered in isolation. The Joint EAB was advised that there were three main response options open to councillors, namely to:

1. Support the recommendation in the covering report to the Executive that the Plan be approved for submission to the Secretary of State for examination in public by an Inspector.
2. Seek significant modifications to the policies within the Plan, which would require a further Regulation 19 public consultation delaying adoption and implementation of the Plan.
3. Suggest minor amendments as improvements to the Plan, which could be submitted to officers and the Inspector for consideration without incurring the need for a further public consultation exercise.

Having discussed the Plan, the Joint EAB agreed to support option 3 and requested that the following suggested minor alterations be put forward for consideration as improvements to the Plan and that the other related points be noted:

a) With regard to Policy D14: Carbon Emissions from Buildings, the terminology be strengthened from the word ‘encourage’ to ‘expect’ to add more weight to the policy and reflect possible future climate change scenarios. However, this would need to be balanced against any associated viability implications such as a reduction in affordable housing provision.
b) Whilst passive heat control measures are supported, the possible need in some developments for mechanical methods to tackle overheating, such as conventional air conditioning, be recognised in the Plan.
c) The sharing of the Plan with Waverley Borough Council and possible future collaboration in this area is welcomed.
d) In relation to Policy H8: First Homes, there is concern that this policy, in conjunction with first homes being the Government’s preferred discounted market tenure needing to account for at least 25% of all affordable housing units, will lead to limited availability of affordable social rented housing.
e) Regarding Policy D9: Residential Infill Development Proposals, some of the definitions do not appear to accord fully with sections of the Borough’s Local Plan: Strategy and Sites document and this should be rectified.
f) The proposed implementation of minimum garage dimensions, under Policy ID11: Parking Standards, is welcomed.
g) Attention is drawn to the previously circulated points raised by Councillor Catherine Young which have been considered by the Local Plan Panel.
h) An incomplete document consisting of the responses to the Regulation 19 consultation circulated to all councillors requires some further work to inform policies in the Plan.
i) Maximum height standards for developments should be included in the Plan to protect affordable housing viability and views etc.
j) The Plan should reflect the preference for development in Guildford town centre in order to protect the villages, green field sites and the green belt.
k) There should be stronger protection, such as extended buffer zones, for ancient woodland, as recommended by Natural England.
l) The settings of historic buildings and non-designated heritage assets should be clearly defined for their protection.

m) The wording of the Plan should be strengthened to assist the Planning Committee when determining planning applications.

The meeting finished at 8:02 pm

Signed ………………………………………… Date ……………………………………….
Chairman

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Joint Executive Advisory Board Report

Ward(s) affected: All

Report of s151 officer

Author: Vicky Worsfold, Lead Specialist Finance

Tel: 01483 444834

Email: Victoria.worsfold@guildford.gov.uk

Lead Councillor responsible: Joss Bigmore

Tel: 07974 979369

Email: joss.bigmore@guildford.gov.uk

Date: 24 January 2023

Capital and Investment Strategy 2023-24 – 2027-28

Executive Summary

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. The strategy also details how associated risks are 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, any new bids/mandates submitted for approval, plus the requirements of the Prudential Code and the investment strategy covering treasury management investments, service investments and commercial investments. The report also covers the requirements of the Treasury Management Code and the prevailing DLUHC 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.

Capital expenditure is split into the General Fund (GF) and Housing Revenue Account (HRA).

All projects, regardless of the fund, will be funded by capital receipts, grants & contributions, reserves and finally borrowing. When preparing the budget reports, we do not always know how each scheme will be funded and, in the case of regeneration projects, what the delivery model will be. This report shows a high-level position. The business case for each individual project will set out the detailed the funding arrangements for the project.

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

To ensure the Council demonstrates that its capital expenditure plans are affordable, sustainable and prudent, we set Prudential Indicators.

General Fund
The Council has an underlying need to borrow for the GF capital programme of £286 million between 2022-23 to 2027-28.

Officers have put forward bids, with a net cost over the same period of £10 million, increasing this underlying need to borrow to £296 million should these proposals be approved for inclusion in the programme.

The capital programme includes several significant regeneration schemes, which we have assumed will be financed from GF resources. Detailed funding proposals for each scheme will be considered when the Outline Business Case for each scheme is presented to the Executive for approval.

The main areas of expenditure (shown gross) are:

- £274 million Weyside Urban Village (WUV)
- £62 million strategic property purchases
- £32 million North Downs Housing (NDH)
- £28 million Ash road bridge and footbridge

Appendix 2 contains a summary of the new bids submitted. Appendices 3 to 9 show the position and profiling of the current programme (2022-23 to 2027-28)

Upon reviewing the current capital programme, it has been identified that there is a separate scheme for the bus station which this cost has also been included in the SGF scheme, and therefore can be removed from the capital programme.

HRA
The HRA capital programme is split between expenditure on existing stock and either development of or purchase of dwellings to add to the stock. The council has in place a robust stock condition review process which provides 100% stock data over a rolling 5-year programme, which allows for effective assessment against Regulatory and legislative standards. In addition to which, the recently updated Fire Risk Assessments, allow us to plan the current and future programme to ensure compliance with the new building safety legislation and standards. This in turn is complimented by the new compliance framework that has been rolled out over the last year which provides enhanced and improved levels of assurance and up to date information and requirements to meet the requirements of other key areas of compliance including asbestos, legionella, lifts and gas.

Improved building safety standards across social housing has resulted in a national drive to improve standards and safety, Guildford has responded to the recent and forthcoming changes in requirements with an extensive improvement programme. The first year of the programme required an investment at levels not previously seen in Guildford with £24.5 million invested in 2022-23, and a further £20 million planned for 2023-24 after which the extensive programme of building safety improvement will be completed and investment level will return to levels as previous seen. The capital programme will be funded from HRA capital receipts and reserves. There is also £145 million between 2022-23 and 2027-28 million included for development projects to build or acquire new housing (including WUV).

The main areas of major repairs and improvement expenditure are:

- refurbishment, replacement & renewal programme of existing stock, £11 million, which includes kitchen & bathroom upgrades, void property refurbishment and roof works
- works to existing stock to comply with changes to standards and legislation, £9 million, including replacement fire doors, electrical testing and fire protection works
- mechanical and electrical works £2 million, including central heating systems
- other works of £1.9 million including damp prevention works

The main development projects include:

- Guildford Park Car Park £38.9 million
- WUV £49 million
- Foxburrows £10 million

Para 4.12 contains a summary of the new bids submitted. Appendices 2 and 3 show the position and profiling of the current programme (2022-23 to 2027-28)

<u>Treasury Management</u>
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 (detailed in Appendix 1 to this report) and in accordance with the approved treasury management practices.

The budget for investment income for 2023-24 is £3.5 million, based on an average investment portfolio of £75 million, at a weighted average rate of 3.56%. The budget for debt interest paid is £8.2 million, of which £4.8 million relates to the HRA and £600,000 short term loans. WUV interest of £2.8 million is being capitalised and added to the cost of the scheme.

<u>Service and Commercial investments</u>
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 earning a return is the primary purpose).

Investment property is valued at £174 million, as per the 2021-22 unaudited Statement of Accounts, with rent receipts of £8.2 million

The Council has invested £25.3 million in our housing company – North Downs Housing Ltd (NDH). This is via 40% equity to Guildford Borough Council Holdings Ltd (£10.1 million) (who in turn pass the equity to NDH), and 60% loan direct to NDH (£15.3 million) at a rate of 5%. The loan is a repayment loan in line with the NDH business plan.

This report also includes the Council's Minimum Revenue Provision (MRP) policy and the Prudential Indicators. Section 5 of the report

Due to the specialised nature of treasury management and capital finance, there is a glossary of terms at Appendix 9.

Flexible use of capital receipts policy
The updated flexible use of capital receipts policy can be found in Appendix 8. This policy, if approved at Council, allows us to use any capital receipts received in year to be used to fund any service transformation costs incurred in the same year. Officers are recommending this policy be approved to allow us the flexibility to fund transformation costs if appropriate.

Recommendation to Executive / Council

Subject to Council approving the budget on 8 February 2023, the Executive will be asked to agree the following:

1) That the following scheme be removed from the capital programme:
   a) North Street - £500k – the costs are included in the x scheme
2) That the new bids, as shown in Para 4.12 of this report be approved for inclusion in the capital programme as indicated

The Executive will also be asked to recommend to Council:

1) That the General Fund and HRA capital estimates, as shown in appendices 2 and 3, as amended to include such bids as may be approved by the Executive at its meeting on 26 January 2023, 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.
4) That the updated flexible use of capital receipts policy at Appendix 8 be approved.

Reasons for Recommendation:
- To enable the Council to approve the capital and investment strategy for 2023-24 to 2027-28
- To enable the Council, at its budget meeting on 8 February 2023, to approve the funding required for the new capital schemes proposed

Is the report (or part of it) exempt from publication? No

1. Purpose of Report

1.1 The Local Government Finance Act 2003 require local authorities to have regard to the CIPFA Treasury Management Code of Practice ("TM Code"), and specifically the CIPFA Prudential Code when determining how much it can afford to borrow, and to regulate treasury activities. The requirement to report in accordance with the TM code, and the prevailing DLUHC Investment Guidance is incorporated within this report and appendices.

1.2 The Council must have an approved investment strategy, comprising both treasury and non-treasury investments (including service and commercial investments). The implications associated with that are detailed in this capital and investment strategy.

1.3 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 and is, therefore, the foundation of long-term capital planning.

1.4 Decisions made this year on capital expenditure and treasury management activity will have financial consequences for the Council for many years to come. They are, therefore, subject to both a national regulatory framework and to local policy framework, which is discussed through the report and the appendices.

1.5 This report invites the Council to consider the capital programmes, and the new schemes the Council may wish or need to undertake in the next five years.

1.6 For the General Fund (GF), the Council must put aside revenue resources where the Council finances capital expenditure by debt (internal or external), to repay that debt in later years, as debt is only a temporary source of borrowing. 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). MRP is essentially the equivalent of repaying the principal loan amount within a mortgage (as opposed to the interest). The annual MRP statement and policy is included in section 5 of this report.

1.7 CIPFA also recommends adhering to the UK Money Markets Code to its members as good practice.

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.

2.3 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 require local authorities to have regard to the CIPFA Treasury Management Code of Practice ("TM Code"), and specifically the CIPFA 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 reporting framework, that

- capital expenditure and investment plans are affordable and proportionate
- all external borrowing and other long-term liabilities are within prudent and sustainable levels
- the risks associated with investments for commercial purposes are proportionate to the financial capacity and
- treasury management decisions are taken in accordance with good professional practice.

3.3 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.

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

3.5 We must put aside resources where the Council finances capital expenditure by borrowing (internal or external) to repay that debt in later years for the GF. This is charged to the revenue account annually and called MRP. There is not an earmarked reserve for MRP, it is represented in the balance sheet as increased cash as it forms part of the Council Tax Requirement.

3.6 The underlying need to borrow for capital purposes is measured by the Capital Financial Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

3.7 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)

3.8 Under the TM Code and the prevailing DLUHC Guidance, we are required to provide details of each of these purposes in the investment strategy.

3.9 The UK Money Markets Code (April 2021 revision) is a voluntary code of practice which CIPFA recommends authorities follow as good practice. It is endorsed by the Bank of England's 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.

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 As the HRA is a separate ring-fenced account to ensure Council housing does not subsidise, or is not subsidised, by other local services, we show the HRA capital programme separately.

4.3 The Council has an ambitious Corporate Plan and medium to long-term aspirations within the Borough. All schemes in the capital programme have been assessed against the Council's strategic priorities and Corporate Plan, ensuring expenditure meets the key objectives of the Council.

4.4 All capital expenditure must be financed, either from external sources (grants and contributions), own resources (revenue, reserves, capital receipts) or debt (borrowing or leasing).

4.5 Initially we will finance capital expenditure from external or our own resources. If we do not have enough to finance all the planned expenditure, there will be an increase in the underlying need to borrow (borrowing requirement - the Capital Financing Requirement (CFR)). 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.

4.6 For planning purposes, we have assumed we will borrow internally for all schemes, but in doing so we are projecting a need to borrow externally (borrowing requirement). Depending on how much we spend and how much capital income we may receive will determine how the overall capital programme is financed.

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

Current capital programme

4.8 A copy of the current capital programmes is attached at appendices 2 and 3, together with a schedule of the latest resource availability for, and financing of the programme.

4.9 All projections are based on 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.

4.10 The Council is currently projecting expenditure of £200 million for HRA and £434 million for GF. The underlying need to borrow for the period is £286 million.

New capital schemes

General Fund

4.11 Officers have put forward 7 bids, with gross expenditure of totalling £10.4 million up to 2027-28. Officers also recommend including £2 million per annum as the capital contingency fund to allow for unknown capital expenditure. This will increase the current underlying need to borrow to £287 million up to 2027-28.

4.12 The net cost each year, of the new proposals are:

	GROSS ESTIMATES					
Project title	**2023-24 £000**	**2024-25 £000**	**2025-26 £000**	**2026-27 £000**	**2027-28 £000**	**TOTAL COST £000**
General fund: Provisional						
Lido road allotments security fencing	70	0	0	0	0	**70**
2015 Play strategy action plan	200	0	0	0	0	**200**
Spectrum upgrades	1,250	1,750	2,300	1,150	650	**7,100**
GBC Depot - operational	200	2,200	30	0	0	**2,430**
Derby Rd playground conversion	120	0	0	0	0	**120**
SMP astro turf surface	8	2	0	0	0	**10**
Investment Property void pot	100	100	100	100	100	**500**
Total	**1,948**	**4,052**	**2,430**	**1,250**	**750**	**10,430**
HRA: Approved						
Capital works to properties/estates	20,600	0	0	0	0	**20,600**
						0
Total HRA	**20,600**	**0**	**0**	**0**	**0**	**20,600**
Gross total	**22,548**	**4,052**	**2,430**	**1,250**	**750**	**31,030**
Funded by reserves or contributions	(20,600)	0	0	0	0	**(20,600)**
Cost to the Council	**1,948**	**4,052**	**2,430**	**1,250**	**750**	**10,430**

4.13 The Spectrum and GBC Operational depot will come forward as separate mandates in due course.

HRA

4.14 The HRA capital programme is split between expenditure on existing stock and either development of or purchase of dwellings to add to the stock. The council has in place a robust stock condition review process which provides 100% stock data over a rolling 5-year period, which allows for effective assessment against Regulatory and legislative standards. In addition to which, the recently updated Fire Risk Assessments, allow us to plan the current and future programme to ensure compliance with the new building safety legislation and standards. This in turn is complimented by the new compliance framework that has been rolled out over the last year which provides enhanced and improved levels of assurance, up to date information to meet the requirements of other key areas of compliance including asbestos, legionella, lifts and gas.

4.15 Improved building safety standards across social housing has resulted in a national drive to improve standards and safety, Guildford has responded to the recent and forthcoming changes in requirements with an extensive programme of improvements. The first year of the programme required an investment at levels not previous seen in Guildford with £24.5 million invested in 2022-23, with a further £20 million planned for 2023-24 after which the extensive programme of building safety improvement will be completed, and investment level will return to levels as previous seen. The capital programme will be funded from HRA capital receipts and reserves. There is also £145 million between 2022-23 and 2027-28 million included for development projects to build or acquire new housing (including WUV). The proposed budget can be seen in Appendix 3.

Prudential Indicators

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

4.17 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 in the future. The CFO therefore needs to be satisfied that the proposed capital programme is prudent, affordable and sustainable. This will be by looking at the overall gearing ratio's, local indicators and affordability ratios / indicators.

4.18 Indicators we are required to calculate, and monitor are detailed below

Estimates of Capital Expenditure

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

CAPITAL EXPENDITURE SUMMARY	2022-23 Approved £000	2022-23 Outturn £000	2022-23 Variance £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
General Fund Capital Expenditure								
- Main Programme	107,404	58,822	(48,582)	74,886	2,833	2,000	2,000	2,000
- Provisional schemes	44,510	725	(43,785)	118,833	67,989	43,483	27,642	29,203
- Schemes funded by reserves	1,618	1,530	(88)	1,031	940	0	0	0
- S106 Projects	58	263	205	122	0	0	0	0
- New Bids (net cost)	0	0	0	1,948	4,052	2,430	1,250	750
Total Expenditure	**153,590**	**61,340**	**(92,250)**	**196,820**	**75,814**	**47,913**	**30,892**	**31,953**
Financed by :								
Capital Receipts	0	(0)	(0)	0	0	(21,641)	(27,117)	(22,593)
Capital Grants/Contributions	(47,472)	(19,758)	27,714	(46,336)	(4,589)	(1,020)	0	0
Capital Reserves/Revenue	(1,838)	(2,979)	(1,141)	(1,131)	(1,160)	(220)	0	0
Borrowing	(104,280)	(38,603)	65,677	(149,353)	(70,065)	(25,032)	(3,775)	(9,360)
Financing - Totals	**(153,590)**	**(61,340)**	**92,250**	**(196,820)**	**(75,814)**	**(47,913)**	**(30,892)**	**(31,953)**
Housing Revenue Account Capital Expenditure								
- Main Programme	52,909	32,869	(20,040)	27,266	7,847	400	0	0
- Provisional schemes	7,281	75	(7,206)	15,928	26,324	34,373	49,575	5,575
- New bids	0	0	0	20,600	0	0	0	0
Total Expenditure	**60,190**	**32,944**	**(27,246)**	**63,794**	**34,171**	**34,773**	**49,575**	**5,575**
Financed by :								
- Capital Receipts	(8,540)	(3,208)	5,332	(8,494)	(3,430)	(3,521)	0	0
- Capital Reserves/Revenue	(40,103)	(18,188)	21,915	(55,300)	(30,741)	(31,252)	(49,575)	(5,575)
- Borrowing	0	0	0	0	0	0	0	0
Financing - Totals	**(48,643)**	**(21,396)**	**27,247**	**(63,794)**	**(34,171)**	**(34,773)**	**(49,575)**	**(5,575)**

4.20 The table shows that most of our GF capital expenditure at this stage will be financed from borrowing due to the availability of known capital receipts and reserves. This is the most prudent assumption. Any future capital receipts, grants or contributions will be taken account of when they are known. Regular monitoring throughout the year will identify these, and the updated underlying need to borrow will be presented to Councillors.

Estimates of the CFR, Gross Debt and the Liability Benchmark

4.21 The CFR is the cumulative balance of unfinanced capital expenditure ("debt") less the provision made for the repayment of debt (MRP).

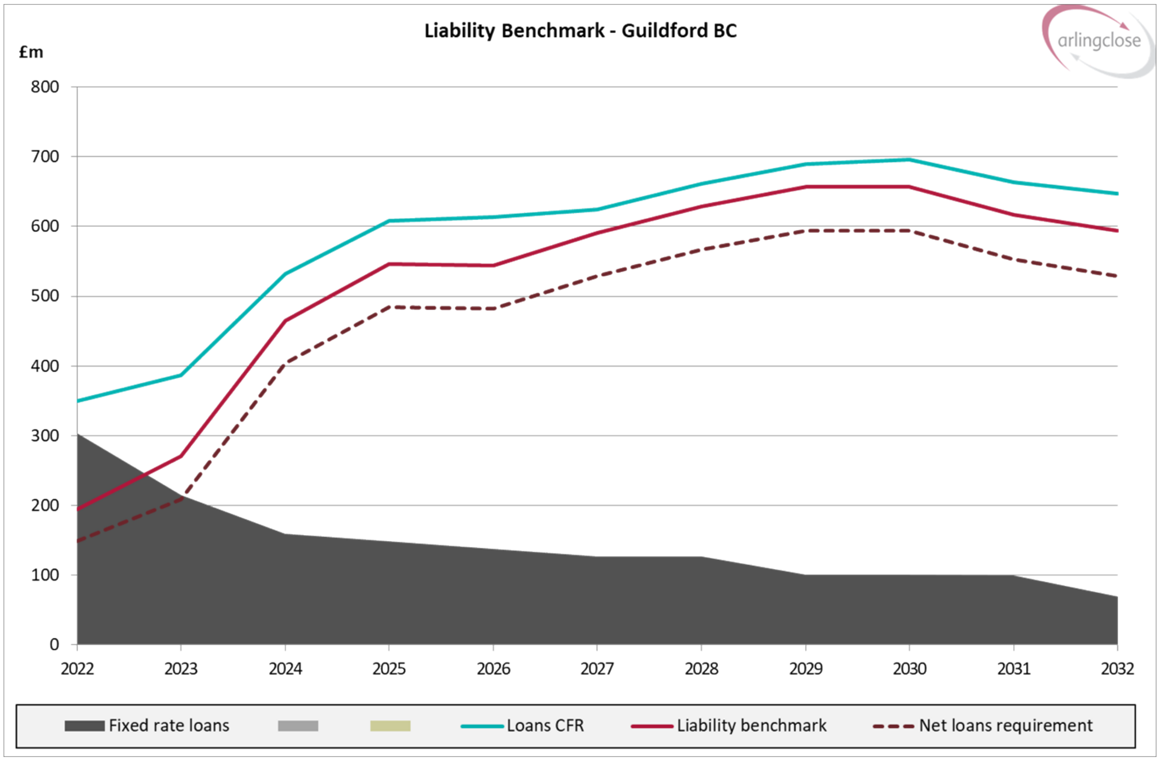
4.22 The Council is required to make reasonable estimates of the total CFR over at least the forthcoming year and following two years. Because we use our CFR projections as part of our liability benchmark, we project over a longer period, and present in the report at least the five-year time frame in line with the time frame presented in the capital programme.

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

	Actual	Forecasts	£m				
Position at 31 March	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Loans CFR	350.1	386.3	532.5	608.5	613.5	624.2	660.9
External borrowing	-303.7	-214.6	-159.0	-148.3	-137.7	-127.1	-126.4
Internal (over) borrowing	46.3	171.7	373.6	460.1	475.8	497.1	534.5
Balance sheet resources	-201.0	-177.6	-128.9	-123.7	-130.9	-95.3	-93.8
Investments (new borrowing)	154.6	5.9	-244.6	-336.4	-344.9	-401.8	-440.8

4.24 The Gross Debt compared to the CFR is key in ensuring debt is only for a capital purpose. The table shows that debt is expected to remain below the CFR during the period shown.

4.25 This is then shown in graphical format identifying the liability benchmark. The liability benchmark is the lowest risk level of borrowing – borrowing only when your reserves reach your set minimum level (we have set at £45 million). We have adopted this policy for a number of years and propose to continue doing so.



4.26 The gap between the lines and the shaded area is the need to borrow externally, only assuming the capital expenditure that has been or is being approved as part of this report.

Operational boundary and authorised limit for external debt

4.27 The Council is legally obliged to set an annual affordable borrowing limit (termed “authorised limit for external debt”). 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.

4.28 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.

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

4.30 We are required to set a limit for other long-term liabilities, for example finance leases. We have included £26 million for items that could be classed as finance leases, particularly with the introduction of IFRS16 in April 2024.

Operational Boundary of External Debt	2022-23 Approved £000	2022-23 Revised £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Borrowing - General Fund	250,856	192,056	338,316	414,256	419,256	429,976	466,716
Borrowing - HRA	217,024	199,204	199,204	199,204	199,204	199,204	199,204
Other Long Term Liabilities	26,000	26,000	26,000	26,000	26,000	26,000	26,000
Total	**493,880**	**417,260**	**563,520**	**639,460**	**644,460**	**655,180**	**691,920**

4.31 The authorised limit gives headroom for significant cash-flow movements. 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.

Authorised Limit for External Debt	2022-23 Approved £000	2022-23 Revised £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Borrowing - General Fund	309,556	244,956	403,316	479,256	484,256	494,976	531,716
Borrowing - HRA	217,024	199,204	199,204	199,204	199,204	199,204	199,204
Other Long Term Liabilities	26,000	26,000	26,000	26,000	26,000	26,000	26,000
Total	**552,580**	**470,160**	**628,520**	**704,460**	**709,460**	**720,180**	**756,920**

Proportion of financing costs to net revenue stream

4.32 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.

4.33 Although capital expenditure is not charged directly to the revenue account, interest payable on loans and MRP are charged. 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 for the GF and for the HRA its income).

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

	2022-23 Approved	2022-23 Outturn	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate
General Fund	8.42%	0.60%	8.42%	20.26%	25.24%	53.75%	74.41%
HRA	32.49%	31.46%	32.49%	32.63%	31.64%	31.65%	32.83%

4.35 The HRA is remaining consistent due to the stable income, and assumption there will be interest costs on the whole £148 million PWLB debt.

4.36 For the GF external borrowing costs and MRP costs are increasing due to the cost of the capital programme, with stable investment income

5. Minimum Revenue Provision

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

5.2 The Guidance requires local authorities to approve an annual MRP statement each year and recommends options but does not preclude locally determined prudent methods.

5.3 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 GF.

5.4 The aim of the guidance is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

5.5 It 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.

5.6 MRP becomes chargeable in the financial year after the expenditure is incurred or when the asset becomes operational – whichever is the latter.

5.7 Based on the Council's estimate of its CFR on 31 March 2023, and unfinanced capital expenditure in 2022-23 of £235 million, the budget for MRP for 2023-24 and future years is:

2023/24	£1.7 million
2024/25	£3.9 million
2025/26	£4.0 million
2026/27	£4.1 million
2027/28	£4.1 million

5.8 Profiling of capital expenditure is key in determining the impact of MRP on the revenue account because it forms part of the annual Council Tax Requirement.

MRP Policy

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

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

5.11 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.

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

5.13 Where loans are made to other bodies for their capital expenditure, where the loans are repaid in at least annual instalments of principal, there will be no MRP, but we will apply the capital receipts to reduce the CFR. Where there is no repayment, MRP will be charged in accordance with the MRP policy for assets funded by the loan.

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

5.15 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.

5.16 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 CFO.

5.17 Where former operating leases have been brought onto our balance sheet on 1 April 2024, due to the adoption of IFRS16 leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and / or discounts, then the annual MRP charge will be adjusted so the total charge to revenue remains unaffected by new standard.

6. Treasury Management

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

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

6.3 The Council is typically cash rich in the short-term as revenue income is received before it is spent (and invested more securely to minimise the risk of loss), 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. Money that will be held for longer terms is invested more widely to balance the risk of loss against the risk of receiving returns below inflation.

6.4 Decisions on treasury management investment and borrowing decisions are made daily and therefore delegated to the CFO 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 and are responsible for scrutinising treasury management decisions.

6.5 The Council currently has a total of £170 million long-term borrowing which £148 million is related to the HRA at an average rate of 3.37% with a cost of £4.7 million in interest, and the remaining £22 million relates to WUV and the interest is being capitalised to the project. Short-term borrowing, falling on the GF, is expected to cost £0.6 million at an average rate of 4.5%. The Council's average investment portfolio is £75 million at an average rate of 3.56%, generating £3.5 million of interest.

Borrowing Strategy

6.6 The Council's main objective 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 seeks is to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

6.7 The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the PWLB.

6.8 Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The liability benchmark in paragraphs 4.23 to 4.26 show we are meeting the statutory guidance.

6.9 The detailed borrowing strategy can be found in Appendix 1, Section 5.

Investment strategy

6.10 The CIPFA Code requires local authorities to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the higher rate of return, or yield.

6.11 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.

6.12 Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

6.13 The detailed investment strategy can be found in Appendix 1, section 5.

6.14 The Council has identified the proportion of income from these types of investments against gross service expenditure. This income is part of the net service cost and therefore makes a positive contribution to the Council Tax

Requirement. We have an interest rates movement earmarked reserve to cover any loss in investment income in the year, and for lower investment property income we have an earmarked reserve

	2022-23 Budget £000	2023-24 Budget £000	2024-25 Budget £000	2025-26 Budget £000
Gross Service Expenditure	110,099	119,154	120,230	121,628
Investment property income	8,649	9,704	9,704	9,704
Treasury management income	3,490	2,833	2,076	2,076
Investment income %	11%	11%	10%	10%

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

7. Service and Commercial 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 of underperforming assets
- for all buildings to be held to a high standard of repair, by undertaking regular conditions 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 for 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 complaint 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 CFO. Most loans and shares are capital expenditure and purchases will therefore be approved as part of the capital programme and PPM Governance framework.

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

Commercial Activities

7.7 The Council has 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 Investment property is valued at £174 million as per the 2021-22 unaudited statement of accounts, with rent receipts of £8.75 million

7.9 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, in order to ensure proportionality of investments across the Council.

7.10 With financial return being the main objective, the Council accepts higher risk on commercial investment than treasury investments. The principal risk exposures include fluctuating capital values, vacancies, tenant defaults and risking 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 in para 7.1, 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 Internal Rate of Return (IRR) of the investment, in line with the approved asset investment strategy.

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 costs, 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 the purchase cost, the underlying asset provides security for the capital investment. Should the valuation be lower than 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 and as part of the Capital and Investment Strategy annual report.

7.14 In accordance with the Council's Constitution, the Joint Strategic Director of Place is authorised to acquire property up to £1 million, in consultation with the relevant lead councillor, where budget provision exists in the approved capital programmes. Purchases must be in consultation with the CFO in line with the criteria set 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 asset investment strategy provides a robust 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 that 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 development 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.

Net income from commercial and service investments to net revenue stream

7.17 The table below shows net revenue stream compared to the net income from commercial investments:

	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Net Revenue Stream	15,828	15,061	15,300	15,667	15,919
Net income	8,760	8,751	8,741	8,741	8,741

7.18 The table shows that income from commercial investments is significant when compared to the Council's net revenue stream.

Other Liabilities

7.19 Although not strictly counted as investments, since no money has changed hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

7.20 The Council is committed to making future payments to cover its share of the pension fund deficit, on the face of the Council's balance sheet, there is £143 million of other long-term liabilities which relates to the Pension Fund liability.

7.21 We have also put aside £6 million to cover risks of Business Rates appeals plus other smaller provisions. We have not allowed for any financial guarantees but have identified two. One relates to the Electric Theatre pension payments, and another is a tax guarantee we have provided to Thames Water for the WUV project.

7.22 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.

7.23 Decisions on incurring new discretional liabilities are taken by the relevant service leader and the CFO.

7.24 A new accounting standard, IFRS16 – accounting for leases, comes into effect from 1 April 2024. The key change is that accounting for leases (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 through the implications, but it will mean an increase in the assets and liabilities on our balance sheet.

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 Joint Executive Head of Finance and Lead Specialist Finance (s151 and deputy s151 respectively) are both qualified accountants with many years' post qualification experience, and other senior members of the finance team have good operational experience. The Head of Asset Management, and Deputy Head are qualified chartered surveyors and members of the Royal Institution of Chartered Surveyors (RICS) as are other 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 MiFID regulations, for the Council 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. Consultations

9.1 The Lead Councillor for Finance and Planning Policy supports the recommendations in this report.

10. Key Risks

10.1 Officers submit bids with a proposed timeframe for the project to be completed. This is put into the capital programme and feeds into the liquidity 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)

10.2 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.

10.3 Officers work together 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 and profile to ensure the most realistic position is presented in the revenue budget.

10.4 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 £2 million each year (reduced from £5 million to reflect the improved governance procedures we have now introduced) 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

10.5 Many of the larger schemes in the programme have external funding attached to them. Generally, as part of this funding, when the bids for funding are made, a time frame for spend needs to be agreed. If schemes are delayed, there is a risk that the funding will either have to be repaid or the funding will no longer be available to us. This will increase the cost of borrowing to the Council.

10.6 If we do not deliver new housing schemes, we are at risk of having to repay housing capital receipts back to the Government. It is therefore important we have a planned programme of development schemes to be able to monitor future expenditure with reasonable certainty to help avoid the risk of having to return money plus interest.

10.7 The Council has some significant and costly capital schemes in its programme. Each of these schemes have a high level of scrutiny in its finances with continually updated finance cases as any change in these can be financially significant. The key risk being that if any of these schemes were approved based on a net income or break even, and they then become a cost to the Council this will increase the borrowing burden on the GF.

Treasury management risks

10.8 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.

10.9 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.

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

10.11 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.

10.12 Risk indicators relating to treasury management are in Appendix 1.

Risks relating to Commercial investments

10.13 There are some identifiable risks of investing in property

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

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

10.16 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

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 new 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 2023-24 is £3.5 million, based on an average investment portfolio of £70 million, at a weighted average rate of 3.56%. The budget for debt interest paid of £8.2 million, of which £4.7 million relates to the HRA, £2.8 million capitalised for WUV and £600,000 temporary borrowing cost. 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 £9.7 million in 2023-24

11.5 The MRP budget is £1.7 million in 2023-24

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 CFO is comfortable that the proposed capital programme is prudent, affordable and sustainable

Flexible use of capital receipts

11.7 The Government has extended the ability for Council's to use capital receipts to fund revenue costs of transformation programmes, and officers are recommending to Councillors the policy is approved to enable the flexibility to fund the costs relating to the Guildford and Waverley Collaboration and any other transformations, restructures or efficiency changes that may be incurred during 2023-24. The policy can be found at appendix 8.

Risk indicators

11.8 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

11.9 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	2022-23 Projection £000	2023-24 Forecast £000	2024-25 Forecast £000
Treasury management investments	95,628	61,383	54,792
Service investments: Loans	15,180	15,180	15,180
Service investments: Shares	10,120	10,120	10,120
Investment property	174,256	174,256	174,256
Total Investments	**295,184**	**260,939**	**254,348**

11.10 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, investments in loans and shares (North Downs Housing and Guildford Holdings) could be described as being funded by borrowing – as they are part of the Capital programme and therefore forms part of the underlying need to borrow for a capital purpose. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure

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	2022-23 Projection £000	2023-24 Forecast £000	2024-25 Forecast £000
Treasury management investments	1.17%	3.67%	2.24%
Service investments: Loans	5.00%	5.00%	5.00%
Service investments: Shares	0.00%	0.00%	0.00%
Investment property	6.00%	5.50%	5.50%

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 issues “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 this report, however, capital bids have been made for some schemes relating to reducing carbon

16. Summary of Options

16.1 Officers have detailed the options within each new capital bid / mandate

16.2 The CIPFA TM Code does not prescribe any particular treasury management strategy for local authorities to adopt. The CFO, having consulted with the Lead Councillor for Finance and Asset Management, believes the strategy represents an appropriate balance between risk and cost effectiveness. Some alternative strategies and risk management implications are:

Alternative	**Impact on Income / Expenditure**	**Impact on risk management**
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	Higher investment balance leading to higher impact in the event of a default; however, long-

	be offset by higher investment income	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

17. Conclusion

17.1 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.

17.2 If all schemes proceed within the timescales indicated, there will be an underlying need to borrow of £315 million by 31 March 2027.

17.3 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.

18. Background Papers

None

19. Appendices

Appendix 1: Detailed capital and investment strategy
Appendix 2: Schedule of GF capital programme
Appendix 3: HRA capital programme
Appendix 4: Treasury Management Policy Statement
Appendix 5: Money Market Code Principles
Appendix 6: Arlingclose Economic and Interest Rate Forecast
Appendix 7: Credit rating equivalents and definitions
Appendix 8: Flexible use of capital receipts policy
Appendix 9: Glossary

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 Appendix 1

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 we 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 The Local Government Act 2003 requires Local Authorities to have regard to the Prudential Code. The Prudential Code, last revised in 2021, requires Local Authorities to determine a capital strategy. The strategy is to have regard to:

<u>Capital expenditure</u>

- 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

<u>Debt and borrowing and treasury management</u>

- 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

<u>Commercial activity</u>

- 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

<u>Other long-term liabilities</u>

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

<u>Knowledge and skills</u>

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

1.9 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.

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

1.11 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 Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021

2.2 The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

2.3 Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

2.4 CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%.

2.5 the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

 Appendix 1

Credit outlook

2.6 The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

2.7 There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability

Interest rate forecast

2.8 Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

2.9 While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

2.10 Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

3. Balance sheet and treasury position

Balance Sheet

3.1 The Council has a strong asset backed balance sheet

	Balance at 31 March 2021 £'000	£'000		Balance at 31 March 2022 £'000	£'000	
Long term assets	966,521			1,052,236		
Short term assets	92,938			65,185		
		1,059,459	89%		1,117,421	90%
Long term investments	27,022			39,174		
Short term investments	100,969			90,873		
		127,991	11%		130,047	10%
Total assets		**1,187,450**			**1,247,468**	
Current liabilities	(62,544)			(57,992)		
Long term liabilities	(143,258)			(116,284)		
		(205,802)	40%		(174,276)	36%
Short term borrowing	(163,772)			(134,294)		
Long term borrowing	(147,435)			(169,599)		
		(311,207)	60%		(303,893)	64%
Total liabilities		**(517,009)**			**(478,169)**	
Net assets		**670,441**			**769,299**	

3.2 The summary balance sheet shows that cash investments make up only 10% of the Councils assets. Investment property makes up 17% of the long-term assets (being £174 million). The largest proportion of our liabilities is long-term borrowing, of which 87% is HRA debt, and the remaining 13% is for the WUV project.

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 riskier the organisation 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.

	2021-22 Actual ('000)	2022-23 Outturn ('£000)	2023-24 Estimate ('£000)	2024-25 Estimate ('£000)	2025-26 Estimate ('£000)	2026-27 Estimate ('£000)
Total debts	303,893	240,235	388,277	454,290	476,892	479,417
Total assets	1,247,468	1,326,505	1,503,680	1,575,442	1,620,925	1,652,128
Debt Ratio %	24%	18%	26%	29%	29%	29%

3.4 This shows that our gearing is low, but increasing and remaining steady, 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.

 Appendix 1

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 Council's 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 22 Actual £'000	Dec 22 position £'000
Investments		
Managed in-house		
Call Accounts	330	2,810
Notice Accounts - UK	3,000	3,000
Money Market Funds	39,220	11,516
Temporary Fixed Deposits	57,500	53,000
Long term Fixed Deposits	18,500	20,000
Cash plus	5,000	0
Short term bonds	2,000	2,500
Gilts	0	5,000
Covered Bonds	16,100	11,400
CD	0	2,000
Total investments managed in-house	**141,650**	**111,226**
Pooled Funds		
CCLA	6,490	6,717
M&G	3,530	0
Schroders	700	730
UBS	2,220	1,797
Royal London	2,330	2,134
Fundamentum	1,980	2,066
Aegon	0	2,438
Funding Circle	500	98
Total pooled funds investments	**17,750**	**15,980**
Total Investments	**159,400**	**127,206**
Borrowing		
Temporary borrowing	163,772	87,000
Long-term borrowing (PWLB)	147,435	175,000
Total borrowing	**311,207**	**262,000**
Net investments / (borrowing)	**(151,807)**	**(134,794)**

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 December 2022 (the latest position).

3.11 Investment balances have reduced, due to repaying temporary borrowing. The net borrowing position has decreased since due to a higher reduction in borrowing than reduction in investments.

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 (radar stage)

 Appendix 1

- Approved programme (outline & final business case stage)
- Provisional programme (strategic outline case stage)
- Reserves and s106 funded programmes

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 and redevelopment (including housing schemes) which have a neutral or positive direct financial benefit to the council. 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 or by the capital receipts generated from the scheme being sufficient to repay any debt used to finance the scheme such that there are no borrowing costs on the revenue account.
b) development for non-financial reasons - those schemes that are for economic growth, regeneration, redevelopment, including housing schemes and infrastructure which have no direct financial benefit to the Council 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). They often do not have cashable savings or efficiencies associated with them, but often prevent further cost escalation of services. Essential schemes often have revenue costs associated with them, particularly if funded from borrowing.

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

4.6 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 Council's 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.

4.7 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 Council's 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.

4.8 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.

4.9 Under the financial regulations, schemes that are fully funded by s106 receipts or grants and contributions can be added to the capital programme under delegation.

4.10 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.

4.11 The capital programme is also reviewed by CMT and Corporate Governance and Standards Committee (CGSC) as part of the regular quarterly financial monitoring and then as part of the final accounts report. Under the PPM Governance framework, the Major Project Portfolio Board, and its subgroups, meet regularly, and they receive highlight reports on the progress of all the major projects in the capital programme.

4.12 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

4.13 The actual financing of each years' capital programme is determined in the year in question.

4.14 Capital expenditure is split between the GF (incorporating non-HRA housing) and HRA housing.

4.15 Our current approved capital programme, revised in year for updates in the programme and for the new bids to be submitted for approval by the Executive is as follows:

CAPITAL EXPENDITURE SUMMARY	2022-23 Approved £000	2022-23 Outturn £000	2022-23 Variance £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
General Fund Capital Expenditure								
- Main Programme	107,404	58,822	(48,582)	74,886	2,833	2,000	2,000	2,000
- Provisional schemes	44,510	725	(43,785)	118,833	67,989	43,483	27,642	29,203
- Schemes funded by reserves	1,618	1,530	(88)	1,031	940	0	0	0
- S106 Projects	58	263	205	122	0	0	0	0
- New Bids (net cost)	0	0	0	1,948	4,052	2,430	1,250	750
Total Expenditure	**153,590**	**61,340**	**(92,250)**	**196,820**	**75,814**	**47,913**	**30,892**	**31,953**
Financed by :								
Capital Receipts	0	(0)	(0)	0	0	(21,641)	(27,117)	(22,593)
Capital Grants/Contributions	(47,472)	(19,758)	27,714	(46,336)	(4,589)	(1,020)	0	0
Capital Reserves/Revenue	(1,838)	(2,979)	(1,141)	(1,131)	(1,160)	(220)	0	0
Borrowing	(104,280)	(38,603)	65,677	(149,353)	(70,065)	(25,032)	(3,775)	(9,360)
Financing - Totals	**(153,590)**	**(61,340)**	**92,250**	**(196,820)**	**(75,814)**	**(47,913)**	**(30,892)**	**(31,953)**
Housing Revenue Account Capital Expenditure								
- Main Programme	52,909	32,869	(20,040)	27,266	7,847	400	0	0
- Provisional schemes	7,281	75	(7,206)	15,928	26,324	34,373	49,575	5,575
- New bids	0	0	0	20,600	0	0	0	0
Total Expenditure	**60,190**	**32,944**	**(27,246)**	**63,794**	**34,171**	**34,773**	**49,575**	**5,575**
Financed by :								
- Capital Receipts	(8,540)	(3,208)	5,332	(8,494)	(3,430)	(3,521)	0	0
- Capital Reserves/Revenue	(40,103)	(18,188)	21,915	(55,300)	(30,741)	(31,252)	(49,575)	(5,575)
- Borrowing	0	0	0	0	0	0	0	0
Financing - Totals	**(48,643)**	**(21,396)**	**27,247**	**(63,794)**	**(34,171)**	**(34,773)**	**(49,575)**	**(5,575)**

 Appendix 1

4.16 The programme has slipped in 2022-23 – estimated expenditure on the GF of £154 million, has been reduced to £61 million. The majority of this relates to expenditure on regeneration schemes and has been moved into later years.

4.17 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 GF capital programme. Where there are mixed use schemes, we will split the expenditure based on the proposed percentage of social/affordable housing to be developed.

New capital schemes

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

4.19 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 radar projects for the capital vision. Requests also come through via the PPM mandate process the Council has adopted.

4.20 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 Council's Capital Vision [1](see Appendix 9). 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.

4.21 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.

4.22 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.

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

- Simple non-complex projects (e.g., BAU R&M) – a simple business justification case will be required to justify the spending proposal
- All other projects 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

[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.

reported to the Executive at the point a project is asking for approval to be moved from the provisional to the approved capital programme

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

4.24 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 Council's objectives. The criteria is:

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 Council's Corporate Plan to show how well it contributes towards achieving the strategic objectives of the Council

c) Each scheme must have some or all of a cost benefit analysis, including but not limited to 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 development schemes for financial reasons

g) All projects should assess the qualitative benefits

4.25 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.

4.26 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.

4.27 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 (RTB receipts), 1/3 borrowing and 1/3 capital reserves.

 Appendix 1

5. Treasury management, borrowing and investment strategy

5.1 Treasury management is the management of the Council's 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 Council's 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 2021 ('TM Code') which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the TM Code.

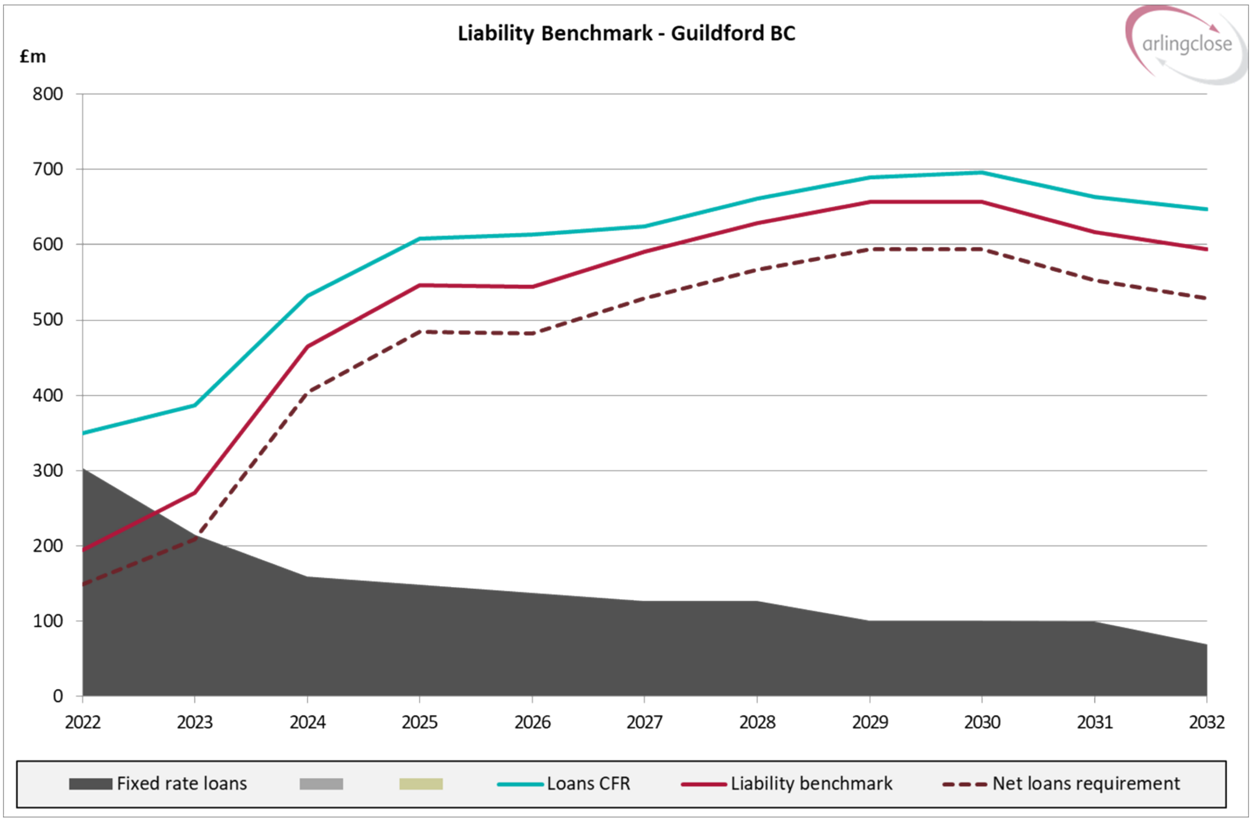
Capital Financing Requirement (CFR)

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 Council's investments consist of usable reserves and working capital and are the underlying resources available for investment.

5.6 The updated Codes require a new Prudential Indicator called the Liability Benchmark which Guildford had already been reporting for some years. This is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day to day cash flow.



5.7 The liability benchmark shows the lowest risk level of borrowing – i.e., using the Council's overall cash to fund the capital programme, and only externalising the borrowing when our minimum liquidity requirement is reached. 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

5.8 The differential between the CFR and the net loans requirement is the Council's 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 Council's 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 Council's total debt (external borrowing) should be lower than its forecast CFR over the next three years – in other words, not over borrowing. The above shows that we are expecting to comply with this recommendation.

5.10 The table below 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 (2022-23 to 2024-25).

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	Actual	Forecasts	£m				
Position at 31 March	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Loans CFR	350.1	386.3	532.5	608.5	613.5	624.2	660.9
External borrowing	-303.7	-214.6	-159.0	-148.3	-137.7	-127.1	-126.4
Internal (over) borrowing	46.3	171.7	373.6	460.1	475.8	497.1	534.5
Balance sheet resources	-201.0	-177.6	-128.9	-123.7	-130.9	-95.3	-93.8
Investments (new borrowing)	154.6	5.9	-244.6	-336.4	-344.9	-401.8	-440.8

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.

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 2023-24, based on the current profile of the capital programme. We have taken out short-term loans in the year to cover cash flow.

Borrowing strategy

5.14 The Council's primary objective when borrowing money is to strike an appropriately low risk balance 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 Council's long term plans change is a secondary objective.

5.15 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.

5.16 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.

5.17 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.

5.18 By doing this, we are able to reduce net borrowing costs (despite forgone investment income) and reduce overall treasury risk.

5.19 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.

5.20 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 2023-24 with a view to keeping future interest costs low, even if this causes additional cost in the short term.

5.21 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.

5.22 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).

5.23 Its output may determine whether we arrange forward starting loans 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.

5.24 We may continue to borrow short-term for cash flow shortages.

5.25 We have an agreement with Homes England on the WUV project, whereby we have been successful in being granted a loan at the local infrastructure rate. Borrowing will be taken out from the PWLB in line with the agreed timetable.

Sources of borrowing

5.26 We have previously borrowed our long-term borrowing from the PWLB. We will consider 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 TM Code.

5.27 PWLB loans are no longer available to local authorities planning to buy investment assets primary for yield, we made the decision several years ago to only buy properties for strategic reasons, and not those purely for yield.

5.28 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

5.29 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

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- sale and leaseback

Municipal Bond Agency (MBA)

5.30 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

5.31 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 Council's exposure to interest rate risk. Financial derivatives may be used to manage this interest rate risk (see below).

5.32 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

5.33 We are also required to present the maturity structure of borrowing. This indicator is set to control the Council's 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		
	2023-24	
	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%

5.34 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

5.35 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. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Investment strategy

5.36 The 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.

5.37 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.

5.38 The TM Code does not permit Councils to both borrow and invest long-term for cash flow management, but they may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme up to three years, to manage inflation risk by investing usable reserves in instruments whose value rises with inflation and to manage price risk by adding diversification to the strategic pooled fund portfolio.

5.39 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.

5.40 Under the IRFS 9 accounting standard the accounting of certain investments depends on the Council's '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.

5.41 The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

5.42 ESG considerations are increasingly a factor in global investors decision making, but the framework for evaluating investment opportunities is still developing and therefore the Councils policy does not currently include ESG scoring or other real time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Counterparty limits

5.43 Limits per counterparty on investments are shown in the table below:

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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

5.44 The time limits shown are the maximum from the start of an investment, and operationally we could have a shorter duration.

5.45 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.

5.46 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.

5.47 For entities without published credit ratings, investments will only be made following external advice.

5.48 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. Local Authorities are statutory bodies and have access to the PWLB for borrowing, and any of these loans would be transferred to a successor body. There has not been a Local authority default, despite some s114 notices being put in place, instead Government has stepped in so the risk of a local authority defaulting is very low.

5.49 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

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investments with any one counterparty will not exceed the cash limit for secured investments.

5.50 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.

5.51 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 Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

5.53 Strategic 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 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 the Council's investment objectives will be monitored regularly.

5.54 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.

5.55 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 Council's investment at risk.

5.56 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 chance of the Council maintaining operational continuity.

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5.57 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.

5.58 In addition, we may make an investment that is defined as capital expenditure by legislation, such as company shares.

5.59 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

5.60 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

5.61 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.

5.62 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.

5.63 We will not make investments with any organisation if there are substantive doubts about its credit quality, even if it meets the above criteria.

5.64 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 Council's 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.

5.65 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 2023-24.
- 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 £45 million as our minimum liquidity requirement. We also have a high-level cash flow projection over four years.

Interest rate risk

5.66 Interest rate risk is defined as “the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation’s finances, against which the organisation has failed to protect itself adequately”. In local authorities this risk is therefore commonly considered in the context of the impact of changes in interest rates on the revenue account

5.67 Long term treasury management investments: the purpose of this indicator is to control the Council’s exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term treasury management investments will be:

	2022-23 Approved	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Upper limit for total principal sums invested for longer than a year	£50m	£50m	£50m	£50m

5.68 Long-term investments with no fixed maturity date include strategic pooled funds, and REITS but exclude money market funds and bank accounts with no fixed maturity date as these are considered long-term.

5.69 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.

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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 loan's 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 revenue 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.

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Z:\Cttee Services\Agendas & Minutes\Corporate Governance and Standards\Agendas\2023\230119\Cap Strategy\[Copy of Appendix 2 - GF Cap prog.xlsx]Sheet3

GENERAL FUND CAPITAL PROGRAMME - ESTIMATED EXPENDITURE 2022-23 to 2027-28

Ref	Directorate/Service and Capital Scheme name	Approved gross estimate (a) £000	Cumulative spend at 31-03-22 (b) £000	2022-23 Estimate approved by Council in February (c) £000	Revised estimate (d) £000	Expenditure at P9 (e) £000	Projected exp est by project officer (f) £000	2023-24 Est for year (ii) £000	2024-25 Est for year (iii) £000	2025-26 Est for year (iv) £000	2026-27 Est for year (v) £000	2027-28 Est for year (v) £000	Future years est exp (g) £000	Projected expenditure total (b)+(f)+(g) = (h) £000	Grants / Contributions towards cost of scheme (i) £000	Funded from Reserves (j)	Net cost of scheme (h)-(i) -(j)= (k) £000
	APPROVED SCHEMES																
	COMMUNITY DIRECTORATE																
	General Fund Housing																
	Disabled Facilities Grants		annual	605	605	371	605	605	605	-	-		1,210	1,815	(806)	-	1,009
	Better Care Fund		annual	-	-	203	-	-	-	-	-		-	-	-	-	-
	Home Improvement Assistance		annual	-	-	13	-	-	-	-	-		-	-	-	-	-
	Solar Energy Loans		annual	-	-	-	-	-	-	-	-		-	-	-	-	-
	BCF TESH Project		annual	-	-	-	-	-	-	-	-		-	-	-	-	-
	BCF Prevention grant		annual	-	-	3	-	-	-	-	-		-	-	-	-	-
	SHIP		annual	-	-	-	-	-	-	-	-		-	-	-	-	-
	General Grants to HAs		annual	100	100	-	-	100	100	-	-		200	200	-	-	200
	Asset Management		-	-	-	-	-	-	-	-	-		-	-	-	-	-
ED14(e)	Void investment property refurbishment works	570	503	-	55	-	55	-	-	-	-	-	-	570	-	-	570
ED15	1 Midleton void works				9	-	9	-					-				
	C4 41 Moorfield Road Slyfield void works(complete)			10	3	3	3	-					-				
ED14	10 Midleton void works	230	222	-	8	-	8	-	-	-	-		-	230	(100)	-	130
ED21	Methane gas monitoring system	100	48	51	52	-	-	52	-	-	-	-	52	100	-	-	100
ED22	Energy efficiency compliance - Council owned properties	245	82	163	163	3	30	133	-	-	-	-	133	245	-	-	245
ED26	Bridges -Inspections and remedial works	317	203	90	114	27	114	-	-	-	-	-	-	317	-	-	317
ED41	The Billings roof	200	192	-	8	4	8	-	-	-	-	-	-	200	-	-	200
ED53	Tyting Farm Land-removal of barns and concrete hardstanding	200	143	57	57	-	-	57	-	-	-		57	200	-	-	200
	COMMUNITY DIRECTORATE TOTAL	**1,862**	**1,394**	**1,076**	**1,173**	**627**	**831**	**947**	**705**	**0**	**0**	**0**	**1,652**	**3,878**	**-906**		**2,972**
	ENVIRONMENT DIRECTORATE																
	Operational Services																
OP1/OP 20	Flood resilience measures (use in conjunction with grant funded schemes)	445	324	121	121	-	121	-	-	-	-	-	-	445	-		445
OP5	Mill Lane (Pirbright) Flood Protection Scheme(no longer reqd)	71	55	16	16	-	-	-	-	-	-	-	-	55	(19)		36
OP6	Vehicles, Plant & Equipment Replacement Programme	10,665	10,395	-	270	99	121	149	-	-	-	-	149	10,665	(26)		10,639
OP26	Merrow lane grille & headwall construction	60	3	57	57	-	57	-	-	-	-	-	-	60	-		60
OP28	Crown court CCTV	10	-	10	10	-	10	-	-	-	-	-	-	10	-		10
OP22	Town Centre CCTV upgrade	250	-	250	250	-	125	125	-	-	-	-	125	250	-		250
OP24	Yorkies Bridge Lighting	20		20	20	12	20	-					-	20			20
	Parks and Leisure						-										
PL20(c)	Redevelopment of Westborough and Park barn play area	320	-	320	320	-	-	320	-	-	-	-	320	320	-		320
PL34	Stoke cemetry re-tarmac	122	-	122	122	55	122	-	-	-	-	-	-	122	-		122
PL57	Parks and Countryside - repairs and renewal of paths,roads and car parks	355	256	97	99	71	99	-	-	-	-	-	-	355	-		355
PL58	Shalford Common - regularising car parking/reduction of encroachments	121	29	30	32	-	-	92	-	-	-	-	92	121	-		121
PL60	Traveller encampments	53		28	53	-	27	26	-	-	-	-	26	53	-		53
PL60	Traveller transit site provision	127		127	127	-	127	-	-	-	-	-	-	127	-		127
	Works to Weir		418		-	-	-	-	-	-	-	-	-	418	-		418
PL61	Stoke Park Paddling Pool	170		170	170	168	170	-					-	170			170
PL62	Lido - Drainage Works	2,100	2		2,098	251	1,845	200	53				253	2,100		(1,500)	600

GENERAL FUND CAPITAL PROGRAMME - ESTIMATED EXPENDITURE 2022-23 to 2027-28

Ref	Directorate/Service and Capital Scheme name	Approved gross estimate (a) £000	Cumulative spend at 31-03-22 (b) £000	2022-23 Estimate approved by Council in February (c) £000	Revised estimate (d) £000	Expenditure at P9 (e) £000	Projected exp est by project officer (f) £000	2023-24 Est for year (ii) £000	2024-25 Est for year (iii) £000	2025-26 Est for year (iv) £000	2026-27 Est for year (v) £000	2027-28 Est for year (v) £000	Future years est exp (g) £000	Projected expenditure total (b)+(f)+(g) = (h) £000	Grants / Contributions towards cost of scheme (i) £000	Funded from Reserves (j) £000	Net cost of scheme (h)-(i) -(j)= (k) £000
	ENVIRONMENT TOTAL DIRECTORATE	**14,889**	**11,482**	**1,368**	**3,765**	**656**	**2,844**	**912**	**53**	**-**	**-**	**-**	**965**	**15,291**	**(45)**	**(1,500)**	**13,746**
	FINANCE DIRECTORATE																
	Financial Services																
FS1	Capital contingency fund	annual	-	2,000	1,340	-	1,340	2,000	2,000	2,000	2,000	2,000	10,000	11,340	-		11,340
	RESOURCES DIRECTORATE TOTAL	**0**	**0**	**2,000**	**1,340**	**0**	**1,340**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**10,000**	**11,340**	**0**		**11,340**
	DEVELOPMENT/INCOME GENERATING/COST REDUCTION PROJECTS																
	Development / Infrastructure																
ED54	Rodboro Buildings - electric theatre through road and parking	416	36	370	369	3	1	379	-	-	-	-	379	416	-		416
P5	Walnut Bridge replacement	5,098	4,567	500	530	705	530	-	-	-	-	-	-	5,098	(2,456)	(950)	1,691
	SMC(West) Phase 1	1,967	1,785	200	182	7	182	-	-				-	1,967	(914)		1,053
P22	Ash Bridge Land acquistion	145	145	-	0	157	0	-	-	-	-	-	-	145	-		145
P21	Ash Road Bridge	33,745	6,349	14,393	18,983	1,950	5,088	22,308	-	-	-	-	22,308	33,745	(30,400)		3,345
P21	Ash Road Footbridge	500	58	255	406	36	406	36	-	-	-	-	36	500	-	-	500
	Broadband for Surrey Hills (B4SH)	60	3		60	44	60										
P11	Guildford West (PB) station	500	-	500	500	-	250	250	-	-	-	-	250	500	-		500
	Development Financial																
	Investment in North Downs Housing (60%)	15,180	13,717	1,073	1,463	1,463	1,463	-	-	-	-	-	-	15,180	-		15,180
	Equity shares in Guildford Holdings ltd (40%)	10,120	9,154	710	966	966	966	-	-	-	-	-	-	10,120	-		10,120
ED49	Middleton Ind Est Redevelopment	14,907	9,310	5,557	5,597	2,687	5,222	300	75	-	-		375	14,907			14,907
P12	Property acquisitions	33,520	8,767	24,992	24,753	16	800	23,953	-	-	-	-	23,953	33,520	-		33,520
PL9	Rebuild Crematorium	11,036	10,927	-	109	6	109	-	-	-	-	-	-	11,036	-		11,036
ED27	North Street Development / Guild Town Centre regeneration	1,627	1,473	150	154	98	154	-	-	-	-	-	-	1,627	(250)		1,377
P22	Shaping Guildford Future (SGF)	4,170		1,530	2,630	3	1,530	2,640					2,640	4,170			4,170
ED32	Internal Estate Road - CLLR Phase 1	11,139	10,946	-	193	-	193	-	-	-	-	-	-	11,139	(5,107)		6,032
P ED6	Slyfield Area Regeneration Project (SARP)	98,444	21,444	52,730	53,725	5,605	36,000	21,161	-		-	-	21,161	98,644	(24,431)		74,213
ED6	WUV - Allotment relocation	200	2,641	-	-	497	-	-									
ED6	WUV - Int roads, Site clearance	-	1	-	-	-	-										
ED6	WUV - New GBC Depot	2,480	1,628	-	852	743	852	-					-	2,480			2,480
ED6	WUV - Thames Water relocation	-	16,307	-	-	3,850	-										
ED6	WUV - Land Purchase	-	1,091	-	-	-	-										
	DEVELOPMENT/INCOME GENERATING/COST REDUCTION PR	**245,254**	**120,348**	**102,960**	**111,473**	**18,835**	**53,807**	**71,027**	**75**	**0**	**0**	**0**	**71,102**	**245,194**	**-63,558**	**-950**	**180,686**
	APPROVED SCHEMES TOTAL	**262,005**	**133,224**	**107,404**	**117,751**	**20,118**	**58,822**	**74,886**	**2,833**	**2,000**	**2,000**	**2,000**	**83,719**	**275,703**	**-64,509**	**-2,450**	**208,744**

non-development projects total	16,751	12,876	4,444	6,278	1,283	5,016	3,859	2,758	2,000	2,000	2,000	12,617	30,509	-951	-1,500	28,058
development/infrastructure - non-financial benefit	42,431	12,943	16,218	21,030	2,901	6,517	22,973	0	0	0	0	22,973	42,371	-33,770	-950	7,651
development- financial benefit	202,823	107,405	86,742	90,442	15,934	47,289	48,054	75	0	0	0	48,129	202,823	-29,788	0	173,035
TOTAL	262,005	133,224	107,404	117,751	20,118	58,822	74,886	2,833	2,000	2,000	2,000	83,719	275,703	-64,509	-2,450	208,744

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GENERAL FUND CAPITAL PROGRAMME - ESTIMATED EXPENDITURE 2022-23 to 2027-28

Ref	Directorate / Service Units Capital Schemes	Gross estimate approved by Executive	Cumulative spend at 31-03-22	2022-23 Estimate approved by Council in February	Revised estimate	Expenditure at P9	Projected exp est by project officer	2023-24 Est for year	2024-25 Est for year	2025-26 Est for year	2026-27 Est for year	2027-28 Est for year	2028-29 Est for year	2029-30Est for year	2030-31 est for yr and SARP to 3233	Future years estimated expenditure	Projected expenditure total	Grants or Contributions towards cost of scheme	Net total cost of scheme to the Council
		(a)	*(b)*	*(c)*	*(e)*	*(f)*	*(g)*	*(i)*	*(ii)*	*(iii)*	*(iv)*	*(v)*	*(v)*	*(v)*	*(v)*	*(h)*	*(b)+(g)+(h)=(i)*	*(j)*	*(i) - (j) = (k)*
		£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
	PROVISIONAL SCHEMES (schemes approved in principle; further report to the Executive required)																		
	COMMUNITY DIRECTORATE																		
	Asset Management																		
ED21(P)	Methane gas monitoring system	150	-	-	-	-	-	150	-	-		-	-	-	-	150	150	-	150
ED22(P) CP5	Energy efficiency compliance - Council owned properties & Energy & CO2 reduction in Council non HRA properties	3,218	-	1,268	1,268	-	-	2,718	500	-		-	-	-	-	3,218	3,218	-	3,218
ED26(P)	Bridges	370	-	370	370	-	370	-	-	-		-	-	-	-	-	370	-	370
ED48(p)	Westfield/Moorfield rd resurfacing	3,152	-	-	-	-	-	-	-	3,152	-	-	-	-	-	3,152	3,152	-	3,152
ED56(p)	Land to the rear of 39-42 Castle Street	10		10	10		10	-	-	-		-				-	10	-	10
	Office Services						-												
BS3(p)	Millmead House - M&E plant renewal	33		33	33		33	-	-	-		-				-	33	-	33
	COMMUNITY DIRECTORATE TOTAL	**6,933**	**-**	**1,681**	**1,681**	**-**	**413**	**2,868**	**500**	**3,152**	**-**	**-**	**-**	**-**	**-**	**6,520**	**6,933**	**-**	**6,933**
	ENVIRONMENT DIRECTORATE																		
	Operational Services																		
OP6(P)	Vehicles, Plant & Equipment Replacement Programme	24,000	-	3,280	2,500	-	-	2,900	2,500	5,000	3,000	6,500	1,500	2,000	600	24,000	24,000	-	24,000
OP21(P)	Surface water management plan	200	-	-	-	-	-	200	-	-	-	-		-	-	200	200	-	200
OP22(p)	YMCA Lighting	24		24	24	-	24	-								-	24		24
OP23(p)	Millmead House Lifts	200		200	200	-	200	-								-	200		200
	Parks and Leisure				-	-	-												
PL18(P)	Refurbishment / rebuild Sutherland Memorial Park Pavilion	150	-	-	-	-	-	-	150	-	-	-		-	-	150	150	-	150
PL45(p)	Stoke Pk gardens water feature refurb	40	-	40	40	-	-	40	-	-	-	-		-	-	40	40	(29)	11
PL57(p)	Parks and Countryside - repairs and renewal of paths,roads and car	1,382	-	382	382	-	-	250	250	250	250	382				1,382	1,382	-	1,382
PL59(p)	Millmead fish pass	60	-	60	60	-	60	-	-	-	-	-				-	60	-	60
PL61(p)	Albury Closed Burial Ground(no longer reqd)	60		57	57	-	-	-	-							-	-		-
PL62(p)	Chilworth Gunpowder Mills	180		175	175	-	10	165	5							170	180		180
PL63(p)	Memorial Wall	100		100	100	-	-	-		100						100	100		100
PL34(p)	Stoke cemetry re-tarmac	18		18	18	-	18	-								-	18		18
	ENVIRONMENT DIRECTORATE TOTAL	**26,414**	**-**	**4,336**	**3,556**	**-**	**312**	**3,555**	**2,905**	**5,350**	**3,250**	**6,882**	**1,500**	**2,000**	**600**	**26,042**	**26,354**	**(29)**	**26,325**
	DEVELOPMENT/INCOME GENERATING/COST REDUCTION PROJECTS																		
	Development / Infrastructure																		
	Investment in North Downs Housing	30,100	-	5,518	5,518	-	-	5,518	12,539	-	-	-				18,057	18,057	-	18,057
	Equity shares in Guildford Holdings ltd	-	-	3,683	3,683	-	-	3,683	8,360	-	-	-				12,043	12,043	-	12,043
P10(p)	Sustainable Movement Corrider	150	-	-	-	-	-	-	150	-		-	-	-	-	150	150	-	150
P11(p)	Guildford West (PB) station	1,000	-	1,000	1,000	-	-	1,000	-	-		-	-	-	-	1,000	1,000	-	1,000
P17(p)	Bus station relocation	500	-	-	-	-	-	-	500	-	-					500	500	-	500
P21(p)	Ash Road Footbridge	4,521		-	-		-	183	4,288	50	-					4,521	4,521	-	4,521
	Development Financial																		
P ED16(P)	Slyfield Area Regeneration Project (SARP) (GBC share)	222,684	-	-	-	-	-	73,584	28,697	34,881	24,342	22,271	14,910	17,909	-	216,594	216,594	(13,704)	202,890
ED38(P)	North Street development	1,350	-	-	-	-	-	150	50	50	50	50	50	950	-	1,350	1,350	-	1,350
P12(p)	Property acquisitions	38,292	-	28,292	28,292	-	-	28,292	10,000	-	-	-	-	-	-	38,292	38,292	-	38,292
	DEVELOPMENT/INCOME GENERATING/COST REDUCTION PROJECTS TOTAL	**298,597**	**-**	**38,493**	**38,493**	**-**	**-**	**112,410**	**64,584**	**34,981**	**24,392**	**22,321**	**14,960**	**18,859**	**-**	**292,507**	**292,507**	**- (13,704)**	**278,803**
	PROVISIONAL SCHEMES - GRAND TOTALS	**331,944**	**-**	**44,510**	**43,730**	**-**	**725**	**118,833**	**67,989**	**43,483**	**27,642**	**29,203**	**16,460**	**20,859**	**600**	**325,069**	**325,794**	**(13,733)**	**312,061**
	non development projects	33,347	-	6,017	5,237	-	725	6,423	3,405	8,502	3,250	6,882	1,500	2,000	600	32,562	33,287	(29)	33,258
	development/infrastructure - non-financial benefit	36,271	0	10,201	10,201	0	0	10,384	25,837	50	0	0	0	0	0	36,271	36,271	0	36,271
	development- financial benefit	262,326	0	28,292	28,292	0	0	102,026	38,747	34,931	24,392	22,321	14,960	18,859	0	256,236	256,236	-13,704	242,532

GENERAL FUND CAPITAL PROGRAMME - ESTIMATED EXPENDITURE 2022-23 to 2027-28

Ref	Directorate / Service Units Capital Schemes	Gross estimate approved by Executive	Cumulative spend at 31-03-22	2022-23 Estimate approved by Council in February	Revised estimate	Expenditure at P9	Projected exp est by project officer	2023-24 Est for year	2024-25 Est for year	2025-26 Est for year	2026-27 Est for year	2027-28 Est for year	2028-29 Est for year	2029-30Est for year	2030-31 est for yr and SARP to 3233	Future years estimated expenditure	Projected expenditure total	Grants or Contributions towards cost of scheme	Net total cost of scheme to the Council
		(a)	*(b)*	*(c)*	*(e)*	*(f)*	*(g)*	*(i)*	*(ii)*	*(iii)*	*(iv)*	*(v)*	*(v)*	*(v)*	*(v)*	*(h)*	*(b)+(g)+(h)=(i)*	*(j)*	*(i) - (j) = (k)*
		£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
	PROVISIONAL SCHEMES (schemes approved in principle; further report to the Executive required)																		
	TOTAL	331,944	0	44,510	43,730	0	725	118,833	67,989	43,483	27,642	29,203	16,460	20,859	600	325,069	325,794	-13,733	312,061

GENERAL FUND CAPITAL SCHEMES - PROJECTS FUNDED VIA RESERVES: ESTIMATED EXPENDITURE 202

Item No.	Projects & Sources of Funding	Approved gross estimate	Cumulative spend at 31-03-22	2022-23 Estimate approved by Council in February	Revised estimate	Expenditure at P9	Projected exp est by project officer	2023-24 Est for year	2024-25 Est for year	2025-26 Est for year	2026-27 Est for year	2027-28 Est for year	Future years est exp	Projected expenditure total
		(a)	(b)	(c)		(e)	(f)	(i)	(ii)	(iii)	(iv)	(v)	(g)	(b)+(f)+(g) = (h)
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
	COMMUNITY DIRECTORATE													
	ENERGY PROJECTS per SALIX RESERVE:(PR220)			-		-	-	-					-	-
R-EN12	LED lighting	44		-	44	-	44	-	-	-	-	-	-	44
R-EN14	MILLMEAD HOUSE & FARNHAM ROAD CP - PV	192	155		38	4	38	-					-	192
R-EN15	FARNHAM ROAD CP- PV													
	ENERGY PROJECTS per GBC INVEST TO SAVE RESERVE:													
	GBC 'Invest to Save' energy projects (to be repaid in line with savings)			-	-	-	-	-					-	-
R-EN14	SMP - air source heat pump	28	1	-	27	-	27	-	-	-	-	-	-	28
	ENERGY RESERVES TOTAL	**264**	**155**	**-**	**109**	**4**	**109**	**-**	**-**	**-**	**-**	**-**	**-**	**264**
	FINANCE DIRECTORATE													
	INFORMATION TECHNOLOGY - IT Renewals Reserve (PR265) : approved annually													
	Hardware / software budget	500		303	303	-	303	440	-		-	-	440	743
R-IT1	Hardware	annual	annual	-	-	35	-	-	-	-	-	-	-	-
R-IT2	Software	annual	annual	-	-	477	-	-	-	-	-	-	-	-
	ICT Refresh Phase 2			197	197	14	197	60	-			-	60	257
R-IT3	IDOX Acolaid to Uniform	275		-	275		-	275	-	-	-	-	275	275
R-IT4	LCTS alternative	56		-	56		0	56		-	-	-	56	56
	IT RENEWALS RESERVE TOTAL	**831**	**-**	**500**	**831**	**527**	**500**	**831**	**-**	**-**	**-**	**-**	**831**	**1,331**
	ENVIRONMENT DIRECTORATE													
	SPECTRUM RESERVE													
R-S14	Spectrum schemes (to be agreed with Freedom Leisure)	431	168	263	263	-	-	-					-	168
	Spectrum - Retaining Wall	204	170		34	-	34	-					-	204
	Lido - Drainage Works (moved to Main approved)	-	-		-	-	-	-					-	-
	SPECTRUM RESERVE TOTAL	**635**	**338**	**263**	**297**	**-**	**34**	**-**	**-**	**-**	**-**	**-**	**-**	**372**
	CAR PARKS RESERVE													
R-CP1 R-CP20	Car parks - install/replace pay-on-foot equipment	1,170	240	-	-	-	-	-	930	-	-	-	930	1,170
	Car Parks - Lighting & Electrical improvements:													
R-CP14	Lift replacement (PR000293)	841	716	-	125	-	125	-	-	-	-	-	-	841
R-CP19	Structural works to MSCP	300	50	250	250	-	100	-	-	-	-	-	-	150
R-CP20	MSCP- Deck surface replacement & barriers	652	526	-	126	-	126	-	-	-	-	-	-	652
R-CP21	Additional barriers Farnham Rd	15		15	15	-	15	-	-	-	-	-	-	15
R-CP22	Deck surface replacement (stair cores)Farnham Rd	70		70	70	-	70	-	-	-	-	-	-	70

Agenda item number: 5
Appendix 2

GENERAL FUND CAPITAL SCHEMES - PROJECTS FUNDED VIA RESERVES: ESTIMATED EXPENDITURE 202

Item No.	Projects & Sources of Funding	Approved gross estimate	Cumulative spend at 31-03-22	2022-23 Estimate approved by Council in February	Revised estimate	Expenditure at P9	Projected exp est by project officer	2023-24 Est for year	2024-25 Est for year	2025-26 Est for year	2026-27 Est for year	2027-28 Est for year	Future years est exp	Projected expenditure total
		(a)	(b)	(c)		(e)	(f)	(i)	(ii)	(iii)	(iv)	(v)	(g)	(b)+(f)+(g) = (h)
		£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
R-CP23	Deck surface replacement Leapale Rd(complete)	600	603	15	(3)	-	-	-	-	-	-	-	-	603
R-CP25	Structural repairs roof turret timbers Castle St	210		205	205	-	-	200	10	-	-	-	210	210
	Car Park Lighting	**300**		**300**	300	296	300	-					-	300
	CAR PARKS RESERVE TOTAL	**4,158**	**2,135**	**855**	**1,088**	**296**	**736**	**200**	**940**	**-**	**-**	**-**	**1,140**	**4,011**
	SPA RESERVE :													
	SPA schemes (various)	100	annual	-	151	-	151	-	-	-	-	-	-	151
R-SPA1	Chantry Woods					-	-						-	
R-SPA2	Effingham					-	-						-	
R-SPA3	Lakeside					-	-						-	
R-SPA4	Riverside					-	-						-	
R-SPA5	Parsonage					-	-						-	
	SPA RESERVE TOTAL	**100**	**-**	**-**	**151**	**-**	**151**	**-**	**-**	**-**	**-**	**-**	**-**	**151**
	GRAND TOTALS	**5,988**	**2,628**	**1,618**	**2,476**	**827**	**1,530**	**1,031**	**940**	**-**	**-**	**-**	**1,971**	**6,129**

FUNDING SUMMARY	Estimate approved by Council in February	Revised estimate	Expenditure at P9	Projected exp est by project officer	2023-24 Est for year	2024-25 Est for year	2025-26 Est for year	2026-27 Est for year	2027-28 Est for year
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Reserves (various)	1,618	2,325	827	1,379	1,031	940	-	-	-
Grants & contributions	-	151	-	151	-	-	-	-	-
TOTALS	**1,618**	**2,476**	**827**	**1,530**	**1,031**	**940**	**-**	**-**	**-**

GENERAL FUND CAPITAL PROGRAMME - S106 ESTIMATED EXPENDITURE 2022-23 to 2027-28

Ref	Service Units / Capital Schemes	Approved gross estimate	Cumulative spend at 31-03-22	2021-22 Estimate approved by Council in February	Revised estimate	Expenditure at P9	Projected exp est by project officer	2023-24 Est for year	2024-25 Est for year	2025-26 Est for year	2026-27 Est for year	2027-28 Est for year	Future years est exp	Projected expenditure total
		(a)	(b)	(c)	(d)	(e)	(f)	(i)	(ii)	(iii)	(iv)	(v)	(g)	(b)+(f)+(g) = (h)
		£000	£000	£000		£000	£000	£000	£000	£000	£000	£000	£000	£000
	APPROVED SCHEMES (fully funded from S106 contributions)													
	ENVIRONMENT DIRECTORATE													
	Operational Services													
	Parks and Leisure													
S-PL36	Gunpowder mills - signage, access and woodland imps	36	22	9	14	-	0	14	-	-	-	-	14	36
S-PL38	Chantry Wood Campsite	36		36	36	-	-	36	-	-	-	-	36	36
S-PL51	Foxenden Quarry	101	13		87	28	28	59					59	100
S-PL48	Boardwalk Heathfield Nature Reserve	13		13	13	-	-	13					13	13
S-PL49	Waterside Playarea Muti Unit(complete)	30	28		2	2	2	-					-	30
S-PL50	Albury Playground Equip (PC)	23	17		5	-	5	-					-	23
S-PL53	Pirbright (PC) Drainage Works/Playground surfacing	10	11		-	0	0							11
S-PL51	West Horsley PC - Litterbins				1	1	1							1
S-PL52	Kings College Sports Facilities	226			226	226	226							226
	ENVIRONMENT DIRECTORATE TOTAL	**475**	**91**	**58**	**385**	**258**	**263**	**122**	**-**	**-**	**-**	**-**	**122**	**477**
	APPROVED S106 SCHEMES TOTAL	**475**	**91**	**58**	**385**	**258**	**263**	**122**	**-**	**-**	**-**	**-**	**122**	**477**

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 2021-22 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)**

	2021-22 Actuals £000	2022-23 Budget £000	2022-23 Est Outturn £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Balance as at 1 April	112	0	127	0	0	0	0	0
Add estimated usable receipts in year	984	0	(127)	0	0	21,641	27,117	22,593
Less applied re funding of capital schemes	(969)	0	(0)	0	0	(21,641)	(27,117)	(22,593)
Balance after funding capital expenditure as at 31 March	**127**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

during year = outturn (col v, actual = col u)

3.0 **Capital expenditure and funding - summary**

	2021-22 Actuals £000	2022-23 Budget £000	2022-23 Est Outturn £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Estimated captial expenditure								
Main programme - approved	38,096	107,404	58,822	74,886	2,833	2,000	2,000	2,000
Main programme - provisional	0	44,510	725	118,833	67,989	43,483	27,642	29,203
s106	72	58	263	122	0	0	0	0
Reserves	1,609	1,618	1,530	1,031	940	0	0	0
GF Housing	0	0	0	0	0	0	0	0
Total estimated capital expenditure	**39,777**	**153,590**	**61,340**	**194,872**	**71,762**	**45,483**	**29,642**	**31,203**
To be funded by:								
Capital receipts *(per 2.above)*	(969)	0	(0)	0	0	(21,641)	(27,117)	(22,593)
Contributions	(12,936)	(47,472)	(19,758)	(46,336)	(4,589)	(1,020)	0	0
R.C.C.O. :								
Other reserves	(1,609)	(1,838)	(2,979)	(1,131)	(1,160)	(220)	0	0
	0	0	0	0	0	0	0	0
	(15,513)	(49,310)	(22,737)	(47,467)	(5,749)	(22,881)	(27,117)	(22,593)
Balance of funding to be met from (i) the Capital Reserve, and (ii) borrowing	(24,264)	(104,280)	(38,603)	(147,405)	(66,013)	(22,602)	(2,525)	(8,610)

	2021-22	2022-23	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Total funding required	**(39,777)**	**(153,590)**	**(61,340)**	**(194,872)**	**(71,762)**	**(45,483)**	**(29,642)**	**(31,203)**

4.0 **General Fund Capital Schemes Reserve (U01030)**	**2021-22 Actuals £000**	**2022-23 Budget £000**	**2022-23 Est Outturn £000**	**2023-24 Estimate £000**	**2024-25 Estimate £000**	**2025-26 Estimate £000**	**2026-27 Estimate £000**	**2027-28 Estimate £000**
Balance as at 1 April	0	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
	0	0	0	0	0	0	0	0
Less: Applied re funding of capital programme	0	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	**24,264**	**104,280**	**38,603**	**147,405**	**66,013**	**22,602**	**2,525**	**8,610**

5.0 **Housing capital receipts (pre 2013-14) - estimated availability/usage for Housing, Affordable Housing and Regeneration projects - GBC policy**	**2021-22 Actuals £000**	**2022-23 Budget £000**	**2022-23 Est Outturn £000**	**2023-24 Estimate £000**	**2024-25 Estimate £000**	**2025-26 Estimate £000**	**2026-27 Estimate £000**	**2027-28 Estimate £000**
Balance as at 1 April (T01008)	0	0	0	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	0	0	0	0	0	0	0	0
	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 at year end	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

5.1 **Housing capital receipts (post 2013-14) - estimated availabili availability/usage for Housing, Affordable Housing and Regeneration projects only (statutory (impact CFR))**	**2021-22 Actuals £000**	**2022-23 Budget £000**	**2022-23 Est Outturn £000**	**2023-24 Estimate £000**	**2024-25 Estimate £000**	**2025-26 Estimate £000**	**2026-27 Estimate £000**	**2027-28 Estimate £000**
Balance as at 1 April (T01012)	0	0	0	0	0	0	0	0
Add: Estimated receipts in year	802	289	0	289	292	295	298	301
Less: Applied re Housing (General Fund) capital programme	(752)	(220)	(100)	(100)	(220)	(220)	(220)	(220)
Less: Applied re Housing Improvement programme	(50)	(69)	100	(189)	(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**

									Total £'000s
6.1 Estimated annual borrowing requirement	**24,264**	**104,280**	**38,603**	**147,405**	**66,013**	**22,602**	**2,525**	**8,610**	**285,758**

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GUILDFORD B.C. - HOUSING INVESTMENT PROGRAMME 2022-23 to 2027-28: HRA APPROVED PROGRAMME

	Project Budget £000	2021-22 Actual £000	Project Spend at 31-03-22 £000	2022-23 Estimate £000	Carry Forward	2022-23 Revised Estimate £000	Expenditure as at P9 £000	2022-23 Projected Outturn £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000	Total Project Exp £000
Acquisition of Land & Buildings	22,900	6,804	14,218	4,800	(118)	4,682	2,184	4,682	4,000	0	0	0	0	22,900
New Build														
Guildford Park	75	0	75	0	0	0			0	0	0	0	0	75
Guildford Park (from GF)	6,500	378	3,526	1,100	608	1,708	1,226	1,890	1,084	0	0	0	0	6,500
Bright Hill	500	17	17	463	20	483	45	60	423	0	0	0	0	500
Foxburrows Redevelopment	10,657			9,591	0	9,591	0	0	9,591	1,066				10,657
Shawfield Redevelopment	300		4	296	0	296	0	0	296					300
Various small sites & feasibility/Site preparation	1,000		0	0	0	0	0	0	0	1,000	0	0	0	1,000
Pipeline projects:	9,425		115	0	100	100		0	3,422	5,381	0	0	0	9,425
Manor House Flats		42	42	1,530		1,530	18	144						
Banders Rise		1	1	130		130	4	30						
Station Road East		2	2	112		112	4	30						
Dunmore Garden Land		1	1	159		159	4	24						
Clover Road Garages		46	46	1,032		1,032	9	42						
Rapleys Field		18	18	415		415	10	40						
Georgelands 108		1	1	118		118	4	17						
27 Broomfield		4	4	109		109	4	30						
17 Wharf Lane		4	4	104		104	4	30						
Development Projects	7,100			7,100		7,100		0	7,100					7,100
Schemes to promote Home-Ownership								0						
Equity Share Re-purchases	annual	458	annual	400	0	400	0	400	400	400	400	0	0	annual
Major Repairs & Improvements				24,500	0	24,500		0						
Retentions & minor carry forwards	annual	0	annual				0	0						annual
Modern Homes - Kitchens, Bathroons & Void refurb	annual	971	annual				3,724	6,000						annual
Doors and Windows	annual	241	annual				237	3,200						annual
Structural/Roof	annual	307	annual				709	3,800						annual
Energy efficiency: Central heating/Lighting	annual	1,262	annual				1,155	1,800						annual
General	annual	880	annual				7,372	9,700						annual
ICT - Housing Management System	950			950		950		950	950	0				1,900
Grants														
Cash Incentive Scheme	annual	0	annual	0	0	0	0	0						annual
TOTAL APPROVED SCHEMES	59,407	11,438	18,074	52,909	610	53,519	16,713	32,869	27,266	7,847	400	0	0	60,356

GUILDFORD B.C. - HOUSING INVESTMENT PROGRAMME 2022-23 to 2027-28: HRA PROVISIONAL PROGRAMME

	Project Budget £000	2021-22 Actual £000	Project Spend at 31-03-22 £000	2022-23 Estimate £000	Carry Forward	2022-23 Revised Estimate	2022-23 Projected Outturn £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000	Total Project Exp £000
New Build													
Guildford Park	16,000	0	1,225	26	0	26	0	0	0	14,775	0	0	16,000
Guildford Park (from GF)	23,125	0	0	0	0	0	0	1,173	13,749	8,203	0		23,125
Bright Hill	3,000	0	0	3,000	0	3,000	0	3,000	0	0	0	0	3,000
Bright Hill Development (from GF)	13,500	0	0	680	0	680	0	5,680	7,000	820	0	0	13,500
Slyfield (25/26 £5m; 26/27 £44m)	50,000	0	0	1,000	0	1,000	0	0	0	5,000	44,000	0	49,000
Shawfield Redevelopment	3,000	0	0	2,500	0	2,500	0	500	0	0	0	0	500
Major Repairs & Improvements													
Major Repairs & Improvements	annual		annual	0	0	0	0	5,500	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	75	75	75	annual
Total Expenditure to be financed	**108,625**	**0**	**1,225**	**7,281**	**0**	**7,281**	**75**	**15,928**	**26,324**	**34,373**	**49,575**	**5,575**	**105,125**

GUILDFORD B.C. - HOUSING INVESTMENT PROGRAMME 2022-23 to 2027-28: HRA RESOURCES AND FUNDING STATEMENT

	2021-22 Actual £000	2022-23 Estimate £000	2022-23 Projected Outturn £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
EXPENDITURE								
Approved programme	15,739	52,909	32,869	27,266	7,847	400	0	0
Provisional programme	0	7,281	75	15,928	26,324	34,373	49,575	5,575
Total Expenditure	**15,739**	**60,190**	**32,944**	**43,194**	**34,171**	**34,773**	**49,575**	**5,575**
FINANCING OF PROGRAMME								
Capital Receipts	752	400	400	400	400	400	0	0
1-4-1 recepits	2,980	8,140	2,808	8,094	3,030	3,121	3,213	0
Contribution from Housing Revenue a/c (re cash incentives)	0	75	75	75	75	75	75	75
Future Capital Programme reserve	0	11,547	11,547	6,414	8,248	8,398	14,387	0
Major Repairs Reserve	8,153	13,903	13,903	6,450	5,500	5,500	5,500	5,500
New Build Reserve	3,824	26,125	4,211	21,761	16,918	17,279	26,400	0
Grants and Contributions	30	0	0	0	0	0	0	0
Total Financing (= Total Expenditure)	**15,739**	**60,190**	**32,944**	**43,194**	**34,171**	**34,773**	**49,575**	**5,575**

RESERVES - BALANCES	2021-22 Actual £000	2022-23 Estimate £000	2022-23 Projected Outturn £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Reserve for Future Capital Programme (U01035) Ju								
Balance b/f	38,329	40,829	40,829	31,782	27,868	22,120	16,222	4,335
Contribution in year	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Used in year	0	-11,547	-11,547	-6,414	-8,248	-8,398	-14,387	
Balance c/f	**40,829**	**31,782**	**31,782**	**27,868**	**22,120**	**16,222**	**4,335**	**6,835**
Major Repairs Reserve (U01036)								
Balance b/f	11,876	8,378	9,588	1,210	285	285	285	285
Contribution in year	5,865	5,525	5,525	5,525	5,500	5,500	5,500	5,500
Used in Year	-8,153	-13,903	-13,903	-6,450	-5,500	-5,500	-5,500	-5,500
Balance c/f	**9,588**	**0**	**1,210**	**285**	**285**	**285**	**285**	**285**
New Build Reserve (U01069)								
Balance b/f	59,383	62,477	63,398	66,261	52,882	44,515	35,958	18,454
Contribution in year	7,839	8,383	7,074	8,383	8,551	8,722	8,896	9,074
Used in Year	-3,824	-26,125	-4,211	-21,761	-16,918	-17,279	-26,400	0
Balance c/f	**63,398**	**44,735**	**66,261**	**52,882**	**44,515**	**35,958**	**18,454**	**27,528**
Usable Capital Receipts: 1-4-1 receipts (T01011)								

GUILDFORD B.C. - HOUSING INVESTMENT PROGRAMME 2022-23 to 2027-28: HRA RESOURCES AND FUNDING STATEMENT

	2021-22 Actual £000	2022-23 Estimate £000	2022-23 Projected Outturn £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Balance b/f	4,526	5,412	5,226	5,630	413	465	518	573
Contribution in year	3,680	2,728	3,211	2,876	3,083	3,174	3,268	3,334
Repayment in year	0	0	0	0	0	0	0	0
Used in Year	-2,980	-8,140	-2,808	-8,094	-3,030	-3,121	-3,213	
Balance c/f	**5,226**	**0**	**5,630**	**413**	**465**	**518**	**573**	**3,907**

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

Usable Capital Receipts - HRA Debt Repayment (T01010)

	2021-22 Actual £000	2022-23 Estimate £000	2022-23 Projected Outturn £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Balance b/f	4,262	4,308	5,280	6,123	6,845	7,629	8,439	9,274
Contribution in year	1,017	661	843	722	784	810	836	862
Used in Year	0	0	0	0	0	0	0	0
Balance c/f	**5,280**	**4,969**	**6,123**	**6,845**	**7,629**	**8,439**	**9,274**	**10,137**

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.

Usable Capital Receipts - pre 2013-14 (T01008)

	2021-22 Actual £000	2022-23 Estimate £000	2022-23 Projected Outturn £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Balance b/f	0	0	0	0	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)	0	0	0	0	0	0	0	0
Used in Year (GF Housing - DFG)	0	0	0	0	0	0	0	0
Balance c/f	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

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

Usable Capital Receipts - post 2013-14 (T01012)

	2021-22 Actual £000	2022-23 Estimate £000	2022-23 Projected Outturn £000	2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
Balance b/f	0	0	50	348	360	371	383	395
Contribution in year	802	289	298	301	304	307	310	313
Used in Year (HRA = above)	-752	-69	0	-189	-72	-75	-78	-78
Used in Year (GF Housing)	0	-220	0	-100	-220	-220	-220	-220
Balance c/f	**50**	**0**	**348**	**360**	**371**	**383**	**395**	**410**

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

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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Economic and Interest Rate Forecast
19th December 2022

- **The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.**
- **Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.**
- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power - recent data suggests the UK has passed peak inflation.
- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.
- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.00	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.50	3.40	3.40	3.40
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.43	3.60	3.80	3.80	3.80	3.70	3.60	3.50	3.40	3.30	3.30	3.30	3.30
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.47	3.50	3.60	3.60	3.60	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.86	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.
- The MPC will cut rates in the medium term to stimulate a stuttering UK economy, but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

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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.

Guildford Borough Council
Flexible Use of Capital Receipts Strategy 2022-23

When a capital asset is no longer needed, it may be sold to generate a capital receipt. Capital receipts are normally ringfenced to finance the capital programme such as purchasing or developing new assets or to repay debt.

On 6 February 2018 the Secretary of State issued a direction under Section 16(2)(b) of the Local Government Act 2003 and guidance under section 15(1)(a) of the Local Government Act 2003 to allow local authorities to spend capital receipts on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility. The direction applies to the financial years that being on 1 April 2016, 1 April 2017, 1 April 2018, 1 April 2020, 1 April 2021 and has now been extended for financial year from 1 April 2022.

The set up and implementation costs of any new processes or arrangements are classified as qualifying expenditure which can apply for the flexible use of capital receipts.

Examples of projects include:
- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief-Executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others); and
- Integrating public facing services across two or more public sector bodies (for example children's social care, trading standards) to generate savings or to transform service delivery.

A policy on the flexible use of capital receipts was previously approved by Council as part of the Capital and Investment strategy in February 2019 to help finance the transformation costs of the Future Guildford transformation project (should it be required), and again in November 2021 for the Collaboration costs with Waverley BC. As the Government has now extended the scheme further, we can take advantage of this flexibility to help fund transformation, service redesign costs and any costs associated with our savings programme in 2022-23.

The recommendation in this report is to request Councillors to approve the flexible use of capital receipts strategy, for the transformation costs incurred in 2022-23.

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)

Joint Executive Advisory Board Report

Ward(s) affected: N/A

Report of Strategic Director: Transformation and Governance

Author: Peter Vickers, Victoria Worsfold and Matt Gough

Tel: 01483 444827 / 01483 444772

Lead Councillors responsible: Julia McShane and Joss Bigmore

Tel: 07435 304505 / 07974 979369

Email: julia.mcshane@guildford.gov.uk and joss.bigmore@guildford.gov.uk

Date: 24 January 2023

Housing Revenue Account (HRA) Budget 2023-24

Executive Summary

The Council owns and manages over 5,200 Council Houses which it rents to tenants who qualify for social housing or for which it holds the freehold. The Housing Revenue Account (HRA) is the ring-fenced account within which the Council records the income and expenditure for its operations as landlord to its residents and for the day-to-day management, repairs and maintenance of the council housing stock.

This report outlines the proposed Housing Revenue Account (HRA) budget for 2023-24, which has been built on the estimates and assumptions in the updated 2023 HRA Business Plan. The Business Plan has been reviewed to reflect changes in relevant legislation and guidance, along with consideration of the Council's declaration of a Climate Emergency and the ongoing challenges of the wider operating environment.

The Direction on the Rent Standard 2019 required the Regulator of Social Housing to set a rent standard for social housing which came into effect from 2020, which would have been CPI +1% from the preceding September rate. This would have resulted in a rent cap of 11.1%. However, a new Direction was issued on 12 December 2022 which is that rents should be capped at 7%.

It is proposed that rather than adopting the directed cap, the Council will adopt a 5% rent cap, which will mean that, on average, households in a 1 bedroomed property will save £8.84 a month compared to the Government cap, and £10.22 for those in a 2 bed and £11.70 for those in a 3 bedroomed property. This below cap level is a recognition of the challenging wider climate faced by residents and has been achievable due to the ongoing prudential management of the overall HRA Account to provide households with some additional assistance at this time.

For those in shared ownership, the Government has not introduced a cap and so rent increases could be set at up to 11.1%; however, the Council is proposing to cap these rents in line with rented homes at 5%.

A 3% increase in garage rents is proposed which is in line with the wider Council policy on fees and charges.

The report includes overall details of the proposed investment programme for the properties that are managed within the HRA, additional details of this work are set out within the Capital and Investment Strategy which is to be considered separately on this agenda.

The HRA annual budget and HRA business plan assumes that any surpluses on the HRA are used to invest in redevelopment and upgrading of the existing stock, invest in new build affordable housing to be retained and rented by the Council within the HRA and then, if sufficient monies are available, the repayment of debt taken on under HRA self-financing.

The 30-year business plan shows that there are sufficient resources within the HRA to carry out the Council's investment plans as well as repay the debt over the plan period and still leave a healthy reserve balance at the end of the 30 years for further investment not yet identified. There are further expected investment needs that are to be fully developed in order to meet carbon targets and expected regulatory changes, and work on these continues. They are not fully reflected within the current plan, but they will be considered in future reviews.

This report will also be considered by the Executive at its meeting on 26 January 2023, and comments and recommendations from the Joint EAB meeting will be reported to the Executive. Finally, the report will also be presented to full Council on 8 February 2023 as part of the overall budget.

Recommendation to Council:

(1) That the proposed HRA revenue budget for 2023-24, as set out in Appendix 1 to this report, be approved.

(2) That a rent increase of 5%, be implemented.

(3) That the fees and charges for HRA services for 2023-24, as set out in Appendix 2 to this report, be approved.

(4) That a 3% increase be applied to garage rents, which is in line with the wider Council policy on fees and charges.

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 expenditure to implement a budget, this is consistent with the objectives outlined in the HRA Business Plan.

Is the report (or part of it) exempt from publication? No

1. Purpose of Report

1.1 This report provides a position statement on the 2023-24 draft budget and makes recommendations to the Council on the Housing Revenue Account (HRA) revenue budget. Details of the HRA capital programme are set out within the Capital and Investment Strategy, which is to be considered separately on this agenda.

2. Corporate Plan

2.1 The HRA Budget reflects the Council's vision, as set out within the 2021-2025 Corporate Plan, to support residents to have access to the homes and jobs they need by providing and facilitating housing that people can afford, helping to protect our environment and empowering communities and supporting people who need help.

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.

4. Budget and Business Plan Priorities

4.1 The budget and Business Plan have been prepared having consideration to four main themes:

- *A safe place to live* – Investment in our housing stock to meet and exceed fire and building safety standards including new fire detection and protection works, upgrading and replacing electrical installations, new fire doors, replacing lifts
- *Environmental and Energy Efficiency* – Improving energy efficiency with new doors, windows, insulation, heating and hot water systems. Rolling out a programme of environmental improvements to our estates and communities including landscaping, parking with increased inspection and investment.
- *Availability and suitability* – Proving a range of housing that helps meet the needs of the community, including supported and sheltered housing, additional homes through regeneration, purchase and development.
- *Customer Service and Accessibility* – Improving choices, information and communication with residents, with enhanced contact handling, monitoring and feedback. Targeted support for vulnerable tenants, specifically those struggling with maintaining their tenancies, hoarding, debt and benefits. Expanding opportunities for residents to influence and

be involved in services through widening opportunities for feedback and engagement for more tenants.

4.2 These priorities have been developed having consideration to the Government's White Paper, changes in the regulatory and legal framework within which the service operates, and the Council's overall objectives.

5. Housing Revenue Account Business Plan

5.1 The objective of the Business Plan is to optimise HRA resources to ensure quality, suitable accommodation for residents, stock growth and to transfer surpluses to the various reserves for future investment in pursuance of its business. It is not limited to management of the housing stock, but also wider issues such as community development and improving the environment.

5.2 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.

5.3 The Plan is based on stock condition data and the regulatory framework in which the Council operates as a social landlord. It also considers the Government's White Paper "*The Charter for Social Housing Residents*" which sets out key areas of service and involvement that every social housing tenant should expect.

5.4 The proposed changes will strengthen existing services and will support the Council in improving the safety and quality of our homes, improve local communities and provide increased opportunities for residents to become involved. It also looks to enhance the communal areas, open and green spaces within the estate.

5.5 The Council has declared a Climate Emergency and it is essential that we continue to develop and improve our housing and services to meet the targets that the Council has set, and this budget builds on existing work by increasing investment to increase energy efficiency whilst also looking to reduce carbon emissions.

6. Potential Pressures

6.1 Nationally, since the self-financing arrangements were established, the economic and fiscal environment has been generally favourable to the HRA. This has, however, changed dramatically with the combined impact of the Pandemic, the war in Ukraine, increases in energy costs, increasing safety requirements, the current cost of living crisis, the increased levels of inflation, coupled with increased inflation rates. Together these and other factors have created unprecedented pressures, risks and uncertainty that impact upon the Council's ability to undertake medium term financial planning, particularly when the planning horizon for the HRA Business Plan is 30 years.

6.2 These factors, combined with the Council's continued aspirations for its housing stock and its management, have been taken into consideration when setting the HRA Budget for 2023-24 and the HRA Business Plan.

6.3 The Council does not operate as a commercial landlord with clear obligations and duties as a social landlord. This means that many of our residents are supported by other agencies and organisations. As a result of this, wider pressures on social and healthcare services mean that residents are experiencing challenges in accessing services, and some provision has become difficult to access. Consequently, the complexity and cost of managing tenancies and providing services is seeing continued pressure as we are forced to deal with situations we are less well equipped to manage.

6.4 The economic situation continues to have an impact and despite government support, there is an increased demand for social housing, which puts pressure on our limited resources and time in responding to this new demand.

6.5 Following the tragic events at Grenfell, the Government has rightly continued to focus on the health and safety of residents and has introduced new legislation and guidance in a range of areas. To ensure compliance with new legislation and guidance, the Council is undertaking its widest ranging programme of works to improve the health and safety of residents that will exceed current statutory requirements. To achieve this will require a continued investment in the capital programme for major works to the existing stock, with work covering fire safety and precautions delivered in partnership with Surrey Fire and Rescue.

6.6 The funding framework available to meet the cost of supported housing remains fragile. Last year we received just £210,276 in Supporting People Grant funding.

6.7 The Council's duties to provide support and assistance with housing to residents is resulting in an ongoing rise in the number of households at risk. Many of those at greatest risk, not only have housing issues but also have 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 and their residents.

6.8 The wider social housing sector continues to become increasingly commercial. Some housing associations are focusing on minimising risk by being selective as to who they house and they are also moving to rents that are higher than those charged by the Council despite their large portfolio of properties. The Council is fortunate to have retained its stock, which gives us greater flexibility in helping those in housing need. It does, however, create a cost pressure.

6.9 Shared ownership properties enable residents to join the home ownership ladder, but for some the reality is that they are unable to staircase (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 the opportunity arises to develop larger sites. In such cases, shared ownership in most cases will contribute to the overall viability of large developments and does assist many households in meeting their housing need.

6.10 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 and increase the investment in housing stock.

6.11 The last few years have presented unique challenges for managing our housing stock and as a result we have been unable to undertake all of the work that we would have expected to the homes we manage. This budget continues with the work started last year to help redress that issue.

7. Preparation of the revenue and capital programme budgets for 2023-24

7.1 The 2023-24 budgets have been prepared having regard to the recent policy announcements and the impact they might have. At the same time, we are conscious of various cost pressures along with the implications of our debt financing profile.

7.2 The Capital and Investment Strategy (separate item on the agenda) sets out the approved and provisional HRA capital programme along with a financing strategy (HRA Resources). The programme reflects the latest information we have on the condition of the stock and the developing asset management framework for our housing stock.

7.3 In preparing the HRA revenue budget, officers continue strategies undertaken in previous years to ensure we provide value for money for our residents. In particular:

- We will continue to evaluate all staff posts that fall vacant to determine whether it is appropriate to recruit to the role or whether an alternative approach could be considered.
- Increasing use of IT, remote working, and virtual meetings continues where appropriate, and are delivering benefits for the service.
- The Allpay system and mobile payment App has being useful, particularly with remote working, in our drive for rent collection.
- Rent collection analytics technology has helped colleagues focus and manage rent collection.
- Introduction of new technologies such as Salesforce and the Choice Based lettings system as part of our Future Guildford Programme continues to deliver service efficiencies and benefits to tenants.
- As part of the ICT and Digital change programme for the Council, officers will look to upgrade or replace systems that deal with housing and asset management over the medium-term period.

8. HRA Revenue Budget 2023 - 24

Assumptions

8.1 The total HRA debt stands at £152 million. It is projected that the interest charge for 2023-24 will be £4.7 million. No provision is included in the budget for the repayment of debt during 2023-24 in line with the overall HRA business plan strategy that building homes rather than debt repayment is the priority.

8.2 The revenue budget for 2023-24 is predicated around a number of key assumptions. The most important of which are set out in the table below:

Item	Assumption
Opening stock	5,211 units of accommodation
HRA Debt	£142 million
Average cost of capital for 2023-24	2.60%
September CPI	10.1%
Recommended Rent increase	5%
Shared Ownership rent increase	5%
Garage rent increase	3%
Bad debt provision 2023-24 2%	£674,730
Void rate	0.50%
#Service charge increases	Linked to contractual arrangements with suppliers for utilities, otherwise subject to 3% increase
Housing units lost through Right to Buy (RTB)	25 per annum
Retained Right to Buy receipts	Held in reserves to fund new build housing and acquisitions within timeframes allowed
HRA ring fence	Policy of strong ring fence continues
Debt repayment	Debt repayments made as loans fall due
Operating balance	£2.5 million

8.3 The proposed budget set out in Appendix 1 is based on a 52-week rent year.

8.4 Rents will increase by 5%, which is below the level specified within the Rent Standard and the Secretary of State’s Direction in 2023-24.

Summary of Revenue Account Budget 2023-24

8.5 The table below summarises the proposed 2023-24 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	14,237
Depreciation	5,864
Other	2,091
Interest payable	4,751
Transfer to reserves	11,393
	38,336

Received From:	**£000**
Council House Rents	33,140
Interest receivable	1 593
Rent income	1,327
Fees, charges and miscellaneous income	2,277
	38,336

8.6 Based on the assumptions as contained in paragraph 8.2 and as summarised in paragraph 7.5 above it is estimated that the HRA will have an operating surplus of £11.393 million for 2023-24 which is reflected in the tables above by the proposed transfer to reserves. The reserves will be used to fund the capital programme for major repairs and investment in existing stock as well as the development of new build housing.

Expenditure

8.7 Expenditure details are set out within Appendix 1, but additional information and background is set out below.

8.8 **General Management**: Budgeted expenditure on delivering continuing HRA services has increased on the previous year's budget, reflecting growth in services in response to the Government's Housing White paper and changes in the regulatory and legal framework. A number of key areas and initiatives have been identified such as:

- Increased support for vulnerable tenants to help maintain their tenancies and to co-ordinate the service's safeguarding role for those households at risk
- Increased support to work with tenants and partners in dealing with and preventing increasingly complex anti-social and criminal behaviour
- Increased support for the number of households who continue to move to Universal Credit and to support tenants to avoid rent arrears whilst increasing rent collection, including Discretionary Housing Benefit top up.
- Broaden opportunities for resident engagement and involvement

- Increase in capacity to ensure compliance with evolving regulatory and compliance framework
- Improving choices, information and communication with residents, with enhanced contact handling, monitoring and feedback.
- Expanded building safety and compliance roles to meet current and planned legislative and regulatory changes
- Improved estate management with improvements to landscaping, paved and communal areas.
- Increase in capacity to deliver both additional housing and also the redevelopment of existing properties

8.9 **Repairs and maintenance:** This budget covers a wide range of work including minor adaptations, day to day repairs across all housing types along with cyclical works. An increase in planned repairs and maintenance expenditure is proposed to continue the work to catch up works which have not been able to be undertaken due to the pandemic or where new standards and requirements are in place. It also reflects increasing contractor and material costs.

8.10 **Interest payable:** The whole portfolio is at a fixed rate from PWLB, with varying maturity dates. The table below sets out our current loan portfolio, after recent renegotiations, with a bullet payment option or renegotiate at the end of their various terms.

Maturity	Principal	Proportion	Type
>10 - 15yrs	£65,000,000	44%	Fixed
>15 - 25yrs	£50,000,000	34%	Fixed
>25 - 35yrs	£32,435,000	22%	Fixed
	£147,435,000		

8.11 **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.

8.12 The depreciation charge is one of the key mechanisms we use to do this. The proposed 2023-24 charge represents, in officers' view, a realistic amount having regard to the outcome of the stock condition survey. A charge of £5.864 million is considered both appropriate and affordable.

Income

8.13. Income details are set out within Appendix 1, but additional information and background is set out below.

Rent Increase

8.14 The Secretary of State made a Direction on 25 February 2019 under powers set out within section 197 of the Housing and Regeneration Act 2008 which required the regulator of Social Housing to set a new Rent Standard for social housing including that owned and managed by local authorities with effect from 1 April 2020.

8.15 This framework meant that as a landlord the Council would be able to increase rents by CPI +1% and the Business Plan was developed having reference to this. However, it was announced as part of the Autumn Statement that rent increases would now be capped at 7%. As most tenants are in receipt of benefits this will not directly benefit most tenants, but it will generate a saving for the Department for Work and Pensions.

8.16 The Local Government Association and National Housing Federation have called for a more targeted approach to support households with increasing costs, but this has not been adopted by the Government. The proposed cap will mean that the sustainability of the Business Plan is affected due to the future effect of the cap which it is not possible to make up due to the current finance model.

8.17 It is proposed that rather than adopting the directed cap, the Council will adopt a 5% rent cap, which will mean that on average households in a 1 bedroomed property will save £8.84 a month compared to the Government cap, and £10.22 for those in a 2 bed and £11.70 for those in a 3 bedroomed property. This below cap level is a recognition of the challenging wider climate faced by residents and has been achievable due to the ongoing prudential management of the overall HRA Account to provide households with some additional assistance at this time.

8.18 For those in shared ownership the Government has not introduced a cap and so rent increases are permitted to increase by a maximum of Retail Prices Index (RPI) for a given month plus 0.5%. In October, the RPI was 14.2%. This means that the rent element could increase by as much as 14.7% in 2023/24. This particularly high increase would come at a time when shared owners will also be facing other pressures on their household finances. In response, the Council is proposing to cap these rents in line with other rented homes at 5%.

8.19 Currently just over 60% of Council tenants are in receipt of either Housing Benefit or Universal Credit and will have their rent covered in full by these benefits, whilst just under 40% may have had their income assessed and will not be eligible for any assistance as their income will have been considered sufficient to be able to meet their housing costs. For those eligible, the proposed increase will have the additional cost covered by their benefits.

8.20 More than 97% of tenants are on social rents and the average expected change to their weekly rent on average will be £5.10 for those in a 1 bedroomed property, £5.90 for those in 2 bed and £6.75 for those in 3 bedroomed properties. Based on the proposed 5% rent increase, this will give an estimated income of £33,064,676 for the coming year.

8.21 Arrears levels for Council housing are generally low with about 1% in arrears which is well below levels in most social housing. This would indicate that for most households their rents remain affordable. The majority of arrears cases are associated with households who have moved to Universal Credit, and they make up more than 65% of arrears although again in most instances these arrears are at relatively low levels with just 15 accounts with arrears in excess of £2,000.

8.22 A provision for bad debt charge of £674,730 is included in the estimates. This charge will remain under review, but it is considered appropriate - it represents 2% of the annual tenanted income. In addition to which additional provision is being made to provide two dedicated Housing, Money, and Benefits Advisers to support tenants with their financial situation at this challenging time. There will also continue to be assistance available through Discretionary Benefit along with a dedicated HRA top facility.

9. Right to Buy sales (RTB)

9.1 RTB activity remained steady during 2022-23, and the Council has in place a formal agreement with the Government regarding the use of the capital receipts arising from the sale of Right to Buy properties.

9.2 The table below outlines activity as at December 2022.

Activity	Number
Properties sold since 1 April 2022	15
Applications being processed	32

9.3 Under the agreement, receipts will be accounted for annually rather than quarterly and the Council is able to fund up to 40% of additional social housing from the receipts. The time limit for using the funds is now 5 years. However, going forward a limit has been introduced for buying existing properties on the open market and this is being phased in over a 3-year period. Whilst up to 40% 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.

9.4 On current levels of activity, we project a loss of units to be in the region of 15-25 per year. Our new build and property acquisition programme is helping to mitigate the impact of the ongoing 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.

9.5 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.

10. HRA Capital Programme and Reserves

10.1 Full details of the Capital Programme are set out within the Council's Capital and Investment Strategy which is to be considered separately on this agenda. This strategy and the Business Plan are based around four stands which are:

- replacing ageing components such as roofs and kitchens
- improving and enhancing existing properties – for example, installing double glazing
- stock rationalisation – Replace or redeveloping properties
- expansion – the provision of new additional affordable homes.

10.2 Key issues that have been considered as part of the overall development of the budget have included changing wider economic position, continuing to work through the impact of Covid and the suspension of capital programmes etc. In order to continue to meet targets for these planned programmes we continue with the catch-up work which was started in the last financial year in order to ensure we remain on track with maintaining existing homes.

10.3 In addition to these areas and with additional background and detail being provided within the Capital and Investment Strategy we continue to invest in properties to ensure the safety of residents and this approach is now being influenced by the new and developing fire and building safety legislation, guidance and good practice.

10.4 The Council has developed its approach to ensure ongoing compliance with the changing requirements and relevant standards and all Fire Risk Assessments have been reviewed and the new work plan that has resulted from this will continue to be delivered through this programme. The risk assessments reflect both changing legislation and good practice that has developed and continues to develop over the last few years.

10.5 This additional investment represents the Council's continued commitment to ensure that the homes that the Council manages meet not only the legislative requirements but also reflect good practice in ensuring the health and safety of residents.

10.6 The Council continues with its programme of delivering additional affordable homes with full details of the proposed programme again set out within the Capital and Investment Strategy.

10.7 Our investment in improving the energy efficiency of properties continues with new heating systems, low energy lighting, insulation and new door and windows. Whilst provision has been included to improve the energy efficiency new technology continues to be developed, in many instances the cost of this technology remains high although it is reducing.

10.8 In order to reduce carbon emissions and improve energy efficiency work is underway to develop a programme of work that will allow the Council to move towards meeting its targets in coming years but also having consideration to expected predicted cost and the availability of suitable technology. Once completed this work will then be integrated into the future HRA Business Plan. This is, however, a complex and challenging area, and there is no one size fits all approach. National research by the Building Research Establishment estimates that it will cost between £3,000 and £70,000 to make a property zero carbon, with an average of more than £20,000 needed for each property. Whilst some provision has been made within the plan, the way in which targets will be met and the cost of this work has yet to be established. In addition to which there is a need to consider the impact of such a wide-ranging plan on residents.

10.9 The funding sources that will enable us to deliver the expanded capital programme are as follows:

- HRA rental stream
- Capital receipts generated from the disposal of HRA assets including land and right to buy sales
- HRA reserves
- HRA borrowing

10.10 The HRA has built up significant revenue reserves and, as at 31 March 2023, are estimated to be in the region of £112 million. 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 as set out within the Capital and Investment Strategy and also in anticipation of future requirements. The HRA also has usable capital receipts, generated from the sale of HRA land and housing assets.

10.11 The table below shows the available reserves that can support the HRA Business Plan. The contribution into the reserve for future capital programmes is maintained.

Yr Ended 30/03	Reserve For Future Capital Work	Major Repairs Reserve	New Build Reserve	TOTAL	Usable Cap Rec	141	HRA Debt Mgt	Total Cap Rec	Total Rec
2021/22	40,829	9,588	63,398	**113,815**	50	5,226	5,280	**10,556**	**124,371**
2022/23	31,872	1,210	66,261	**99,343**	348	6,465	6,023	**12,836**	**112,179**
2023/24	27,868	285	52,882	**81,035**	360	1,178	6,745	**8,283**	**89,318**

10.12 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

10.13 The current development programme can be financed, and debt repaid over the course of the 30-year Business Plan. At the end of the 30-year period the plan shows there will still be substantial reserves available for further investment and also to support the Council's net zero target and new build on plans which have yet to be developed. The ability to identify further plans will be reliant on the availability of land to be released for such purposes under the provisions of the Local Plan.

10.14 Right to buy 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].

10.15 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.

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

10.17 **Existing housing stock:** Based on an analysis of our stock condition data, as outlined above and within the Capital and Investment Strategy the budget reflects the proposed investment programme.

11. Robustness of the Budget and Adequacy of Reserves

11.1 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.

11.2 Paragraph 8.2 above details the assumptions used in the preparation of the 2023-24 budget.

11.3 Staffing costs have been included based on the Full Time Equivalents (FTEs) included in the approved establishment of 62.5

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

11.5 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 2023-24 budget includes a bad debt provision of £647,730. This provision reflects the

[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 40% of the cost of replacement social housing within five years, otherwise the retained receipts must be repaid to the Department for Levelling Up, Housing and Communities with interest.

economic climate and continuing welfare reform changes. The level of operating balance remains unchanged at £2.5 million.

11.6 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.

11.7 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 balance tenants' needs and expectations in the context of its financial situation.

11.8 The housing related reserves are adequately funded and are projected to be around £112 million as at April 2023. The HRA reserves shall be engaged on value adding expenditure to maintain earnings growth and business stability.

12. Consultation

12.1 The Council remains committed to working cooperatively with Council tenants and leaseholders to shape, strengthen and improve council housing services and sets out a range of options to enable housing customers to be involved.

12.2 All tenants will be notified of changes to their rent and service charges in February/ March 2023.

13. Legal Implications

13.1 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.

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

14. Human Resource Implications

14.1 The decision to review and where necessary to freeze or delete vacant posts is outlined within the report and where appropriate additional roles are set out within the report and all relevant decisions and actions will be undertaken in line with the appropriate Council HR policies and procedures.

15. Conclusion

15.1 The proposed HRA revenue budget not only meets our obligation to deliver a balanced budget but also delivers opportunities to improve services to tenants, deliver additional affordable homes and ensures that the housing stock meets the relevant health and safety standards, whilst recognising the challenges of the wider environment at a time when living costs are increasing and will support tenants at this time.

15.2 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.

16. Background Papers

None.

17. Appendices

Appendix 1: HRA Revenue Budget 2023-24
Appendix 2: HRA Fees and Charges 2023-24

HOUSING REVENUE ACCOUNT 2023-24 - BUDGET SUMMARY

2020-21 Actual £	2021-22 Actual £	Analysis	2022-23 Estimate £	2022-23 Projection £	2023-24 Estimate £
		Borough Housing Services			
727,467	574,282	Income Collection	661,144	661,144	677,841
1,158,150	1,440,296	Tenants Services	1,321,575	1,361,575	2,390,850
125,133	92,308	Tenant Participation	167,560	167,560	171,820
98,978	82,931	Garage Management	103,626	103,626	104,797
20,474	18,987	Elderly Persons Dwellings	48,243	49,243	48,921
354,387	208,355	Flats Communal Services	490,269	496,269	502,274
452,607	405,736	Environmental Works to Estates	454,677	454,677	457,768
6,000,709	5,673,874	Responsive & Planned Maintenance	6,304,026	6,500,000	6,684,239
107,084	145,593	SOCH & Equity Share Administration	166,571	166,571	170,376
9,044,988	**8,642,362**		**9,717,692**	**9,960,666**	**11,208,886**
		Strategic Housing Services			
459,797	676,747	Advice, Registers & Tenant Selection	746,257	746,257	765,223
187,927	164,444	Void Property Management & Lettings	245,019	245,019	250,661
(61,131)	5,120	Homelessness Hostels	5,252	5,252	0
167,083	186,518	Supported Housing Management	167,927	167,927	172,513
484,040	353,576	Strategic Support to the HRA	982,106	982,106	625,443
1,237,716	**1,386,405**		**2,146,560**	**2,146,560**	**2,175,754**
		Community Services			
828,759	873,238	Sheltered Housing	829,236	1,381,236	852,211
		Other Items		0	
5,686,291	5,864,693	Depreciation	5,525,000	5,525,000	5,864,700
(174,584)	(1,174,479)	Revaluation	0	0	0
95,804	163,085	Other capital items			
217,061	227,460	Debt Management	150,000	150,000	158,711
5,985	1,016,671	Other Items	411,048	411,048	419,597
16,942,018	**16,999,435**	**Total Expenditure**	**18,779,536**	**19,574,510**	**20,679,859**
(32,295,620)	(32,907,980)	Income	(34,999,509)	(34,999,509)	(36,743,880)
(15,353,601)	**(15,908,544)**	**Net Cost of Services(per inc & exp a/c)**	**(16,219,973)**	**(15,424,999)**	**(16,064,021)**
284,690	297,990	HRA share of CDC	1,275,453	1,275,453	1,437,930
(15,068,911)	**(15,610,554)**	**Net Cost of HRA Services**	**(14,944,520)**	**(14,149,546)**	**(14,626,091)**
(11,546)	(105,900)	Investment Income	(53,930)	(200,000)	(1,593,180)
4,902,208	4,879,544	Interest Payable	5,052,225	4,767,723	4,751,225
(10,178,248)	**(10,836,911)**	**Deficit for Year on HRA Services**	**(9,946,225)**	**(9,581,823)**	**(11,468,046)**
0	0	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
8,088,687	7,839,606	Contrib to/(Use of) New Build Reserve	7,371,225	7,006,823	8,893,046
(473,168)	(510,826)	Tfr (fr) to Pensions Reserve	0	0	0
0	0	Tfr (from)/to CAA re: Voluntary Revenue Provisi	0	0	0
143,347	1,147,655	Tfr (from)/to CAA re: Revaluation	0	0	0
(64,567)	(136,260)	Tfr (from)/to CAA re: REFCUS	0	0	0
0	0	Tfr (from)/to CAA re: Intangible assets	0	0	0
(16,050)	(3,263)	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)**

2020-21 Actual £	2021-22 Actual £	Analysis Borough Housing Services	2022-23 Estimate £	2022-23 Projection £	2023-24 Estimate £
(30,507,420)	(30,507,420)	Rent Income - Dwellings	(31,607,818)	(31,607,818)	(33,064,676)
(212,100)	(67,576)	Rent Income - Rosebery Hsg Assoc	(68,759)	(68,759)	(74,929)
(322,533)	(465,543)	Rents - Shops, Buildings etc	(473,690)	(473,690)	(516,200)
(785,571)	(745,713)	Rents - Garages	(758,762)	(758,762)	(811,106)
(31,827,625)	**(31,786,252)**	**Total Rent Income**	**(32,909,029)**	**(32,909,029)**	**(34,466,911)**
(144,180)	(206,660)	Supporting People Grant	(210,276)	(210,276)	(229,147)
(1,136,108)	(1,128,443)	Service Charges	(1,148,191)	(1,148,191)	(1,251,233)
(28,840)	46	Legal Fees Recovered	47	47	51
(58,769)	(258,136)	Service Charges Recovered	(262,653)	(262,653)	(286,224)
(537,015)	(461,333)	Miscellaneous Income	(469,407)	(469,407)	(510,415)
(33,732,537)	**(33,840,778)**	**Total Income**	**(34,999,509)**	**(34,999,509)**	**(36,743,880)**

Housing Revenue Account - Fees and Charges 2023-24

		2022-2023 £ From 1 April 2022	2023-24 £ From 1 April 2023	Change %
To be approved by Council				
Sheltered Units				
Function Room Hire				
Voluntary /Charity Organisations	Per Hour	15.64	16.11	3.0%
	Per Day	77.61	79.94	3.0%
Education/Social Services	Per Hour	18.56	19.12	3.0%
	Per Day	115.85	119.33	3.0%
Social/Private Hire	Per Hour	23.34	24.04	3.0%
	Per day	124.57	128.31	3.0%
Service charge (per week):				
Dray Court		70.04	72.14	3.0%
Japonica Court		75.1	77.35	3.0%
St Martha's Court		75.5	77.77	3.0%
Millmead Court		63.88	65.80	3.0%
St Martin's Court		72.31	74.48	3.0%
Tarragon Court		64.57	66.51	3.0%
Friary House (61 flats)				
*Heating, Electricity, Cleaning, Caretaking and Security Services (per wk) *Based on actuals*		16.9	17.00	
Garages (on Housing Estates) (*VAT is applied at the standard rate on private lets only)*				
High demand area (non residents) (per week)		21.49	22.13	3.0%
High demand area (per week)		13.07	13.46	3.0%
Elsewhere (per week)		10.74	11.06	3.0%
Castle Cliffe				
Gas and Electricity Charges (per week) * *Based on actuals*		22.1	26.06	
Malthouse Court				
Gas and Electricity Charges (per week) * *Based on actuals*		10.76	14.71	
Pound Court				
Electricity; Grounds Maintenance (per week) * *Based on actuals*		5.41	4.45	
Flats				
Where cleaning provided to communal areas;				
Sandmore (Laundry and Communal Facilities, per week)		4.87	5.02	3.0%
Decorating charge *(Note: charge is per room)*		1.79	1.84	3.0%
Supported Housing				
Service charge per week:				
William Swayne House:				
- Self Contained bedsits		120.91	124.54	3.0%
- Self Contained flat		123.3	127.00	3.0%
William Swayne Place		47.35	48.77	3.0%
Dene Road		75.21	77.47	3.0%
79 York Road		42.47	43.74	3.0%
Caxtons		65.65	67.62	3.0%
Dene Court		88.20	90.85	3.0%
Sold Flats Service Charges - Solicitors' Enquiry				
Sales/purchases		155.74	160.41	3.0%
Remortgages		80.09	82.49	3.0%
Sold Flats Service Charge Management Fee		203.66	209.77	3.0%
Consent Fees				
Consent - Application in Advance		120.94	124.57	3.0%
Consent - Retrospective Application		206.51	212.71	3.0%

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