Guildford Borough Council

Report to: Joint Executive Advisory Board /Corporate Governance & Standards Committee
Date: 11 January 2024 / 18 January 2024
Ward(s) affected: All
Report of Director: Transformation & Governance
Author: Vicky Worsfold
Tel: 01483 444834
Email: Your email Victoria.worsfold@guildford.gov.uk
Lead Councillor responsible: Richard Lucas
Tel: 07834 020422
Email: Richard.lucas@guildford.gov.uk
Report Status: Open

Capital and Investment Strategy 2024/25 – 2028/29

1. Executive Summary

1.1 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.

1.2 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.

Capital programme

1.3 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).

1.4 All projects, regardless of the fund, will be funded by capital receipts, grants and 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.

1.5 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.

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

General Fund

1.7 The Council has an underlying need to borrow for the GF capital programme of £202 million between 2023/24 to 2028/29.

1.8 Officers have put forward bids, with a net cost over the same period of £9.8 million, increasing this underlying need to borrow to £211.8 million should these proposals be approved for inclusion in the programme.

1.9 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.

1.10 The main areas of expenditure (shown gross) are:

- £258 million Weyside Urban Village (WUV)
- £35 million Ash Road bridge and footbridge (Total gross cost £44 million, external funding, £36 million, net cost to GBC £8 million)

1.11 Appendix 2 contains a summary of the new bids submitted. Appendix 3 shows the position and profiling of the current programme (2023/24 to 2028/29).

HRA

1.12 The HRA capital programme is split between expenditure on existing stock and either development of or purchase of dwellings to add to the stock. A lot of work has been done on stock condition surveys and the results are being analysed with a view to having a robust stock condition assessment which provides 100% stock data over a rolling 5-year programme and allows for effective assessment against Regulatory and legislative standards. This will allow compliance with the new building safety legislation and standards.

1.13 Improved building safety standards across social housing has resulted in a national drive to improve standards and safety, Guildford has started responding to this and has spent a significant sum on its properties. The budget for 2024/25 and ongoing will see budgets return to more modest levels seen in the past. The capital programme will be funded from HRA capital receipts and reserves. There is also £121 million between 2023/24 and 2028/29 million included for development projects to build or acquire new housing (including WUV). Officers recommend removing the Bright Hill scheme from the HRA programme, as previously reported to Councillors, due to the change in the scope of the scheme being delivered.

1.14 The main areas of major repairs and improvement expenditure are:

- refurbishment, replacement & renewal programme of existing stock, £1.3 million, which includes kitchen & bathroom upgrades, void property refurbishment and roof works

- works to existing stock to comply with changes to standards and legislation, £3.4 million, including replacement fire doors, electrical testing and fire protection works

- mechanical and electrical works £400,000, including central heating systems

- other works of £1.2 million including disabled adaptations

1.15 The main HRA development projects are:

- Guildford Park Car Park: £39 million

- WUV: £49 million

- Foxburrows: £11 million

1.16 Appendix 2 contains a summary of the new bids submitted. Appendices 10 to 12 show the position and profiling of the current programme (2023/24 to 2028/29)

Treasury Management

1.17 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.

1.18 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.

1.19 The budget for investment income for 2024/25 is £3 million, based on an average investment portfolio of £86 million, at a weighted average rate of 5%. The budget for debt interest paid is £14.8 million, of which £5.4 million relates to the HRA and £7.9 million is being capitalised and added to the cost of schemes in the capital programme, which is a net cost to the General Fund of £1.5 million for the year.

Service and Commercial investments

1.20 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).

1.21 Investment property (primary purpose is to earn a yield) is valued at £178 million, as per the 2022/23 unaudited Statement of Accounts, with rent receipts of £9.2 million, and a yield of 5.7%. The Council is not making any future purchases solely for yield, which is in line with the government guidelines.

1.22 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 an interest rate of 5%. The loan is a repayment loan in line with the NDH business plan. There is no further investment planned within this capital and investment strategy.

1.23 This report also includes the Council's Minimum Revenue Provision (MRP) policy and the Prudential Indicators, which are detailed in section 5 of the main report.

1.24 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

1.25 The updated flexible use of capital receipts policy can be found in Appendix 8. The Government have extended this flexibility for 2024/25. 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.

1.26 This report will also be considered by the Executive at its meeting on 25 January, before referral to the Budget Meeting of the Council on 7 February 2024.

2. Recommendation

2.1 That the Executive approve:

(1) The new bids set out in Appendix 2 for inclusion in the capital programme as indicated, subject to Council approval.

(2) Removing the Bright Hill scheme on the HRA approved and provisional programmes as previously reported to Councillors; and

That the Executive recommend (to Full Council meeting on 7 February 2024)

(1) That the General Fund and HRA capital estimates, as shown in appendices 3 to 12, as amended to include such bids as may be approved by the Executive at its meeting on 25 January 2024, be approved.

(2) That the Minimum Revenue Provision policy, referred to in section 9 of this report, be approved.

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

(4) That the updated flexible use of capital receipts policy, as set out in Appendix 8, be approved.

3. Reasons for Recommendation:

3.1. To enable Council, at its budget meeting on 7 February 2024, to approve the capital and investment strategy for 2024/25 to 2028/29, and the funding required for the new capital schemes proposed.

4. Exemption from publication

4.1 No part of this report is exempt from publication.

5. Purpose of Report

5.1. 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.

5.2. 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.

5.3. The Local Government Finance Act 2003 requires 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.

5.4. Decisions made each 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.

5.5. As debt is only a temporary source of borrowing, General Fund (GF), the Council must put aside revenue resources where it finances capital expenditure by debt (internal or external), to repay that debt in later years. This cost is charged to the revenue account annually, and forms part of the Council Tax cost to taxpayers and is known as Minimum Revenue Provision (MRP). 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.

5.6. The Council also follows the CIPFA recommendation of adhering to the UK Money Markets Code to its members as good practice. The UK Money

Markets Code (April 2021 revision) is a voluntary code of practice which CIPFA recommends authorities follow. It is endorsed by the Bank of England's Money Markets Committee and has been developed to provide a common set of principles to promote the integrity and effective functioning of the UK money markets.

6. Strategic Priorities

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

6.2. 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, help the Council achieve the best use of its resources and it links with the Council's strategic framework and delivery of the Corporate Plan.

7. Background

7.1. The Local Government Act 2003 requires 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.

7.2. 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.

7.3. 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.

7.4. To demonstrate the Council has fulfilled these objectives, this report, and Appendix 1, details the Prudential Indicators that must be set and monitored each year.

7.5. 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.

7.6. 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.

7.7. 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). Note, this is only historical purchases, Local Authorities are strongly advised against making these purchases and there are consequences of them doing so.

7.8. Under the TM Code and the prevailing DLUHC Guidance, we are required to provide details of each of these purposes in the investment strategy, which is detailed throughout the report and in Appendix 1.

7.9. The statutory guidance defines investments as "*all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios*". We interpret this to exclude:

(a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word, and

(b) property held partially to generate a profit but primarily for the provision of local public services.

This aligns the Council's definition of an investment with that in the 2021 edition of the Prudential Code, a more recent piece of statutory guidance.

8. Capital expenditure and Financing

8.1. 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.

8.2. We show the HRA capital programme separately as the HRA is a separate ring-fenced account ensuring Council housing does not subsidise, or is not subsidised by, other local services.

8.3. 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.

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

8.5. 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 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.

8.6. 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.

8.7. Officers calculate the interest budgets (both investment and borrowing) according to the planned capital expenditure, which also feeds into the MRP calculations (for the GF only), and the liability benchmark.

8.8. As part of the Council's approved Financial Recovery Plan, there is a target to sell £50 million of assets to generate capital receipts to help fund the capital programme and reduce ongoing MRP and interest costs. These asset sales are not factored into the underlying need to borrow for capital purposes due to the unknown timescale, although it is factored into future cash flow projections for making assumptions around borrowing levels and subsequent interest costs.

Current capital programme

8.9. A copy of the current capital programmes is attached at Appendix 4, together with a schedule of the latest resource availability for, and financing of the programme.

8.10. 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.

8.11. At the Council meeting on 5 December 2023, officers presented the MTFP and Financial recovery plan November update report. Within this report it was recommended that 9 schemes be removed from the programme at a cost of £96 million. These schemes have been removed and the figures throughout this report reflect the smaller capital programme.

8.12. The Council is currently projecting expenditure of £196 million for HRA and £353 million for GF, for the period of the report. The underlying need to borrow for the period is £202 million.

New capital schemes

8.13. Officers have put forward 15 bids, with gross expenditure totalling £9.8 million up to 2028/29. Officers also recommend continuing to include £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 £211.8 million up to 2028/29.

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

Bid no.	Project title	GROSS ESTIMATES 2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	TOTAL COST £000
	Capital Vision (not included in net total as figures too uncertain)						
1	Sutherland Memorial Park - refurb pavilion	200	200	0	0	0	**400**
	General fund: Provisional						
1	Grounds Maintenance machinery	22	10	10	0	0	**42**
2	Wildfield Muga	0	0	0	0	30	**30**
3	Playground refurbs	20	80	300	200	0	**600**
4	ICT Hardware	583	437	63	65	338	**1,486**
5	Bedford Rd MSCP and office - brickwork/concrete frame	150	0	0	0	0	**150**
6	Broadwater cottage roof replacement	15	180	0	0	0	**195**
7	Leapale Rd MSCP - cladding	150	0	0	0	0	**150**
8	Slyfield Enterprise - redevelop	0	50	50	4,000	0	**4,100**
9	Slyfield Foundation - redevelop	0	25	25	2,000	0	**2,050**
10	Stoke Pk Gardener's cottage re roof	100	0	0	0	0	**100**
11	The Billings Roof	0	200	200	200	0	**600**
12	Sydenham Rd CP retaining wall	50	0	0	0	0	**50**
13	Investigation & works to underground shelter	20	0	0	0	0	**20**
14	Friary bus station	50	0	500	0	0	**550**
15	Stoke Cemetery drainage	80	0	0	0	0	**80**
	Total	**1,240**	**982**	**1,148**	**6,465**	**368**	**10,203**
	Gross total (excl vision)	**1,240**	**982**	**1,148**	**6,465**	**368**	**10,203**
	Funded by reserves or contributions	(350)	0	0	0	0	**(350)**
	Cost to the Council	**890**	**982**	**1,148**	**6,465**	**368**	**9,853**
	Already in programme	0	0	0	0	0	**0**
	Net addition to the programme	**890**	**982**	**1,148**	**6,465**	**368**	**9,853**

HRA

8.15. The HRA capital programme is split between expenditure on existing stock and either development of or purchase of dwellings to add to the stock. A lot of work has been done on stock condition surveys and the results are being analysed with a view to having a robust stock condition assessment which provides 100% stock data over a rolling 5-year programme and allows for effective assessment against Regulatory and legislative standards. This will allow compliance with the new building safety legislation and standards.

8.16. Improved building safety standards across social housing has resulted in a national drive to improve standards and safety, Guildford has started responding to this and has spent a significant sum on its properties. The budget for 2024/25 and ongoing will see budgets return to more modest levels seen in the past. The capital programme will be funded from HRA capital receipts and reserves. There is also £137 million between 2023/24 and 2028/29 million included for development projects to build or acquire new housing (including WUV). The proposed budget can be seen in Appendix 3.

Prudential Indicators

8.17. 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.

8.18. 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 Chief Finance Officer (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 ratios, local indicators, and affordability ratios / indicators.

8.19. Indicators we are required to calculate, and monitor are detailed below.

Estimates of capital expenditure

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

CAPITAL EXPENDITURE SUMMARY	2023/24 Approved £000	2023/24 Outturn £000	2023/24 Variance £000	2024/25 Est £000	2025/26 Est £000	2026/27 Est £000	2027/28 Est £000	2028/29 Est £000
General Fund Capital Expenditure								
- Main Programme	147,239	77,963	(69,276)	83,074	2,496	2,000	2,000	0
- Provisional schemes	48,428	2,078	(46,350)	91,892	59,690	14,841	8,365	5,380
- Schemes funded by reserves	1,031	1,504	473	1,120	0	0	0	0
- S106 Projects	122	303	181	0	0	0	0	0
- New Bids (net cost)	0	0	0	890	982	1,148	6,465	368
Total Expenditure	**196,820**	**81,848**	**(114,972)**	**176,976**	**63,168**	**17,989**	**16,830**	**5,748**
Financed by:								
Capital Receipts	0	(2,681)	(2,681)	(2,000)	(39,109)	(16,091)	(10,365)	(5,380)
Capital Grants/Contributions	(46,336)	(49,079)	(2,743)	(20,622)	(1,020)	(750)	0	0
Capital Reserves/Revenue	(1,131)	(1,787)	(656)	(1,192)	0	0	0	0
Borrowing	(149,353)	(28,300)	121,053	(153,162)	(23,039)	(1,148)	(6,465)	(368)
Financing - Totals	**(196,820)**	**(81,848)**	**114,972**	**(176,976)**	**(63,168)**	**(17,989)**	**(16,830)**	**(5,748)**
Housing Revenue Account Capital Expenditure								
- Main Programme	47,866	34,537	(13,329)	16,789	6,019	2,377	5,040	0
- Provisional schemes	15,928	0	(15,928)	18,124	26,047	57,282	11,582	18,239
- New bids	0	0	0	0	0	0	0	0
Total Expenditure	**63,794**	**34,537**	**(29,257)**	**34,913**	**32,066**	**59,659**	**16,623**	**18,239**
Financed by:								
- Capital Receipts	(8,494)	(2,740)	5,754	(11,595)	(10,836)	(21,633)	0	(5,066)
- Capital Reserves/Revenue	(28,286)	(15,461)	12,825	(23,318)	(21,230)	(38,025)	(16,623)	(13,173)
- Borrowing	0	0	0	0	0	0	0	0
Financing - Totals	**(36,780)**	**(18,201)**	**18,579**	**(34,913)**	**(32,066)**	**(59,659)**	**(16,623)**	**(18,239)**

8.21. 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 as part of the budget monitoring reports.

Estimates of the CFR, Gross Debt, and the Liability Benchmark

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

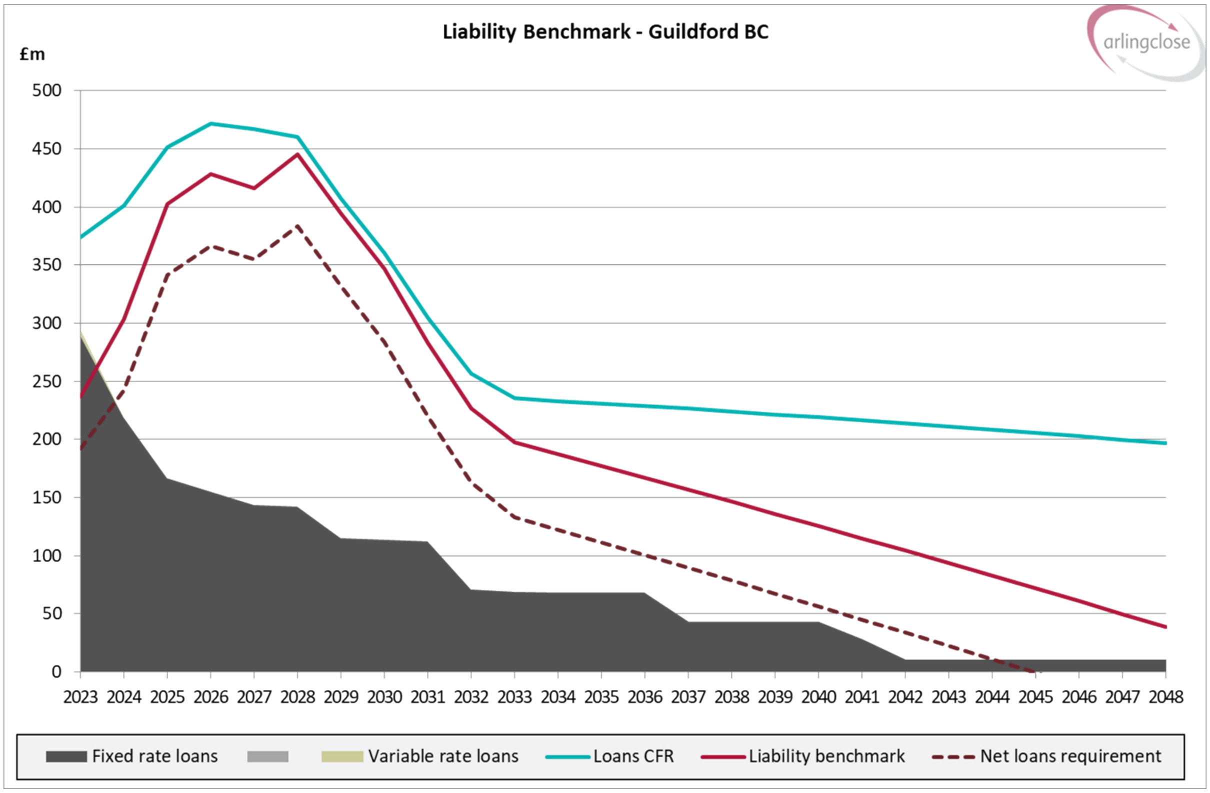
8.23. The Council is required to make reasonable estimates of the total CFR over at least the forthcoming year and following two years. Because we use our CFR projections as part of our liability benchmark, we project over a longer period, and present in the report at least the five-year time frame in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

8.24. 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	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Loans CFR	374.2	400.9	451.5	471.8	467.1	460.1	407.2
External borrowing	-295.1	-229.6	-177.0	-165.5	-153.9	-152.4	-125.9
Internal (over) borrowing	79.1	171.3	274.5	306.3	313.2	307.7	281.4
Balance sheet resources	-182.2	-162.0	-138.3	-124.0	-103.9	-100.1	-109.0
Investments (new borrowing)	103.1	-9.4	-136.2	-182.3	-209.3	-207.6	-172.4
Treasury investments	103.1	98.2	51.0	35.3	20.0	20.0	20.2
New borrowing	0.0	107.5	187.2	217.6	229.3	227.6	192.6
Net loans requirement	192.0	239.0	313.3	347.8	363.2	360.0	298.3
Liquidity allowance	20.0	98.2	51.0	35.3	20.0	20.0	20.2
Liability benchmark	212.0	337.1	364.2	383.1	383.2	380.0	318.5

8.25. 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.

8.26. 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 £20 million). We have adopted this policy for a number of years and propose to continue doing so.



8.27. 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

8.28. 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. Separate limits are set for GF and HRA.

8.29. 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.

8.30. 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	2023/24 Approved £000	2023/24 Revised £000	2024/25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
Borrowing - General Fund	338,316	260,916	257,316	277,546	272,896	265,926	213,046
Borrowing - HRA	199,204	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	**563,520**	**486,120**	**482,520**	**502,750**	**498,100**	**491,130**	**438,250**

8.31. The authorised limit gives headroom for significant cash-flow movements. Officers monitor the Council's debt level against the authorised limit daily against all items on the balance sheet (long and short-term borrowing, overdrawn bank balances and long-term liabilities

Authorised Limit for External Debt	2023/24 Approved £000	2023/24 Revised £000	2024/25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
Borrowing - General Fund	309,556	320,916	302,316	322,546	317,896	310,926	258,046
Borrowing - HRA	199,204	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	**534,760**	**546,120**	**527,520**	**547,750**	**543,100**	**536,130**	**483,250**

Proportion of financing costs to net revenue stream

8.32. 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.

8.33. 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)

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

	2023/24 Approved	2023/24 Outturn	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
General Fund	-4.67%	4.79%	-5.27%	-22.50%	-18.38%	-20.27%	-25.83%
HRA	32.49%	38.79%	32.72%	28.20%	23.64%	20.13%	19.71%

8.35. The GF lower outturn for 2023/24 reflects less debt interest to the GF as a result in the change in policy on capitalisation of interest as part of the financial recovery plan. The increasing percentage is as a result of increasing debt costs due to the capital programme and reducing interest income as internal resources are spent on the capital programme.

8.36. The HRA has stable debt costs, but reducing interest earned on its balances as per the item 8 debit calculation over the period because of reducing reserves as a result of the capital programme.

9. Minimum Revenue Provision (MRP)

9.1. 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.

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

9.3. 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.

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

9.5. 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.

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

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

9.8. Based on the Council's estimate of its CFR on 31 March 2023, and unfinanced capital expenditure in 2023/24 of £202 million, the budget for MRP for 2024/25 and future years is:

2024/25	£1.68 million
2025/26	£1.81 million
2026/27	£1.86 million
2027/28	£1.87 million
2028/29	£2.1 million

9.9. 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

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

9.11. 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.

9.12. 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.

9.13. 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 arising from the loan repayment 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, including delaying MRP until the year after the assets became operational. Sufficient MRP will be charged to ensure that the outstanding CFR on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the Government in its recent MRP consultation and in the Council's, view is consistent with the current regulations.

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

9.15. 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.

9.16. 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.

9.17. 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.

9.18. No MRP will be charged in respect of assets held within the HRA but depreciation on those assets will be charged instead in line with regulations.

10. Treasury Management

10.1. 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, a shortage of cash will be met by borrowing, to avoid excessive credit balances of overdrafts in the bank current account.

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

10.3. 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 the longer term is invested in a select portfolio to balance the risk of loss against the risk of receiving returns below inflation.

10.4. The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

10.5. 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 the Committee is also responsible for scrutinising treasury management decisions.

10.6. The Council currently has a total of £200 million long-term borrowing of which £167 million is related to the HRA at an average rate of 3.5% with a cost of £5.4 million in interest, and the remaining £33 million relates to WUV and the interest is being capitalised to the project at the pooled interest rate of all council borrowing. Short-term borrowing, falling on the GF, is expected to cost £1 million at an average rate of 5%.

10.7. The Council's average investment portfolio is £86 million at an average rate of 5%, generating £3 million of interest.

Borrowing strategy

10.8. The Council's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

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

10.10. Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The liability benchmark in paragraphs 8.23 to 8.26 show we are meeting the statutory guidance.

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

Investment strategy

10.12. 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.

10.13. 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.

10.14. 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, to maintain the spending power of the sum invested.

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

10.16. 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.

	2023/24 Budget £000	2023/24 Revised £000	2024/25 Budget £000	2025/26 Budget £000	2026/27 Budget £000
Gross Service Expenditure	110,099	111,030	97,910	97,910	97,910
Investment property income	8,649	9,704	10,130	10,130	10,130
Treasury management income	3,490	4,879	3,089	1,867	1,237
Investment income %	11%	13%	14%	12%	12%

10.17. Investment property and treasury management income ("investment income") contribute approximately 12% to the gross cost of services across the Council.

11. Service and commercial investments

Property asset management

11.1. 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 condition surveys and linking the output of the condition survey to an identifiable programme of works,
- for all works to provide value for money by undertaking cost analysis and options 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 compliant with statutory requirements including health and safety and energy efficiency regulations.

Investment for service purposes

11.2. 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.

11.3. 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.

11.4. 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. 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.

11.5. 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.

11.6. The Council invests in and has purchased shares in Guildford Borough Council Holdings Limited (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

11.7. 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.

11.8. Investment property is valued at £178 million as per the 2022/23 unaudited statement of accounts, with rent receipts of £9.1 million. Budgeted receipts for 2023/24 was £9.7 million.

11.9. 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, monthly, against the value of the Council's treasury management investments, to ensure proportionality of investments across the Council.

11.10. 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 11.1, and keeping a balanced portfolio spread across different property types. Officers prepare detailed cash flow models for each prospective investment acquisition to appraise the cash flow risk and the Internal Rate of Return (IRR) of the investment, in line with the approved asset investment strategy.

11.11. 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.

11.12. 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.

11.13. 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.

11.14. 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 is no approved budget in the capital programme, committee approval will be sought in line with Financial Procedure Rules.

11.15. 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.

11.16. 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.

Net income from commercial and service investments to net revenue stream

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

	2023/24 Approved	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Net Revenue Stream	15,828	16,576	15,886	16,125	16,492
Net income	8,649	10,130	10,130	10,130	10,130

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

Other liabilities

11.19. 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.

11.20. 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 £116 million of other long-term liabilities which relates to the Pension Fund liability.

11.21. We have provisions to cover risks including Business Rates appeals. We have not allowed for any financial guarantees.

11.22. 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.

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

11.24. 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.

12. Knowledge and skills

12.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions, and ensure appropriate training and skill updating are available to the relevant staff to undertake the duties expected / required.

12.2 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.

12.3 Under the MiFID[1] 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.

13. Consultations

13.1 The Lead Councillor for Resources and Assets supports the recommendations in this report.

14. Key Risks and mitigations

14.1 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).

14.2 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.

---

[1] Markets in Financial Instruments Directive

14.3 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.

14.4 Slippage in the capital programme could also mean costs are higher than originally budgeted 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 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.

14.5 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.

14.6 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.

14.7 The Council has some significant and costly capital schemes in its programme. Each of these schemes has 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

14.8 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.

14.9 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.

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

14.11 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. Conversely if inflation falls fixed investments give higher returns, but both these scenarios are features of timing difference and will even out over time.

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

Risks relating to Commercial investments

14.13 There are some identifiable risks of investing in property.

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

14.15 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.

14.16 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 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.

15. Financial Implications

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

15.2 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).

15.3 The budget for treasury management investment income is based on an average investment portfolio for the previous year, at a weighted average rate. The budget for debt interest is based on current outstanding interest calculations. If actual levels of investments and borrowing, and actual interest rates differ from that forecast, performance against budget will be correspondingly different.

15.4 Income from investment property is estimated to be £8.6 million in 2024/25.

15.5 The MRP budget is £1.7 million in 2024/25.

15.6 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

15.7 The Government has extended the ability for councils to use capital receipts to fund revenue costs of transformation programmes, and officers are recommending that 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 2024/25. The policy can be found at Appendix 8.

Risk indicators

15.8 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

15.9 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	2023/24 Projection £000	2024/25 Forecast £000	2025/26 Forecast £000
Treasury management investments	118,078	85,917	65,441
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	**317,634**	**285,473**	**264,997**

15.10 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 Borough Council Holdings) could be described as being funded by borrowing – as they are part of the Capital programme and therefore form 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

15.11 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	2023/24 Projection £000	2024/25 Forecast £000	2025/26 Forecast £000
Treasury management investments	4.60%	3.92%	4.54%
Service investments: Loans	5.50%	5.50%	5.50%
Service investments: Shares	0.00%	0.00%	0.00%
Investment property	6.00%	5.50%	5.50%

16. Legal Implications

16.1 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

17. Human Resource Implications

17.1 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.

18. Equality and Diversity Implications

18.1 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.

19. Climate Change/Sustainability Implications

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

20. Joint Executive Advisory Board Comments

At its meeting held on 11 January 2024, the Joint Executive Advisory Board (JEAB) considered a report concerning the Council's Capital and Investment Strategy 2024-25 to 2028-29. Bids in respect of the 15 proposed capital schemes outlined within the appendices to the report were a particular focus for the JEAB.

The Lead Specialist for Finance introduced the report and sought comments from the JEAB in respect of the capital bids. The following points arose from questions, comments and discussion relating to the bids for forwarding to the Executive:

Machinery for Grounds Maintenance at the Crematorium

This bid sought to renew vital grounds maintenance equipment as the machinery in question was nearing the end of its life and required replacing. It was not considered to be an option to not maintain the crematorium gardens of remembrance, where ashes were laid to rest. A total capital sum of £42,000 was sought over the period from 2024/25 to 2026/27. The JEAB indicated its support for the bid.

Wildfield Ballcourt

A capital sum of £30,000 in 2028/29 was bid for Wildfield Ballcourt in Wood Street Village. The Council had entered into a lease to install and maintain a ballcourt on land owned by Surrey County Council with the terms that the Council would remove the ballcourt at the end of the lease. The lease had expired and to avoid removing the ballcourt immediately, the Council was entering into a renewal of five years. Although the surface of the ballcourt was starting to show areas of wear, no maintenance costs, beyond the current routine safety checks and litter removal, were anticipated over the next five years. However, the need to incur repair costs after that time was expected. As visitor use of the ballcourt appeared relatively light, it was questioned whether there was sufficient community need to justify the intended work. The JEAB was advised that there would be opportunities to review the matter before the expenditure in 2028/29. This project would be subject to two business cases, the first to be added to the Provisional Capital Programme, and the second to enable the scheme to proceed. It was felt that consultation associated with the project should demonstrate a community need, for the facility to continue.

Playground Refurbishments 2024 to 2029

This mandate sought approval to continue the capital programme for playground refurbishments from 2025 onwards to be used to support and supplement available S106 funds, where appropriate. The programme required a total capital injection of £800,000 split over the next four years. The JEAB supported the bid.

ICT

The ICT Team had submitted a bid in respect of replacement / purchases of IT user hardware (laptops, monitors etc.) and infrastructure hardware purchases. The annual Microsoft Enterprise Agreement (licensing and cloud usage charges) renewal would be funded from revenue for the near future. The JEAB accepted the bid.

Bedford Road Multi-Storey Car Park

There were structural issues associated with the brick clad wall at a high level on one corner of the car park. Sections of the brick cladding were loose and required immediate repair. Investigations indicated that sections of the brick cladding and surrounding reinforced concrete frame were failing due to water incursion from adjacent raised flower beds forming part of the flat development situated above the car park. Works were required to remove or tank these flower beds and ensure a safe access, followed by brick cladding and concrete repairs to the concrete frame. The estimated capital cost of the works was £150,000 in 2024/25. The JEAB supported the bid.

Crematorium Broadwater Cottage

Broadwater Cottage was a Grade II listed property located adjacent to the Council owned Crematorium on New Pond Road, and utilised for staff accommodation for the Council's Bereavement Services Lead. Although the cottage underwent substantial refurbishment works over recent years, including measures to mitigate structural issues with roof, the Council had subsequently been advised by independent structural engineers that larger scale structural repairs were required. There were no listed building or other restrictions to prevent the works which were estimated to cost £195,000 over two years. The JEAB endorsed the works.

Leapale Road Multi-Storey Car Park

There were structural issues associated with the brick clad wall at a high level on one corner of the car park. Sections of the brick cladding were loose and required immediate repair. Investigations indicated that sections of the brick cladding and surrounding reinforced concrete frame were structurally unsound. Works at a cost of £150,000 in 2024/25 were required to provide scaffold access and undertake repairs to the brick cladding. The JEAB was advised that funding remained in the Car Park Maintenance Reserves and therefore this bid did not represent a cost to the General Fund. The JEAB accepted the bid.

Slyfield Enterprise Estate

Whilst the Enterprise Estate remained popular with tenants and was fully occupied and income generating, the property had been built in the 1980s and was now nearing the end of its useful life and failing to meet the needs of modern light industrial occupiers and the minimum energy efficiency standards (MEES) for commercial property. Accordingly, Assets and Property officers were working towards comprehensive refurbishment or redevelopment to meet modern requirements and to enhance future rental income. It was envisaged that this process would commence in 2025/26 with preliminary work and planning and then progress to refurbishment / redevelopment in 2027/28, requiring total capital expenditure of £5,000,000 over the period. The JEAB supported the bid.

Slyfield Foundation Units

Slyfield Foundation Units comprised a multi-let estate consisting of 12 light industrial letting units. As with Slyfield Enterprise Estate, this property had been built in the 1980s and was experiencing all the same popularity and age related issues as the Enterprise Estate. Therefore, the Assets and Property team were also working towards comprehensive refurbishment or redevelopment to meet modern requirements and to enhance future rental income. It was anticipated that this process would commence in 2025/26 with preliminary work and planning and then progress to refurbishment / redevelopment in 2027/28, requiring total capital expenditure of £2,050,000 over the period. The JEAB endorsed the works.

Stoke Park Gardeners Cottage

The Gardeners Cottage was a detached dwelling house located in Stoke Park, Guildford. The Cottage was utilised for staff accommodation and was currently occupied. Whilst the Cottage had undergone a series of planned and reactive roofing repairs in recent years, the roof had come to the end of its useful life expectancy and replacement was required at a capital cost of £100,000 in 2024/25. The JEAB accepted the bid.

Billings Roof Replacement

The Billings was a detached brick built former printing works constructed in 1856 and subsequently converted into office units and one warehouse unit. The property formed part of the Council's investment portfolio and was currently let on various leases. The slate roofs at the Billings had come to the end of their useful life expectancy and therefore required replacement. The roof to Unit 4 had been replaced last year and this bid covered the replacement of roofs to

Units 1, 2 and 3 at a capital cost of £400,000 over the 2025/26 and 2026/27 financial years. The JEAB endorsed the bid.

Sydenham Road Car Park

Adjacent to the car park was 12 Trinity Cottage, the owner of which had raised two issues with the Council in relation to the repair and replacement of a party wall and damage to the gable wall of number 12 due to the adjacent Council owned car park. The project was required since initial investigation had indicated that the failing brick wall was likely to be a party wall issue and so jointly owned by the Council and the owner of 12 Trinity Cottage. As such, the Council was likely to be responsible for an apportionment of the costs for rebuilding / repairing the wall. Moreover, the raising of levels to form the car park had potentially led to structural and damp issues to the gable wall of 12 Trinity Cottage. The owner of the Cottage had appointed a local firm of surveyors and engineers and had contacted the Council regarding the above matters. The Council's capital bid towards the works was £50,000 in 2024/25. The JEAB supported the bid.

Investigation and Works to Underground Shelter

An area of open space in Guildford, believed to be an underground shelter dug during World War 2, required investigation. The project sought to establish the full extent of the structure and understand its condition with the possibility of filling the structure to avoid the risk of collapse and potential danger to the public, and return the area to good order. The capital bid of £20,000 would provide funds to pay for the works under the Council's Civil Engineering Contract at the direction of the Council's Engineers. The JEAB approved the bid.

Guildford Bus Station

The Council was responsible for the concrete surface deck and drainage at the Bus Station, which was located adjacent to and partly above the Friary Centre. The deck surfacing and drainage had failed and were allowing water ingress through the concrete deck into the basement car park and electrical substation below. During heavy downpours the basement car park and substation flooded, causing a health and safety risk in addition to making the basement unusable. Whilst some previous repairs had assisted to mitigate the flooding, the leaks remained an issue and immediate work was required to diagnose the cause(s) of the water ingress and resolve the matter. Also, a complete resurfacing of the bus station was needed for long term protection of the deck and column structure underneath. These further works were seen as a matter of urgency and the Council was being pursued by the owner of the freehold beneath the deck to progress them as such.

The North St Development project included an upgrade and refurbishment of the Bus Station in around 2-3 years' time. When these works took place, the Council would have an opportunity to undertake long-term infrastructure repair works to the surface of the bus station. The works proposed now appeared to link in with the proposed redevelopment enabling work to be carried out in tandem.

The capital bid sought £50,000 in 2024/25 and 500,000 in 2026/27. This included £12,000 to be made immediately available to facilitate the appointment of an external consultant(s) to undertake a full survey and provide a report to diagnose the cause(s) of the water ingress and solutions. The appointed consultant would also be asked to provide cost estimates for the proposed works to facilitate a total resurfacing project.

A councillor welcomed a correlation in the report between the proposed Bus Station redevelopment and the interim works the subject of this capital bid. However, it was felt that the report did contain information in respect of the related dependencies and project work in tandem. The Lead Specialist for Finance agreed to review the wording in the bid document and improve its clarity if necessary.

Stoke Cemetery

A section of the Cemetery was waterlogged affecting graves and the main pedestrian footpath. The Council's engineers had developed a draft proposal to divert water to a pre-existing drain, which required the approval of the Environmental Agency. The engineers required a topographic survey to inform their proposal for the application to the EA and the application also needed to be accompanied by a tiered site assessment. The project aimed to solve the health and safety issues associated with this leak with capital expenditure of £80,000 in 2024/25. A Councillor queried the accuracy of the name quoted in section 7 of the bid and officers undertook to check this with the bid author and make a correction if necessary.

Generally, councillors acknowledged that the proposed works the subject of the capital bids seemed absolutely necessary. As much of the proposed work was linked to water incursion and roof repairs, it was felt that this situation would be exacerbated in the future due to Climate Change.

Having been invited to comment on six recommendations which would be considered by the Executive at its meeting on 25 January 2024, the JEAB indicated its support for all six recommendations and agreed that its above comments be forwarded to the Executive.

21. Corporate Governance & Standards Committee Comments

21.1 To be provided in the Executive's Supplementary Information Sheet following the meeting of the Committee to be held on 18 January 2024.

22. Summary of Options

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

22.2 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 Assets believes the strategy represents an appropriate balance between risk and cost effectiveness. Some alternative strategies and risk management implications are set out in the table below:

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

Alternative	Impact on Income / Expenditure	Impact on risk management
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to higher impact in the event of a default; however, long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium-term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is unlikely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

23. Conclusion

23.1 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.

23.2 If all schemes proceed within the timescales indicated, there will be an underlying need to borrow of £211.8 million by 31 March 2028.

23.3 The information in this report, and the appendices, show the Council has adopted the principles of best practice and complied with the relevant statute, guidance, and accounting standards.

24. Background Papers

None

25. 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