Council Report

Ward(s) affected: All

Report of s151 officer

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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

Paragraph 4.13 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)

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

Officers carry out the treasury management function within the parameters set by the Council each year (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.

Service and Commercial investments
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.

This report has also been considered by the Corporate Governance and Standards Committee at its meeting held on 19 January 2023, and by the Joint Executive Advisory Board at its meeting on 24 January 2023. The comments from both these meetings are summarised in sections 16 and 17 of this report respectively.

At its meeting on 26 January 2022, the Executive also considered this report and endorsed the recommendation to Council set out below. The Executive also resolved:

Subject to Council approving the budget on 8 February 2023:

(1) That the £500,000 allocated in respect of the Bus Station relocation scheme (Scheme no. P17 (p)) be removed from the provisional capital programme.

(2) That the new bids, as shown in paragraph 4.13 of this report be approved for inclusion in the capital programme as indicated.

Recommendation 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.

<u>Reasons for Recommendation:</u>

- 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.

4.11 An agreement has been made with St Edwards which involves them moving the bus station as part of their development. This means we no longer need the £500,000 in our budget for this scheme, and officers are recommending it is removed from the provisional capital programme.

New capital schemes

General Fund

4.12 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.

4.13 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**

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

HRA

4.15 The HRA capital programme is split between expenditure on existing stock and either development of or purchase of dwellings to add to the stock. 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.

4.16 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

4.17 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.

4.18 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 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.

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

Estimates of Capital Expenditure

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

CAPITAL EXPENDITURE SUMMARY	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)**

4.21 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.

Estimates of the CFR, Gross Debt and the Liability Benchmark

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

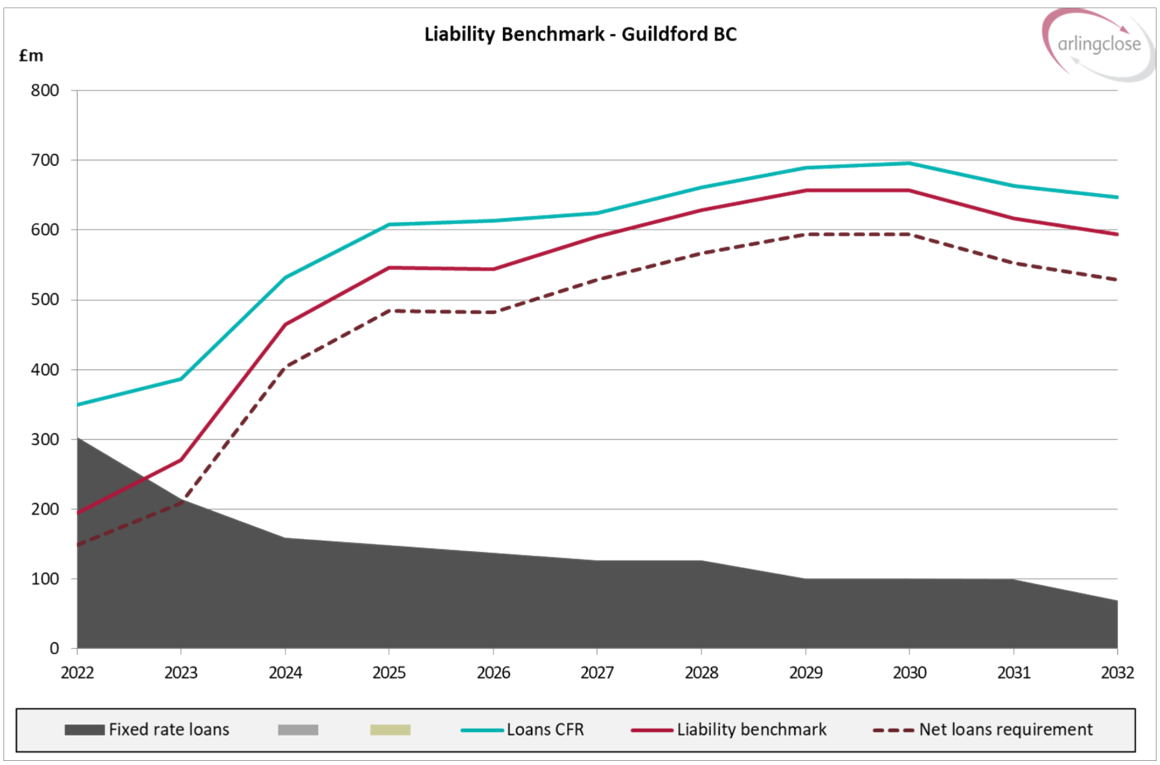
4.23 The Council is required to make reasonable estimates of the total CFR over at least the forthcoming year and following two years. Because we use our CFR projections as part of our liability benchmark, we project over a longer period, and present in the report at least the five-year time frame in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

4.24 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	**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

4.25 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.

4.26 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 £45 million). We have adopted this policy for a number of years and propose to continue doing so.



4.27 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

4.28 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.

4.29 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.

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

4.31 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**

4.32 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

4.33 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.

4.34 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).

4.35 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%

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

4.37 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. Corporate Governance and Standards Committee comments

16.1 At its meeting held on 19 January 2023, the Corporate Governance and Standards Committee considered this report and endorsed the recommendations to the Executive and full Council. The Lead Councillor for Finance and Planning Policy drew attention to the impact of the interest rate rises on the capital programme, which would necessitate a review and reassessment of some business cases to make sure projects were still viable. The following comments were made by the Committee during the debate:

1. In response to a request for clarification as to whether

   (a) it was still correct to assume actual expenditure of 50% for schemes on the provisional programmes in the financial year (paragraph 4.7 of the report) given that projects were being more actively managed and that some schemes had been removed from the programme, and

   (b) provision should be made for inflation in the cost projections for schemes in the capital programme (paragraph 4.9)

   the Lead Specialist – Finance confirmed that the 50% assumption reflected the need to minimise the impact on the Minimum Revenue Provision, and that although no provision was made for inflation the capital contingency fund was used as a source of funding for topping up capital budgets following receipt of tenders. It was noted that where inflation impacts on larger capital schemes, these were subject to separate reports back to councillors.

2. In response to a request for information as to the nature of the estimated expenditure on the provisional capital programme on the North Street development, which would be £1.35 million by 2030, the Lead Specialist – Finance confirmed that details would be circulated to the Committee.

3. In relation to the detailed investment strategy in Appendix 1, and in view of the Council's stated priority on environmental leadership, it was suggested that a watching brief was kept as to the appropriate time at which the framework for evaluating investment opportunities should be extended to include environmental, social and governance (ESG) criteria.

4. In response to a question as to whether any consideration had been given by the Executive to rebuilding those HRA properties that were in very poor condition, the Committee noted that such decisions would be informed by the outcome of the stock condition survey and resulting asset management plan. Consideration would also need to be given as to where displaced residents would be housed.

5. In response to concerns expressed over the relatively low provision set aside for energy projects, and for Special Protection Areas, the Committee noted that these were projects to be funded by specific reserves. It was anticipated that the energy projects would come before the Executive for approval in due course.

6. Request for clarification as to the level of risk of having to pay for levies relating to liability for asbestos and whether the health of residents was at risk. In response, officers confirmed that there no specific, known risks to residents and that this was a very long-term liability.

7. Concerns over the operation of North Downs Housing (NDH) and the apparent lack of communication between NDH and the holding company.

8. Whilst acknowledging the need to invest in the maintenance of the housing stock, there was concern as to whether it was really necessary to replace kitchens, bathrooms, and heating systems that were still fully functional every ten years.

9. In relation to new schemes, clarification was sought in respect of whether any reports had been prepared in relation to Spectrum upgrades. It was noted that this would be subject of a meeting of the Joint EAB in the next few weeks.

10. Request for consistency in naming of capital schemes, for example there was reference in the capital programmes to "Slyfield Area Regeneration Project" and to "Weyside Urban Village.

17. Joint Executive Advisory Board comments

17.1 At its meeting on 24 January 2023, the Joint Executive Advisory Board considered the report, including the new bids. The Board made the following comments:

1. The Strategy was intended to represent an appropriate balance between risk and cost effectiveness in relation to new capital bids and mandates. Although some alternative borrowing / investment strategies and risk management implications were highlighted in the report for comparative purposes, none were recommended for adoption as the present approach of a mixture of policies was felt to be the most appropriate. It was acknowledged that, owing to constraints within its reserves, the Council was now entering a period where it would increasingly rely on external borrowing to fund schemes which would lead to increased exposure to risk, such as interest rate rises.

2. With regard to the proposed North Street redevelopment scheme, the Council had received £500,000 on exchange of contracts for its land forming part of the site with a significant capital receipt expected at a later stage. However, as planning permission in respect the current proposal had been refused, the future of the scheme and associated financial implications were now uncertain and under review. It was hoped that a similar scheme for the site could be pursued.

3. It was clarified that HRA capital programme expenditure in respect of existing and new housing stock included works to improve the energy efficiency of homes. The Council was working towards meeting the Government's zero carbon targets which would require further investment in the future. There was some uncertainty as to the costs associated with the necessary green technology and, with the assistance of consultants, the Council was seeking to identify the correct balance between early adoption of technology at a higher cost or delaying installation until costs had reduced and systems became more efficient and effective.

4. A range of options were available regarding the future of the Spectrum. A significant investment in the existing facility would be required for it to meet the Council's 2030 carbon neutral target. The capital programme included a sum of approximately £7m with was the estimated amount required to prolong the life of the existing building until a new facility could be provided. The Council was committed to continuing to provide this sports and leisure service which supported the health and wellbeing and the fitness of its many users.

5. It was recognised that the projected amount of £145 million included in the capital programme to spend between 2022-23 and 2027-28 in respect of development projects to build or acquire new housing, including Weyside Urban Village (WUV), may require revision when delivery options were known. Further information concerning measures to mitigate the deficit in relation to the WUV project would be reported in due course.

6. The cost associated with the provision of Walnut Bridge was anticipated to be £5-6m and discussions with the contractor were taking place to establish the final cost.

7. Capital programme project ED32 related to the construction of an internal estate road at Slyfield Industrial Estate to facilitate the WUV development whilst project OP6(P) Replacement Programme referred to refuse and recycling collection vehicles.

18. Summary of Options

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

18.2 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 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

Alternative	Impact on Income / Expenditure	Impact on risk management
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

19. Conclusion

19.1 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.

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

19.3 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.

20. Background Papers

None

21. 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