CORPORATE GOVERNANCE & STANDARDS COMMITTEE
18 JANUARY 2024
CAPITAL AND INVESTMENT STRATEGY 2024-25 TO 2028-29

The Committee considered a report on the Council's capital and investment strategy, which gave a high-level overview of how capital expenditure, capital financing and treasury management activity contributed to the provision of local public services along with an overview of how associated risk was managed and the implications for future financial sustainability.

Decisions made now, and during the period of the strategy on capital and treasury management would have financial consequences for the Council for many years into the future. The report therefore included 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 had also covered the requirements of the Treasury Management Code and the prevailing DLUHC Statutory Guidance.

The Committee noted that in order to achieve the ambitious targets within the Corporate Plan, the Council needed to invest in its assets, via capital expenditure, which was split into the General Fund (GF) and Housing Revenue Account (HRA).

All projects, regardless of the fund, would be funded by capital receipts, grants and contributions, reserves, and finally borrowing. When preparing the budget reports, it was not known how each scheme would be funded and, in the case of regeneration projects, what the delivery model would be. The report showed a high-level position. The business case for each individual project would set out the detailed funding arrangements for the project.

The Committee noted that some capital receipts or revenue income streams might arise as a result of regeneration schemes, but in most cases the position was currently uncertain, and it was too early at this stage to make assumptions. It was likely that there would be cash-flow implications of the development schemes, where income would come in after the five-year time horizon of the report and the expenditure incurred earlier in the programme.

The Committee also noted that Prudential Indicators were set to ensure that the Council could demonstrate that its capital expenditure plans were affordable, sustainable, and prudent.

The Council had an underlying need to borrow for the General Fund capital programme of £202 million between 2023-24 and 2028-29. Officers had 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.

The capital programme included several significant regeneration schemes, which it was assumed would be financed from GF resources. Detailed funding proposals for each scheme would be considered when their Outline Business Case was presented to the Executive for approval.

The main areas of expenditure (shown gross), as set out in the report, were:

- £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)

The report contained a summary of the new bids submitted and the position and profiling of the current programme (2023-24 to 2028-29).

The HRA capital programme was split between expenditure on existing stock and either development of or purchase of new dwellings to add to the stock. A lot of work had been done on stock condition surveys and the results were being analysed with a view to having a robust stock condition assessment which would provide 100% stock data over a rolling 5-year programme and allow for effective assessment against Regulatory and legislative standards.

Improved building safety standards across social housing had resulted in a national drive to improve standards and safety, Guildford had started to respond to this and had spent a significant sum on its properties. The budget for 2024-25 and ongoing would see budgets return to more modest levels seen in the past. The capital programme would be funded from HRA capital receipts and reserves. The programme also included £121 million between 2023-24 and 2028-29 for development projects to build or acquire new housing (including WUV). Officers had recommended 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.

The main areas of major repairs and improvement expenditure were:

- refurbishment, replacement & renewal programme of existing stock, £1.3 million, which included 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

The main HRA development projects were:

- Guildford Park Car Park: £39 million
- WUV: £49 million
- Foxburrows: £11 million

The Committee was informed that officers carried out the treasury management function within the parameters set by the Council each year and in accordance with the approved treasury management practices.

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

The Committee noted that councils could 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 was the primary purpose).

Investment property had been 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%. In line with the Government's guidelines, the Council was not making any future purchases solely for yield.

The Council had also invested £25.3 million in its housing company North Downs Housing Ltd (NDH), via 40% equity to Guildford Borough Council Holdings Ltd (£10.1 million) who, in turn, passed the equity to NDH, and 60% repayment loan direct to NDH (£15.3 million) at a rate of 5%.

The report had also included the Council's Minimum Revenue Provision (MRP) policy, the Prudential Indicators and the updated flexible use of capital receipts policy. This policy, if approved at Council, would permit the use of any capital receipts received in year to be used to fund any service transformation costs incurred in the same year.

The Committee noted the comments and recommendations of the Joint Executive Advisory Board which had also considered this report at its meeting held on 11 January 2024, particularly with regard to the proposed new capital bids.

The Lead Councillor for Finance and Property commented that a significant part of the £18 million gap in the medium-term financial plan at the start of this financial year, had been due to debt servicing costs. Overall debt at that time was around £300 million and was projected to rise over to over £600 million by the end of the decade. This revised Capital and Investment Strategy represented a reduction in capital expenditure of approximately £100 million. The significant reduction in debt servicing costs over the medium-term financial plan period was a critical part of the Council's Financial Recovery Plan

During the debate, the Committee made the following comments:

- In response to a question as to whether there was a clear definition of what was permitted in terms of local authorities earning investment income, the Lead Specialist (Finance) explained that the Section 151 Officer was required to sign off investment income of any kind. Any borrowing from the Public Works Loan Board now required a great deal more information to be provided in terms of the purpose for which any loan was required.
- Inadequate scrutiny of the budget process, particularly in view of the previous mistakes made. In response, the Lead Councillor for Finance & Property indicated that many of the more detailed aspects of the budget had been discussed at the Financial Recovery Executive Working Group. It was also noted that the current arrangements for consideration of draft budget papers had not changed over the past five years.
- Proposals to reduce the Council's overall borrowing by approximately £100 million over the next few years was welcomed. Noting the Arlingclose interest rate forecast of a reduction to around 3% by early to mid-2026, officers were asked to comment on the impact of such a reduction on the Council's finances in the medium-term. The Lead

Specialist (Finance) indicated that prudent assumptions had been made in respect of interest rates on borrowing in the medium-term so that in 2025-26, it was anticipated that interest rates would reduce from 4% to 3.5%
- The level of detail in the mandate proposals in respect of each of the growth bids was welcomed.
- There were errors in the tables in paragraph 8.20 of the report and paragraph 4.16 of Appendix 1 to the report (Capital Expenditure Summary) in relation to HRA Capital Expenditure for 2023-24, which would be corrected by officers.

Having considered the report, the Committee,

RESOLVED: That the recommendations to the Executive and Council in respect of the Capital and Investment Strategy, as set out in the report submitted to the Committee, together with the comments referred to in the debate and summarised in the bullet points above, be endorsed.

Reason:
To enable the 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 investment proposals.