CAPITAL & INVESTMENT STRATEGY AND CAPITAL PROGRAMME 2023/24 to 2026/27

Synopsis of report:

To recommend a draft Capital & Investment Strategy and Capital Programme for Full Council approval in February 2023.

The report highlights the use of existing and future capital receipts and the potential use of revenue contributions to fund certain items of capital expenditure. The Strategies come together in the Council's Medium-Term Financial Strategy (MTFS) and detailed Revenue Budget for 2023/24 to be considered by Full Council in February 2023.

This report should be read in conjunction with the Treasury Management Report set out elsewhere on this agenda

Recommended that

i) the Capital Strategy at Appendix 'A' and the Capital Programme at Exempt Appendix 'B' be approved.

ii) future revisions to the Council's Capital and Treasury Management Strategies to maintain useable capital receipts at a prudent level of £2million

1. Context of report

1.1 Local authorities must distinguish between capital expenditure and revenue expenditure in their accounting. Unless expenditure qualifies as capital it will normally be charged to revenue in the year that the expenditure is incurred. The rules as to what can qualify as capital expenditure are complex however, in its simplest form capital expenditure involves acquiring or enhancing fixed assets with a long-term value to the authority, such as land, buildings, and major items of plant, equipment or vehicles. Capital assets shape the way services are delivered in the long term and create financial commitments for the future in the form of financing costs and revenue running costs.

1.2 The Government places strict controls on the financing capacity of the authority, this is known as the Prudential Framework. Effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions are taken in light of the Council's Corporate Business Plan, Medium Term Financial Strategy (MTFS), Capital Strategy and Treasury Management Strategy (TMS). The control of capital expenditure is therefore carefully planned and prioritised in order to maximise the benefit of resources overall.

1.3 The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice ("TM Code"), and specifically the Prudential Code for Capital Finance in Local Authorities which authorities when determining how much it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent, proportionate and sustainable

1.4 This report should be read in conjunction with the Treasury Management Report - this will allow readers to understand how stewardship, value for money, prudence, governance, risk management, sustainability and affordability are managed by the Council.

2 The Capital & Investment Strategy

2.1 The Prudential Code for Capital Finance in Local Authorities together with the Governments Statutory guidance, CIPFA's Prudential Property Investment Guidance, other statutory guidance and legislation requires the Council to produce a comprehensive capital strategy.

2.2 The Capital Strategy sets out the principles to be followed which demonstrate how new capital investment, together with active management of existing assets, contributes to achieving the Council's approved policies, objectives and targets. It considers future capital investment needs, especially in relation to regeneration and the growth agenda, and ensures the optimum impact of those investments. It also helps the Council to be clear on its priorities for bidding for external funding

2.3 The Assistant Chief Executive is responsible for ensuring that a Capital Strategy and a Capital Programme covering a 3-5 year period are prepared / updated on an annual basis for consideration initially by the Corporate Management Committee, before their submission for approval to full Council. The Council may amend the proposed Capital Strategy or Capital Programme or ask the Corporate Management Committee to reconsider areas of detail within them.

2.4 The Council's strategies are influenced by government policy and their legislative targets, for example the autumn 2020 announcement that petrol and diesel engines are to be phased out within a decade which will influence how the Council replaces its vehicle fleet and provides electric charging points in its car parks. Another example being the change in government and CIPFA produced statutory guidance forbidding Councils to invest in commercial property for financial gain.

2.5 Over the last decade the Council has used various strategies to increase its revenue income, capital receipts and prudential borrowing to invest in the infrastructure, regeneration and commerce of the Borough. The Council still aims to be financially self-sufficient (i.e. no call on revenue balances), over the life of the current Corporate Business Plan and the financial strategies which support it. With first the pandemic, and now the high cost of living/high inflationary environment, this is getting harder to achieve, however, each year the financial strategies are updated and reviewed by Council with this aim in mind.

2.6 The Capital Strategy was last updated by full Council in February 2022. The strategy needs to be updated on an annual basis and an updated and re-titled Capital and Investment Strategy for 2023/24–2026/27 is attached at Appendix A for approval.

2.7 Other than necessary changes resulting from the updated CIPFA Codes and government legislation, there have been no significant changes to the Council's Capital & Investment strategy since the Council planned significant regeneration projects commencing in Addlestone and Egham. All of these place shaping projects have committed considerable capital sums in order to revitalise areas of the Borough, create new leisure facilities, increase employment opportunities, reduce running costs, provide much needed new housing, including affordable units and a long term sustainable income stream to fund further major regeneration projects.

Funding the Capital Strategy

2.8 The long-term revenue implications of the Council's strategies are included in the Medium-Term Financial Strategy (MTFS) which includes:

- Funding the fixed interest, fixed term maturity and annuity loans
- Setting aside income to repay debt when due (Minimum Revenue Provision policy)
- Maintaining both the General Fund minimum working balance at a prudent level and the property based earmarked reserves to mitigate risk of loss of any kind.

- Continuous review of income, debt levels and void rates to ensure effective budgetary control of the Council's financial position.
- Fund more of its capital programme from revenue and place less reliance on capital receipts.
- Rolling valuation of asset values with certain high value assets being valued every year.

2.9 The predicted reduction in revenue resources from government via the oft delayed Fair Funding and Business Rate retention reviews, have a number of funding implications for the Capital & Investment Strategy and detailed capital programme. These include the following:

- The availability of revenue resources to fund capital expenditure will be severely limited.
- Traditionally short life assets (heavy vehicles and plant, CCTV equipment) have mainly been funded from Capital receipts. However due to declining levels of receipts, an "Equipment Replacement Fund" to fund more "short life" assets from revenue income and place less reliance on capital receipts.
- Capital receipts have been declining for a number of years. The sale of the remaining apartments in the Addlestone One and Magna Square developments are the last identified source of capital receipts available and are financing the current capital programme to 2026/27 only.
- The Council has ambition to commence further regeneration schemes. It is likely these will be joint ventures with strategic partners rather than the Council funding entire schemes.

2.10 As part of the Council's governance arrangements the Capital Strategy, Treasury Management Strategy and MTFS consider the long-term context when making investment decisions. Individual business cases progress through various Member working groups, committees and full Council. Performance is monitored through the revenue and capital budget monitoring reports to Corporate Management Committee with Treasury Management and Prudential Indicators performance being reported to Members three times in a financial year – setting, half year monitoring and year end actuals - to both Corporate Management Committee and Overview and Scrutiny Select Committee. In 2023/24 this will be extended to include quarterly reporting as required under the new Codes of practice.

2.11 The overarching aims of these strategies is to provide a framework within which the capital investment plans will be delivered. While it covers a four-year timeframe the Council recognises there is some uncertainty in future years due to future funding streams and higher than anticipated costs due to the current economic environment. Therefore, the strategies focus heavily on the financial years 2023/24 and 2026/27 in light of this evolving financial position with many schemes being deferred.

2.12 Government legislation now precludes buying commercial assets purely for a financial return and the Treasury have amended their lending terms for the PWLB (Public Works Loans Board) to help facilitate this. As part of the new lending terms the Council will have to continue to submit to government a:

- High level description of our capital spending and financing plans for the following three years including planned use of the PWLB
- Confirmation from the Chief Finance Officer that the Council has no intention to buy investment assets primarily for yield at any point in the next three years. (As loans are not linked to specific capital projects this means if a capital plan includes investment asset purchase, that local authority cannot borrow anything from the PWLB).
- In any future borrowing the Council's Chief Finance officer must confirm that the original assurance that not buying investment assets primarily for yield remains valid.

2.13 To assist this, HM Treasury has developed guidance in consultation with CIPFA and the local government sector to help local authorities ensure that their capital plans are compliant with ongoing access to the PWLB. The PWLB will continue to support service spending, housing, economic regeneration, preventative action, and treasury management. The guidance also includes a definition of investment assets bought primarily for yield, which the PWLB will not support. Whilst the PWLB will still lend for certain capital expenditure, the Council's ability to use this facility will be reliant on the any limitations included in the Levelling Up and Regeneration Bill once it is enacted.

3. Asset Management Strategy

3.1 The Council's asset portfolio is centred on operational land and buildings and the place shaping agenda in the Borough; however, some good quality commercial properties have been acquired outside of the Borough in the past to aid diversification. The portfolio includes office space – some leased to the NHS - supermarkets, hotels, light industrial / business parks, and a bonded warehouse serving most airports in the SE of England along with retail and leisure. The two business parks were developed by the Council on brownfield sites to regenerate the local area and create local jobs.

3.2 Acquisition for investment in regeneration purposes has been a natural progression for the Council in pursuit of improving services. A good example is the Egham Leisure Centre which had only "dry" facilities, had significant future maintenance liabilities and was a cost to the taxpayer. By investing in a new, energy efficient centre with a swimming pool the Council has provided new facilities for residents, removed a near term maintenance liability and exchanged a revenue cost for a revenue income.

3.3 Holding on to commercial property carries risks which the Council is fully aware of. Examples being: property prices falling, maintenance liabilities, depreciation of the asset, rent default, void property should a tenant leave. To mitigate the risks and manage the portfolio effectively, the Council:

- Created a new Asset Management Strategy
- Has created two reserves - a repairs and renewals reserve and an income equalisation reserve – to even out future year's income and expenditure on the maintenance of the Council's asset base.
- Carries out fair value assessments for all investment property assets as part of the year end accounting process in accordance with International Accounting Standard 40: Investment Property

3.4 The new Asset Management Strategy will give a framework of how we strategically manage both our commercial and operational assets that sit withing the General Fund. The strategy sets out the Council's vision, aspirations, opportunities and objectives for both portfolios and outlines an Action Plan for how it aims to achieve these outcomes.

4. Capital Programme

Capital Expenditure

4.1 The updated Capital Programme is set out in exempt Appendix 'B'. This covers a ten year period and includes a mix of proposed and approved schemes and has been split into separate HRA and General Fund programmes to aid transparency. This is very much an aspirational programme and relies on the assumed funding streams being available.

4.2 Approved schemes are where a business case has been drafted with a specific detailed budget (or estimate) that has already been approved. Proposed schemes are those which Members have agreed to in principle but require a further, more detailed, report to turn this into an approved scheme - these are entered in the Capital Programme as provisions subject to a future committee report. Provisions and estimates are equally important in financial forecasting terms as they are all built into the budget to ensure that when all added together (on the assumption that they will eventually be approved) they are affordable.

4.3 Whilst the Capital Programme covers a 10 year period, due to current uncertainties in government funding, capital receipt generation, the ability to borrow further sums and the economic outlook, the focus of this report is very much on the short term and covers the next 4 years.

4.4 The changes to the Programme since its approval in February 2022 stem from phasing adjustments between financial years due to delays and/or future resourcing issues, the inclusion of new schemes approved during the year and the addition of some provisional new schemes which will seek further committee approval during the life of the Programme.

4.5 New provisional schemes have been included in the programme as a result of work streams from departmental Service Business Plans being presented to service committees in early 2023. These work streams are a direct result of achieving goals contained within the Corporate Business Plan and comprise:

	£000
Housing estate paths (HRA)	200
IRL boiler replacement (HRA)	500
IT enhancements - NEC Housing (HRA)	50
Civic Centre remedial works	1,100
Climate change initiatives for operational buildings	100
Paddling pool replacement programme	200
Welfare support and corporate debt software	20
Revenues legislative requirements - CTAX and Business rates	10
Waste & recycling hardware and software improvements	50
Meeting Rooms Video Conferencing	30
Replacement pay & display machines	50
ANPR in car parks	250
Total	**2,560**

4.6 In total the Capital programme currently contains provisional/unapproved schemes to the value of £34.572m. This includes a £29m HRA rebuild programme that includes schemes that have not yet been approved in detail by the Housing Committee.

4.7 Including the schemes highlighted above, the total Capital Programme costs over the next five years are estimated to be as follows:

	Budget 2022/23	Budget 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27
	£	£	£	£	£
Capital Expenditure					
Housing Services - HRA	9,186,910	26,101,600	17,864,600	17,966,350	11,010,950
Housing Services - GF	684,049	651,507	651,507	651,507	651,507
Community Services	904,728	1,070,000	482,000	546,000	220,000
Environment & Sustainability	2,876,760	2,592,205	331,480	2,000,000	2,062,944
Corporate and Business Services	26,587,587	14,043,331	2,677,500	3,665,000	1,470,000
	40,240,034	44,458,643	22,007,087	24,828,857	15,415,401
Funded By					
HRA Balances	607,464	6,824,202	14,548,600	8,509,100	0
HRA Major Repairs reserve	8,020,000	10,565,000	1,963,000	1,963,000	1,700,950
General Fund reserves	0	0	0	0	0
Earmarked Reserves	1,852,070	1,392,205	1,250,480	3,076,000	1,562,944
Grants & Contributions	4,106,185	7,889,257	2,019,507	965,757	4,431,507
Capital Receipts	20,654,315	10,184,648	2,225,500	5,315,000	2,720,000
Borrowing	5,000,000	7,603,331	0	5,000,000	5,000,000
	40,240,034	44,458,643	22,007,087	24,828,857	15,415,401

4.8 It should be noted that the draft Capital Programme **excludes** any regeneration costs of Egham Phase 2, Addlestone 2 and Chertsey, but **includes** assumptions on vehicle and ICT replacement at the end of their lives or contracts as follows:

- Vehicle assumptions: £4.2m over the life of the programme relates to vehicle replacement based on original purchase cost and useful economic lives. Should Members wish to electrify the fleet in the future, this will add additional costs to the programme (based on current purchase costs);
- ICT assumptions: £2.6m for IT system replacement which assumes retendering at end of current contracts. Contract extensions or minor upgrades should reduce this cost.

4.9 The programme is funded in a number of ways. The proposed method for financing the Capital Programme is set out in the table above. In the Housing Revenue Account (HRA), tenant's rents fund the works to the Council's housing stock and, when a dwelling is sold, part of the sale proceeds are used to develop new homes. In the General Fund, revenue contributions fund some assets with a short life, and we use capital receipts from the sale of assets to fund much of the remainder. In the General Fund most of the capital receipts are generated from the sale of apartments in the Addlestone One and Egham Magna Square regeneration areas, however once they have gone, new sources of finance will need to be sought.

4.10 The Council has in the past, borrowed to fund large scale regeneration schemes to fund its regeneration initiative. Government restrictions (contained in the Levelling Up and Regeneration Bill) and changes to the access requirements in accessing Public Works Loan Board (PWLB) loans, mean that future borrowing may be restricted. The above table assumes that the previous borrowing requirement anticipated for the Magna Square development (£12.6m) and the Housing new build programme (£10m) are still available.

Non-treasury Investments

4.11 The Prudential Code, TM Code and DLUHC regulations include guidance on what is termed "non-treasury" investments. These are predominantly investments for commercial return such as:

- commercial loans to companies and other organisations, and
- holding property for a financial return (investment property).

For Runnymede this is our commercial and investment property portfolio, and our loans to our wholly owned companies and local community groups.

4.12 The Council owns a significant investment property portfolio which is now managed through its developing Asset Management Strategy (see section 3 above). The Council has also invested in its three wholly owned companies via pre-approved Loan Facilities Agreements which enabled the companies to buy some of the properties resulting from the Council's regeneration schemes. There are no plans in the current Capital Programme to increase investments in these areas.

Capital receipts

4.13 A capital receipt is a sum received by the Council when it disposes of an asset that was originally classed as capital expenditure. Capital receipts are classed by the Council as a corporate resource and are not ring-fenced to the service committee disposing of an asset. The Council's usable general capital receipts are declining as predicted. Most short life assets are funded from capital receipts (plant, equipment and vehicles) with some being funded from the revenue budget (ICT and Safer Runnymede equipment). The Council's financial strategy aspires to fund all short life assets from revenue when the resources become available.

4.14 All capital receipts generated from sales of Council dwellings are subject to special rules. A proportion of all receipts are paid over to Central Government according to a set of complex criteria. The balance of any sale that is not paid over to the Government, is then split between an amount set aside for debt repayment (i.e. the debt associated with that property) leaving the balance available for like for like (1-4-1) replacement. This latter amount is fed back into the capital programme to finance the purchase of HRA properties.

4.15 The current forecast for capital receipts, both general and set aside for housing purposes, is shown in the following table and is based on existing plans for the sale of the remaining flats in the Addlestone One and Egham developments:

Scheme Details	2022/23 £	2023/24 £	2024/25 £	2025/26 £	2026/27 £
General Usable Receipts					
Receipts at 1 April 2022	7,202,526	1,775,660	5,035,875	6,260,590	3,145,805
Add new receipts in the year	15,195,449	11,680,215	3,220,215	1,970,215	320,215
Less Applied during the year	(20,622,315)	(8,420,000)	(1,995,500)	(5,085,000)	(2,490,000)
Anticipated year end balance	**1,775,660**	**5,035,875**	**6,260,590**	**3,145,805**	**976,020**
Set Aside for HRA Debt repayments					
Receipts at 1 April 2022	709,989	1,039,389	1,368,789	1,698,189	2,027,589
Add new receipts in the year	329,400	329,400	329,400	329,400	329,400
Less Applied during the year	-	-	-	-	(2,356,989)
Anticipated year end balance	**1,039,389**	**1,368,789**	**1,698,189**	**2,027,589**	**-**
Set Aside for 1-4-1 Replacements					
Receipts at 1 April 2022	1,336,648	1,534,648	-	-	-
Add new receipts in the year	230,000	230,000	230,000	230,000	230,000
Less Applied during the year	(32,000)	(1,764,648)	(230,000)	(230,000)	(230,000)
Anticipated year end balance	**1,534,648**	**-**	**-**	**-**	**-**

4.16 From the above table it can be seen that the Council runs down usable capital receipts by the end of 2026/27 and they will be completely extinguished in 2027/28. This means that in order to finance future schemes alternative sources of finance will be needed unless additional receipts can be generated through asset disposals. The Asset and Regeneration team are looking at other possible property sales within the commercial portfolio to replenish capital receipts. Should the anticipated new receipts be delayed, or if no new properties are identified for future sale, it will be necessary to reprioritise the Capital Programme and delay or remove schemes. This will start with removing the provisional/unapproved schemes as set out above.

4.17 Using up all of the usable capital receipts leaves the Council open to future funding issues. With revenue resources set to deplete over the next few years, should an emergency situation arise (such as the recent replacement cladding programme at Addlestone One), there will be no resources available to undertake the work. It is therefore proposed that the Council maintain a minimum level of capital receipts in the region of £2m for such emergencies

4.18 The Council's evolving Asset Management Strategy sets out criteria for reviewing assets that no longer provide the required yield or the security for the capital investment. Where this is the case, mitigating actions that the Council proposes to take to protect the capital invested could include the sale of the asset. Where this is likely the criteria set out in the Capital and Investment Strategy for asset management, planning and disposals will come into play.

4.19 In the 2022/23 Provisional Local Government Finance Settlement a 3-year extension was announced from 2022-23 onwards for the existing flexibility for councils to use capital receipts to fund transformation projects that produce long-term savings or reduce the costs of service delivery. Due to a lack of Capital Receipts, there are currently no proposals to take advantage of this flexibility in the revised Capital Programme.

<u>Other funding streams (revenue balances, developer contributions, grants)</u>

4.20 In setting the budget for 2023/24 and future years the Council approved an ongoing revenue budget to fund ongoing ICT hardware and CCTV camera replacement as well as contributing to a Repairs and Renewals Fund. In the medium term the pressure on the revenue budget is likely to mean revenue funding of ***all*** short life assets remains aspirational.

4.21 In considering an application for planning permission the Council may seek to secure benefits to an area related to the proposed developments through the negotiation of a 'planning obligation' with the developer – known as a Section 106 agreement. The obligation must be necessary to make the development acceptable in planning terms, be directly related to the development and fair and reasonable to the scale of the development.

4.22 The Council is also able to collect a planning charge known as Community Infrastructure Levy (CIL). CIL largely replace Section 106 contributions in delivering strategic infrastructure. However, Section 106 agreements will still be used for securing the provision of affordable housing and some developments will provide such housing and pay CIL. Contributions may also be sought via Section 278 of the Highways Act 1980 agreements where modifications are required to the highway.

4.23 As well as Section 106 and CIL income, the Council will apply where possible for grants to help fund particular projects.

4.24 The Council has in the past resourced capital projects using prudential borrowing where schemes generate enough income to pay the interest on the loan and the principal (the Minimum Revenue Provision policy). Whilst the Capital Strategy allows borrowing for future regeneration programmes, which invest in long term assets, alternative sources of finance will be investigated to ensure the Council's debt levels are kept at prudent levels.

4.25 There may be instances where leasing, rather than purchasing, could offer value for money and it will be considered during option appraisal. From 1 April 2024 any leased assets will be brought "on balance sheet" as the public sector adopts International Financial Reporting Standard (IFRS) 16: Leases. This will mean all assets over a predetermined limit leased by the Council will be included in the Capital Programme and in the Non-Current Assets section of the Balance Sheet.

4.26 Some Councils use the Private Finance Initiative (PFI) to fund capital schemes. At the present time the Council has no PFI schemes being considered.

4.27 Projects that are reliant on the receipt of government or other third party funding, including grants from the National Lottery, must follow the normal capital reporting and approval procedures.

5 Treasury Management Strategy (TMS)

5.1 The Treasury Management Strategy (TMS) sets out the framework each year for the Council's treasury operations and is inextricably linked to the Capital & Investment Strategy and Capital Programme. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed - particularly where Capital purchases are concerned. The capital plans set out in this report provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

6. Prudential and Treasury Management Indicators

6.1 The Prudential Code requires all local authorities to look at capital expenditure and investment plans in light of the overall organisational strategy and resources and make sure that decisions are being made with sufficient regard to the long run financial implications and potential risks to the authority. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, proportionate, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.

6.2 To demonstrate that these objectives are being fulfilled the Prudential Code operates through the provision of prudential indicators which highlight aspects of capital expenditure planning. Each indicator is annually updated as part of the budget process and projected forward for the next three years. The Code requires that the Council approves as a minimum, certain mandatory prudential indicators. A complete set of all indicators is included in the Annual Treasury Management Strategy report.

7 Legal Implications

7.1 Under the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting (England) Regulations 2003, local authorities must have regard to statutory proper practices in their treasury management and borrowing activities. These are set out in the following:

- CIPFA's Treasury Management in the Public Services: Code of Practice 2021 Edition [The CIPFA Code] which requires the Council to approve a treasury management strategy before the start of each financial year;
- CLG Guidance on Local Authority Investments, 3rd Edition [CLG Guidance] which requires the Council to approve an investment strategy before the start of each financial year; and
- CIPFA Prudential Code for Capital Finance in Local Authorities 2021 Edition [The Prudential Code] which requires the Council to have regard to the Prudential Code when determining how much money it can afford to borrow.
- Numerous other CIPFA codes and statutory guidance

7.2 The above codes require all local authorities to produce a detailed Capital Strategy. The Capital Strategy is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. The development of a Capital Strategy allows flexibility to ensure that the overall strategy, governance procedures and risk appetite are fully understood by all elected members.

8 Equality implications

8.1 There are no direct equality implications resulting from this report. Any implications arising from new initiatives or those marked as being subject to a further report, will be fully explored within those future reports

9. Environmental/Sustainability/Biodiversity implications

9.1 The capital programme is the expression in financial terms of the Council’s agreed policies and schemes and as such there are no specific Environmental, Sustainability, or Biodiversity implications arising from this report. Any implications arising from new initiatives or those marked as being subject to a further report, will be fully explored within those future reports.

10. Conclusion

10.1 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken considering the Council's Corporate Business Plan, Medium Term Financial Strategy (MTFS), Capital & Investment Strategy, Asset Management Strategy and Treasury Management Strategy.

10.2 The Capital & Investment Strategy and Capital Programme balance the resources available to the Council and leave options open as to future funding over the life of the MTFS. The key objectives of the Capital, Asset management and Treasury Management Strategies are to deliver a Capital Programme that will:

- Ensure assets of the Council are used to support the delivery of the priorities set out in the Corporate Business Plan.
- Supports the Council's specific project plans – especially economic development and regeneration
- Is affordable, financially prudent and sustainable.

10.3 In preparing these strategies, it is clear that future resourcing of Capital schemes could become an issue unless additional capital receipts can be generated, or other sources of funding can be obtained. Due to the uncertainties surrounding the timing of future capital receipts, it is recommended that a minimum level of receipts in the sum of £2m is held to ensure any future emergency expenditure can be financed.

10.4 The 10 year Capital Programme is an aspirational one and makes an assumption that the previous borrowing requirement anticipated for the Magna Square development (£12.6m) and the Housing new build programme (£10m) are still allowable once the Levelling Up and Regeneration Bill has been enacted. Should this not be the case, the Capital Programme will need to be revisited and adjustments made in line with the prioritisation methodology set out in the Capital & Investment Strategy to ensure the programme remains affordable.

Runnymede Borough Council

Capital and Investment Strategy

2023/24 – 2026/27

Runnymede Borough Council

Contents

Introduction

1.1 The Capital and Investment Strategy forms a key part of the Council's Corporate Planning framework. The strategy sets out the rationale for investment in capital assets and projects, including prioritisation, planning, outcomes, funding, and project management and monitoring. It is updated annually to react to the changing Council priorities, social and demographic changes and crucially the financial climate. The Capital Strategy focuses on the core principle that underpins the Councils detailed capital programme. The strategy applies to the General Fund only; the strategy for the Council's dwelling stock is contained in the Housing Revenue Account Business Plan.

1.2 Capital expenditure is spending on assets that will provide a benefit beyond the current financial year and is defined as "expenditure that results in the acquisition or construction of a fixed asset (land, building, vehicle, equipment) or enhancement of an existing fixed asset".

1.3 Most items of capital expenditure have associated revenue implications. For that reason, most of the items included in the detailed Capital Programme will sustain an essential service, reduce running costs in the medium term or generate an income to the Council. The detailed annual report to Council in February each year shows the current position and projects where the Council will be in three years' time and how it will get there.

1.4 The Capital & Investment strategy maintains a strong and current link to the Council's priorities and to its key strategy documents notably the Treasury Management Strategy, Asset Management Strategy, Medium Term Financial Strategy (MTFS) and the Corporate Business Plan. It is also consistent with the Council's housing policies and programmes. The Capital and Investment Strategy describes how the deployment of capital resources will contribute to the achievement of these aims.

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1.5 The Council has long established links with local community and voluntary groups, many of whom it supports through grant funding, and has signed a formal compact with the voluntary and community sector. In addition, the Council works with a number of other organisations including:

- Surrey County Council and neighbouring Borough Councils
- Surrey Police
- Registered Social Landlords
- North Surrey Clinical Commissioning Group, Health Trusts and the Surrey Health and Wellbeing Board.
- Business Runnymede and the universities
- Sports clubs
- Local Enterprise Partnership
- Voluntary Support North Surrey

1.6 The financial implications of the Capital Strategy are reflected in the Council's Treasury Management Strategy, Prudential Indicators, the overall Medium-Term Financial Strategy (MTFS) 2023/24 to 2026/27 and revenue budget and tax setting proposals for 2023/24. The Council's MTFS aims to set a balanced budget over the life of the financial planning cycle. The Council maintains a working balance to fund unforeseen cost increases or to pump prime initiatives or fund some items of capital expenditure from revenue resources.

1.7 The objectives of the Prudential Code are to ensure:

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

1.8 The asset portfolio of the Council broadly falls into four distinct categories:

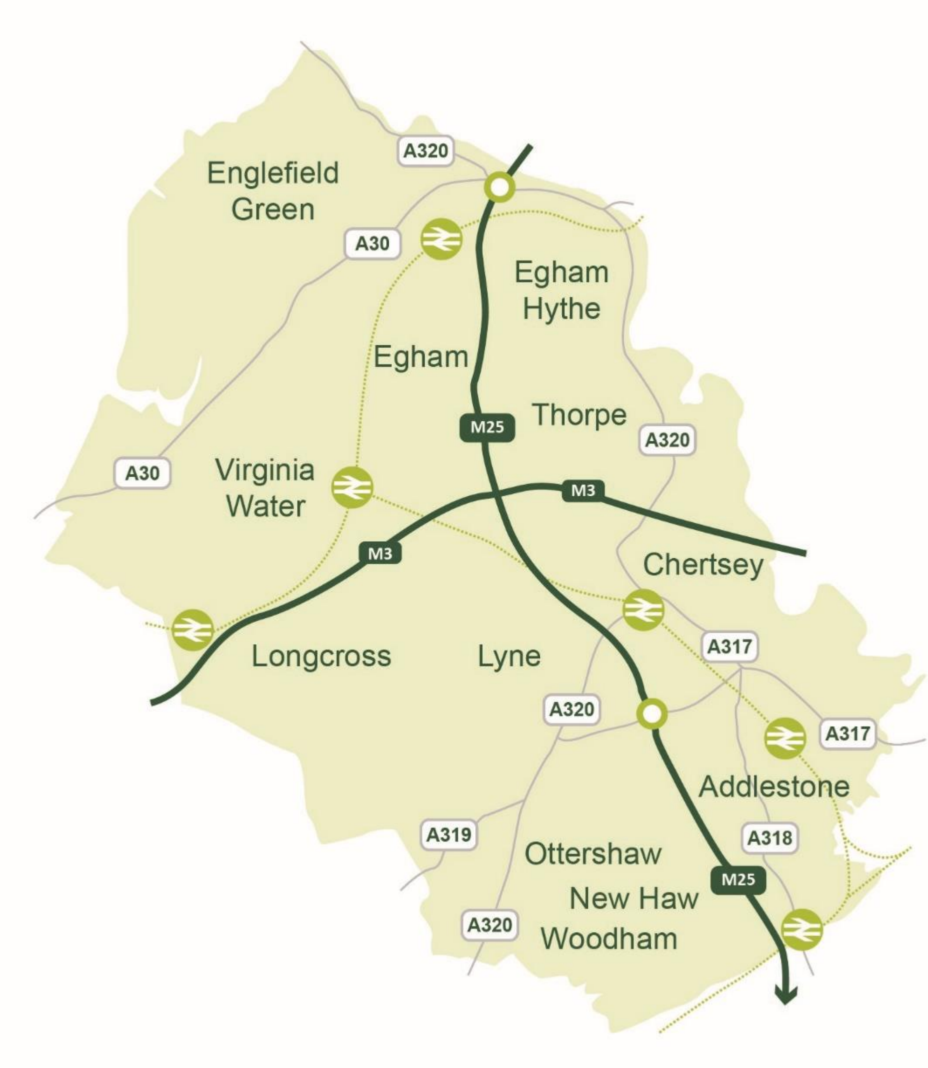
- **Operational** – supporting core business and service delivery e.g. the Civic Centre, waste management depot.
- **Investment** – to provide a financial return for the Council in order to progress regeneration plans.
- **Community** – to support specific local communities e.g. through, community and day care centres.
- **Regeneration** – enabling strategic place shaping and economic growth for example Magna Square.

1.9 The Council is ultimately accountable and has a clear and transparent framework for its decision making. These strategies are driven by the Council's Corporate Business Plan - the key strategic planning document which articulates the Council's vision, aims and objectives.

Borough profile

Runnymede Borough lies in north-west Surrey some 20 miles south-west of central London, covering an area of 7,804 hectares. Its northern and eastern edges are formed by the Rivers Thames and Wey. It has a population of over 90,000 living in approximately 35,000 households. The area has an extensive Green Belt which makes it an attractive location to live and work. Development restrictions and demand for housing are reflected in high property prices. Additionally, Runnymede has a strong local economic base with many commercial enterprises in the town centres, industrial estates and business parks located in the area. As a result, more people commute into Runnymede for work than commute out. Equestrian and market gardening activities dominate in the rural areas with some traditional farming.

The below map demonstrates the broad positioning of the main settlements and transport routes within Runnymede.



Objectives

3.1 Like a lot of complex organisations, Runnymede Borough Council has a medium term plan to guide its work. Councillors approved our four year Corporate Business Plan and five overarching strategies which underpin it in October 2022. The Corporate Business Plan is the Council's top level strategic document. Together with the strategies, it sets out our priority areas of work which we describe as our themes, and how we will use our resources to achieve them. Our themes are:

- Climate change,
- Empowering our Communities,
- Health and Wellbeing,
- Economic Development, and
- Organisational Development.

3.2 Our vision is:

To be a community leader, providing high quality services, enhancing the environment and advocating for our community's interests.

In order to achieve this, we aim to be:

- customer-focused,
- performance driven
- innovative
- passionate
- promoting equality and diversity, and
- delivering excellent value for money.

3.3 It is recognised that we cannot achieve all the changes/developments we would like to see locally as one organisation, so the Council seeks to achieve these aims in a number of ways. The Council will act as a lead agency for delivering the Corporate Business Plan and will work with our partners in steering the vision and the delivery mechanisms.

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3.4 In essence Runnymede councillors determine their programmes for capital investment that are central to the delivery of quality services. The Prudential Code plays a key role in supporting that objective. The code requires a local authority to look at its capital spending and investment plans in the light of its Corporate Plans and how these will be resourced. Decisions made now on capital spending have regard to the long-term financing implications and potential risks.

Strategic aims

4.1 This strategy is a high-level summary of the Council's approach to capital investment. It guides the development of service capital plans and sets out the policies and practices that the authority uses to establish monitor and manage the Council's capital programme, in line with the MTFS.

4.2 The key objectives of the Capital Strategy are to deliver a Capital Programme that will:

- Ensure assets of the Council are used to support the delivery of the priorities set out in the Corporate Business Plan.
- Support the Council's specific project plans – especially economic development and regeneration.
- Spend to save – transformation projects to reduce costs and enhance the services we provide.
- Addresses major infrastructure investment.
- Delivers wider economic outcomes such as employment opportunities.
- Asset management maintenance and investment.
- Be affordable, financially prudent and sustainable.

4.3 The Capital Strategy should be read in conjunction with the Treasury Management Strategy, Asset Management Strategy, Housing Asset Management Plan and the overarching Medium Term Financial Strategy (MTFS). These strategic plans show where capital and revenue investment can assist the Council in delivering its priorities. The financial impact of these strategies is summarised in the MTFS and HRA Business Plan. This demonstrates the Council's plans to invest in the Borough not only improves the residential and commercial offering to residents, but also provides an income stream to continue delivering services the residents need/desire.

4.4 A key element of the Corporate Business Plan are the regeneration projects, which in the past have largely been funded by borrowing and use of capital receipts to reduce revenue costs. During construction the schemes do not generate income, in some cases they reduce income as car parks are closed and existing Council owned income generating assets are demolished as part of the scheme. For that reason, the Council approved a Property Investment Strategy in 2014/15 which sought to acquire assets which would generate income to fund borrowing costs and replace the lost income during the developments. The five-year Property investment Strategy ended in March 2020 however, the Council still wishes to continue its regeneration strategy in other phases of Addlestone, Egham and Chertsey and will now seek alternative ways to finance them.

Priority areas for investment

5.1 There is increasing pressure on the availability of housing in the Borough – social housing and private sector rented accommodation. The Council has a housing strategy which accounts for a significant part of the capital programme. The figures in the programme include the Council's expenditure on its own stock. Works to the housing stock are totally financed from tenants' rent. The expenditure on private sector housing includes making grants to private householders to enable them to continue living in their own home, for instance Disabled Facilities Grants. The present Housing Strategy and long term business plans are currently under review and this will include reviewing our approach to the provision of more affordable housing potentially through a Council sponsored vehicle, or Joint Venture agreement. The investment needed to fund this will be considered at the same time.

5.2 The Council continues to have ongoing responsibilities to maintain its assets and will keep its asset base under review and will continue to invest in its key assets which include the Civic Centre, community halls, depot and car parks.

5.3 The Council has commitments to partners as well as legal and other statutory obligations. It will continue to support capital works to discharge those commitments.

5.4 It is anticipated "invest to save" and income generation projects will continue to play a key role in assisting the Council in its efficiency and business transformation agenda.

5.5 The Council's priority areas for investment are summarised as:

- Housing investment
- Asset maintenance and enhancement
- External partnerships commitments
- Invest to save
- Economic regeneration

Corporate Asset Management Strategy

6.1 It is recognised that there is a need for a more sustainable and long term strategic approach to the management of the Council's property assets. Therefore in 2023, the Council will have developed its Corporate Asset Management Strategy to replace the Property Investment Strategy which came to its natural conclusion in 2020. The Corporate Asset Management Strategy is a high-level summary of the Council's overall approach to the strategic management of its land and building assets. It is linked to the vision and priorities of the Council to provide a policy direction for the effective and efficient use of the Council's assets for the benefit of the residents.

6.2 The Asset Management Strategy gives a framework of how we strategically manage both our commercial and operational assets that sit within the General Fund (There is a separate HRA Housing Asset Management Plan in place). The key components of the Strategy are to:

- Understand the requirement to maintain our asset portfolio
- Optimise use of the Council's asset portfolio
- Meet legal requirements i.e. Health and Safety
- Optimise service requirements

6.3 The Asset Management Strategy sets out the Council's vision, aspirations, opportunities and objectives for both portfolios and outlines an Action Plan for how it aims to achieve these outcomes this will be achieved with the following documents:

- Asset Management Strategy
- Accommodation Policy
- Acquisition and Disposal Policy
- Commercial Lettings Policy
- Corporate Landlord Policy
- Investment Update executive view
- Repairs and Maintenance Policy

6.4 For all Investment assets and Operational assets (other than Housing) an assessment of the level of maintenance required for the properties has been made and this assessment will feature in both capital and revenue budgets, as it is important that the quality of the stock is maintained in order to sustain performance. The income generated by the Council's Investment Properties supports other spending in the borough.

6.5 Whilst the Council has not been investing to make a capital gain, historically, property has proved to be one of, if not the best, investment in terms of capital growth over the last 50 years. If the Council owns a property for say 15 years, and the property is well managed and maintained, the Council can expect to see an increase in the value of the property as well as an annual income. It is however recognised that even well maintained properties do not always appreciate in value and the Asset Management Strategy will highlight any such issues at an early stage to ensure mitigating measures can be taken.

6.6 The Council assesses the risk of loss whilst holding property investments by having clear, robust and transparent governance arrangements in place as set out in the Asset Management Strategy. This is critical in meeting the statutory guidance and ensuring an appropriate level of due diligence and scrutiny is applied, together with objective arms-length external advice where appropriate.

6.7 The risk of not achieving the desired income or an unexpected maintenance liability is partially covered by both an income equalisation reserve and a property maintenance reserve. Annual payments are deducted from the rental income each year to add to these reserves.

Approach to investment

7.1 The Capital Programme is approved by the Council in February each year and is amended during the year to reflect changing circumstances. Future capital programmes are driven by the budget and business planning process. The size of the programme is determined by:

- any requirement to incur expenditure,
- affordability and available resources, and
- revenue implications from capital expenditure.

7.2 The de-minimis for schemes to be included in the programme is £10,000 unless wholly funded from external sources. Schemes below this threshold are funded from revenue sources.

7.3 The Council identifies programmes and prioritises investment and funding via a robust business case and project management methodology. Business cases must be approved by the relevant Service Committee and Corporate Management Committee before being included in the draft strategy for Council to consider in February.

Specific funding of schemes

8.1 Funding of capital schemes can originate from a number of sources and in some cases a variety of sources. Irrespective of the source of funding all capital schemes are included in the Council's approved programme. The main sources of funding are likely to be the following:

- **Revenue funding** - There may be instances where a revenue contribution in part or wholly is used to fund the capital expenditure. Items would include CCTV cameras, vehicles and ICT equipment. Invest to save schemes or income generation schemes could provide funding to "pay back" the initial investment.

- **External funding** - Funding may in part or wholly come from external bodies. This includes government capital grant, contributions from other public sector bodies or via negotiated agreements (such as Section 106 agreements).

- **Capital receipts** - The Council on occasion sells a capital asset which is surplus to requirements. The sales proceeds are used to fund future capital schemes. The receipts are treated as a corporate resource to be used to invest in the Council's priorities. This means an individual service is not solely reliant on its ability to generate capital receipts.

- **Borrowing** - The Council may take out loans to fund capital expenditure. The Treasury Management Strategy approved by Council in February each year sets out the acceptable counterparties and the Council's borrowing limits which comply with the Prudential Code. Borrowing is restricted to funding assets which generate enough income to repay the loan completely.

8.2 The Council will explore ways of delivering its major capital spending priorities in ways that reduce the burden on the Council's resources. This may be by phasing delivery of large programmes over a period or looking at new funding models and partnerships with both the public and private sector. The Council needs to balance delivery of such schemes for its residents, with the affordability of capital spend and the effect on its revenue income streams. This will be particularly relevant should the Council's access to borrowing be restricted (for example under the Levelling Up and Regeneration Bill, once enacted) as it will need to find ways of progressing its strategic priorities without increasing borrowing levels.

Capital finance

9.1 The main source of the Council's capital resources has traditionally been capital receipts derived from land sales. This source of finance will continue for a number of years as major regeneration schemes in Addlestone and Egham are forecast to produce receipts from homes for sale as well as social housing and apartments for rent.

9.2 The Council's overall financial position is formally reviewed at least two times per year. Every quarter the Corporate Management Committee receives an update on projected spending for the remainder of the financial year and the likely level of available capital receipts for the following year.

9.3 The Local Government Act 2003 introduced the Prudential Regime. The Prudential regime requires all local authorities to look at capital expenditure and investment plans in light of the overall organisational strategy and resources and make sure that decisions are being made with sufficient regard to the long-term financial implications and potential risks to the authority. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent, sustainable and proportionate; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.

9.4 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken in light of the Council's Strategic Business Plan, Medium Term Financial Strategy, this Capital Strategy and the Treasury Management Strategy.

9.5 One important Council policy is in relation to prudential borrowing. The Council will only borrow to fund capital projects where a robust business case has been developed and the Prudential Indicators prove that the project is affordable. This will include consideration of past borrowing, maintenance requirements and planned disposals, not just in the medium term but over the life of the asset base or underlying debt. The Council will only borrow:

- For assets which will generate sufficient income to cover the borrowing costs – both interest and capital repayment
- Where maturity loans have been taken out then each year the Council will set aside income to fully repay the loan when it matures via a Minimum Revenue Provision (MRP).

9.6 Government legislation now precludes buying commercial assets purely for profit and the Treasury have amended their lending terms for the PWLB (Public Works Loans Board) to help facilitate this. HM Treasury has developed guidance in consultation with CIPFA and the local government sector to help local authorities ensure that their capital plans are compliant with ongoing access to the PWLB. The PWLB will continue to support service spending, housing, economic regeneration, preventative action, and treasury management. The guidance also includes a definition of investment assets bought primarily for yield, which the PWLB will not support

Prioritisation, governance and agreement of capital project proposals

10.1 All new schemes are subject to a business case being prepared to be submitted to Members for approval via Service Committees. This gives Service Committees the opportunity to introduce new schemes, vary the specifications and defer others as operational needs develop over time. Following a review of the business case the Corporate Management Committee releases the capital budget. Every quarter the Corporate Management Committee receives an update of the projected outturn via the Financial Monitoring report or updated strategies.

10.2 The business case for each proposed scheme includes a financial appraisal using a whole life costing approach for the capital and revenue implications, pay back periods etc. If a business case has been drafted with a specific detailed budget then it can have a capital ESTIMATE approved. A business case lacking in sufficient detail will be put in the Capital Programme as a PROVISION which will need a further, more detailed, report to turn this into an ESTIMATE (usually as part of a procurement process). Provisions and estimates are equally important in financial forecasting terms as they are all built into the budget to ensure that when all added together (on the assumption that they will eventually be approved) they are affordable.

10.3 The Corporate Management Committee consider the impact on the overall capital programme and make the final recommendation to Council in February each year on the size and schemes to be included in the Capital Programme. The housing capital programme (HRA) is evaluated separately in accordance with the Council's Housing Strategy by the Housing Committee who makes recommendations to full Council as part of HRA rent and budget setting.

10.4 The financial strategy includes projections of capital resources likely to be available within the period of the plan and provides the framework within which the forward Capital Programme has been developed based on existing and expected resources. The Capital Programme is reviewed throughout the year with only those schemes which have undergone detailed scrutiny being included in the programme.

10.5 In order to make their way into the Capital Programme during the year any new capital projects are brought forward in the first instance to the appropriate Committee, having been appraised in consultation with the Corporate Head of Finance and the Corporate Leadership Team using a full business case, prepared using the Council's project management and procurement methodology.

10.6 Once agreed, the Service Committee will make an appropriate recommendation to the Corporate Management Committee to include the scheme in the Capital Programme. It will be for the Corporate Management Committee to approve the method of financing the scheme.

10.7 When necessary, schemes are then prioritised and evaluated according to the agreed corporate criteria by the Corporate Leadership Team. Potential schemes are evaluated in terms of the following categories to give an order of priority. Within each priority ranking each "bullet point" ranks higher than the one below it.

Priority 1

- Schemes essential and to the extent necessary to comply with statutory obligations, including Health and Safety.
- Schemes for which there is a contractual commitment to another party.
- Schemes necessary to avoid a service breakdown.
- Schemes which a business plan demonstrates to be self-financing.
- Schemes which will permit future savings or increased efficiency.

Priority 2

- Schemes necessary to maintain an existing asset.
- Schemes necessary to maintain required standards of service.
- Schemes to meet urgent established need.

Priority 3

- Schemes to permit the development of services in accordance with approved policies.

Priority 4

- Schemes representing other desirable developments within services
- Schemes to meet emerging needs and/or demands emanating from consultation, benchmarking or Best Value exercises.

Expenditure on non-treasury investment

- 11.1 In recent years, local authorities have used increased powers to engage in commercial activities. Due to the perceived excessive risks that some authorities have entered into in this area, the revised Treasury Management Code (2021) requires all investments and investment income to be attributed to one of the following three purposes:

  - treasury management,
  - service delivery, or
  - commercial return.

- 11.2 As well as the normal day to day treasury management investments (covered by the Treasury Management Strategy), the Council holds service and commercial investments as follows:

  - **Service Investments** – investments held clearly and explicitly for the provision of operational services, including regeneration. Such investments include:
    - loans to external organisations that are delivering the Council's strategic objectives, and
  - **Commercial Investment** – investments undertaken primarily for financial reasons including:
    - commercial loans to companies and other organisations, and
    - holding property for a financial return (investment property).

11.3 Loan Facilities Agreements have been entered into between the Council and RBC Investments (Surrey) Limited for the purchase of property (from the Council) and separately for working capital purposes to be drawn down as and when required. Under accounting regulations, the development loan is classed as capital expenditure whilst the working capital loan is a revenue cost to the General Fund.

11.4 The Council owns a significant investment property portfolio, a majority of which were purchased as part of a Property Investment Strategy which ended in 2019/20. The Council takes a proactive stance in managing this portfolio to achieve several aims including diversification of assets, facilitate regeneration schemes, and to compensate for lost income during developments. The management of these properties falls under the Asset Management Strategy.

11.5 The CIPFA Treasury Management Code requires authorities to establish Investment Management Practices (IMP) for their non-treasury management investments, similar to their treasury management practices. The IMP recommends a schedule for each such investment portfolio, setting out the investment objectives, investment criteria, risk management arrangements, decision-making and reporting arrangements, performance measurement and management, and arrangements for training and qualifications. The IMPs for the Council are set out in Appendix A to this Strategy.

Capital loans

12.1 The Council may make loans to third parties to generate income or to meet a strategic priority. In doing so it may choose to make loans to local enterprises as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

12.2 The Council may also from time to time make Soft Loans (Loans charged at interest rates at less than market value) to community organisations in the Borough whose objectives meet our own aspirations and add social value. Before such loans are undertaken, the implied subsidy will be clearly identified and quantified as part of the decision-making process.

12.3 Any loans to a third party will only be undertaken if there is an acceptable level of risk. This will be assessed against the overall sustainability of the Council and will include considerations such as:

- The level to which the budget is dependent upon income from the loan and the certainty of the income moving forward.
- The amount of the capital invested and the potential volatility of the fair value of the loan compared to the initial investment.
- How the investment is to be financed and its affordability.
- The liquidity of the investment compared to the longer-term cash flow requirements of the Council.
- The cumulative impact of all the loans made by the Council.

12.4 Any loan to an outside body brings with it a risk of non-repayment. A loan to a community group predominantly reliant on income from its users increases this risk. Therefore, where possible the Council agree a loan guarantee facility that is secured on the assets of the groups.

12.5 For any new loans, the Council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are agreed by the Section 151 Officer. All loans will be subject to regular monitoring

12.6 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts is 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.

Value for money

13.1 Value for money is delivered through two separate mechanisms. The first is efficient procurement of goods and services through competitive processes and partnerships. These are established mechanisms and are set out in the Procurement Strategy. The other means is through careful scrutiny of possible projects at the assessment stage and prioritising them according to the extent to which the outcomes they promise to deliver match the priorities of the Council.

13.2 Value for money will also be assessed via the regular reporting of property investments and capital loan portfolios so that any material increase in risk or threat to ongoing yield can be assessed. Going forward we will be working with MSCI (a leading provider of critical decision support tools and services for the global investment community) who will provide analytic information to enable us to measure the performance of our commercial property portfolio with other key property companies which will enable us to make decisions on how we retain, review, and where appropriate regear our property asset base ensuring we achieve value for money.

Environmental, Sustainability and Biodiversity

14.1 One of the themes in the Council's Corporate Business Plan is on Climate Change. Climate change is a complicated and evolving subject, but the Council is determined to make concerted efforts to meet challenging targets.

14.2 The Council's evolving Climate Change Strategy will inevitably permeate all of our activities and functions including those relating to Capital expenditure and investment. As an example, some of the following aims will have a direct impact on this strategy going forward:

- ● To deliver carbon net zero for all Council operations by 2030.
- ● To align climate change actions and environmental improvements with economic gain.
- ● To merge our procurement strategy with technology to create effective 'green' solutions.
- ● To drive biodiversity net gain.
- ● Working with Surrey County Council to encourage use of public transport, provide more and quicker bus and train journeys with real time information and affordable fares.
- ● Playing a leading part in delivering the River Thames Scheme by 2030.
- ● Adding to bio-diversity on the Borough
- ● Improving energy consumption throughout the Council's asset portfolio including 3,000 homes owned by the Council
- ● Providing digital access to all of our services to prevent the need for journeys
- ● Providing and/or enabling sufficient numbers of EV charging points across the Borough.
- ● Embracing hydrogen and other based technologies as they develop..

14.3 The Capital Programme and the Capital and Investment Strategy that surrounds it, is the expression in financial terms of the Council's agreed policies and schemes and as such there are no specific Environmental, Sustainability, or Biodiversity implications attributable to the Capital and Investment Strategy itself. Instead, any implications arising from new initiatives or those marked as being subject to a further report, will be fully explored within those future reports and through any resulting procurement processes.

14.4 Most Capital expenditure is incurred through a procurement process of one form or another. As such the Council's current Procurement Strategy plays a large part in ensuring Environmental, Sustainability and Biodiversity principles are adhered to. In this regard, our Procurement Strategy espouses the following:

- We will ensure that procurement decisions take account of sustainability, the impact on the environment and climate change, and the Council's duty to promote equality

- We will aim to reduce our carbon footprint by engaging with local businesses in our supply chain when possible
- We will work with our supply chain to reduce and where possible eliminate the use of avoidable single use plastic

Risk management

15.1 Risk appetite can be defined as “the amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time”. The Council is very aware that risk always exists in some measure and can never be totally removed. In order to regenerate the Borough in the way the Council plans, some risk has to be accepted. It is worth noting the Public Accounts Select Committee supports risk taking across government, recognising that innovation and opportunity to improve public services requires risk taking - provided that the ability, skills, knowledge and training to manage those risks will exist within the organisation or can be brought to bear. In general, the Council’s risk appetite is expressed through its tolerance to risk in terms of capital preservation (level of capital receipts etc.), meaningful liquidity (General Fund working balance) and income volatility (e.g. business rates equalisation fund, provision for bad debts etc.). These risks are reported to Members annually in February.

15.2 The Council has in the past purchased investment properties to help aid regeneration schemes within the borough. The Council recognises that the investment such assets primarily for financial return, taken for non-treasury purposes, requires careful investment management, both at the outset and ongoing. Such capital expenditure includes loans supporting service outcomes, investments in subsidiaries and investment property portfolios. The Council fully recognises that the risk appetite for these activities is different from others and plans for these separately.

15.3 The Council has a number of Risk Management mechanisms in place when implementing the strategies. All are regularly reported to and approved by members of the following Committees - Standards and Audit, Overview and Scrutiny, Corporate Management Committee with Full Council taking on responsibility following reports from those committees. The risk management arrangements detailed below, especially release of funds are contained in the standing orders and financial regulations of the Council.

15.4 Each project on the capital programme is subjected to a capital appraisal process. The Council operates a “whole life costing process” and evaluates overall financial costs using discounted cash flow and other appropriate techniques to aid decision making.

15.5 The financial risk assessment takes into account the likelihood of a budget variance, the consequence of any potential variance, and the significance of these two factors for the budget assumptions.

15.6 Every report to members from officers which includes references to any of the above strategies must be approved by the Chief Executive and include resource, legal, ESG and risk management implications as a minimum.

Asset management planning and disposals

16.1 Asset disposals should meet specified criteria to ensure proper consideration and terms, and also compliance with Section 123 Local Government Act 1972 as amended by The Local Government Act 1972: General Disposal Consent 2003.

16.2 Part of the Asset Management Strategy (See section 6 above) contains a policy of Acquisitions and Disposals. The purpose of this policy is to provide guidance an demonstrate transparency and fairness for the acquisition and disposal of property assets and to provide a consistent process to be followed. This policy:

- Acts as reference point for procedural matters.
- Ensures that the Council is consistent in its dealings.
- Ensures that best practice is considered.
- Ensures that the Council meets legislative requirements.
- Enables efficient and effective responses to purchase requests; and
- Enables the Council to reduce overall property holding costs.

16.3 Regular reviews are undertaken to identify assets that could be used as part of one of the Council's regeneration projects; or be redeveloped, or their use changed to generate additional income. In the absence of adding value or to contain the cost of asset ownership, to declare the asset surplus and maximise the selling price. Furthermore, as part of reviewing the property portfolio the Council may determine to dispose of a commercial asset to reduce its exposure in a particular market sector, geographic location or simply to release capital that can be reapplied to regeneration projects or to acquire new or redevelop old commercial property assets.

16.4 The Council's reviews also involve challenging all property assets and an options appraisal judged against the value and contribution that assets can make to service delivery and corporate objectives. For example, building utilisation can be improved by a combination of agile working and improved work scheduling techniques. Assuming the released space is marketable, the same services can be delivered using less space and therefore securing additional revenue income from the released space.

16.5 The asset challenge process will therefore determine which of the following five categories the asset will fall into:

- **Fit for Purpose** - these should be retained and maintained through a programme of planned and reactive maintenance; or
- **Enhanced Utilisation** – These should be retained; however, utilisation should be re-considered to improve the financial and/or service delivery performance (for example through shared services); or
- **Major Investment** – The future direction of the building needs to be determined as major works are required; or
- **Vision Property** – These assets should be retained, undertaking minimum maintenance pending investigation of the development potential of the site. The asset should be developed or disposed when its potential can be maximised; or
- **Surplus** - Develop or dispose of the asset immediately, in accordance with the Investment Strategy.

16.6 Where a disposal is considered the following criteria must be satisfied:

- **Market Testing -** Any sale of an asset should be subject to an open market test where reasonable steps have been taken to identify all interests in acquiring the asset and so to have sought to optimise the value of the sale;
- **Valuation** – Where there is a substantial value to the asset an independent valuation should be sought. For property sales, an independent Royal Institute of Chartered Surveyors' Red Book" valuation should be undertaken which confirms the value of the sale is at or above the independent valuation;
- **Optimising Value -** The Council should seek to optimise the price paid through considering current and future value and, for property sales for example, applying overage clauses in the sale agreement, where there is a potential for increasing the number of residential units to be built / increased value of the units / land assembly with increased marriage value / etc.

16.7 Any proceeds from the disposal of assets such as land or buildings in excess of £10,000 are determined as a 'capital receipt'. The sale of assets under this value (small pockets of land, vehicles etc) often brings in income of less than £10,000. This income is classed as 'revenue income' and is posted to the revenue income and expenditure account

Consultation

17.1 The Council consults on its strategies and provides feedback to the community and a wide variety of interested groups. This is undertaken through, special interest groups (such Disability Liaison Group, tenants' associations and allotment users), Business Runnymede, other local authorities, other strategic partners, and via the media, social media and our website. This two-way process is informed using relevant performance indicators, benchmarks and detailed outcome reports.

17.2 The views obtained inform the development of service strategies and the Corporate Business Plan, which in turn inform the Capital Strategy.

17.3 Major capital investment will be in response to evidence-based work, covering need, demographic trends and the appropriate local or user group consultation. Effective ward networks provide an important source of policy and service aspirations.

Investment Management Practices

The CIPFA Code of Practice on Treasury Management in the public Services (the Code) requires the setting out of the responsibilities and duties of Councillors and officers, allowing a framework for reporting and decision making on all aspects of Investment management. The Investment Management Practices (IIMPs) below set out the way in which the Council will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

Practice	Title
IMP1	Risk Management
IMP2	Performance measurement
IMP3	Decision making and analysis
IMP4	Reporting requirements and management information arrangements
IMP5	Training and qualifications
IMP6	Use of external service providers

Introduction

As well as the normal day to day treasury management investments (covered by the Treasury Management Strategy), the Council holds service and commercial investments as follows:

- **Service Investments** – investments held clearly and explicitly for the provision of operational services, including regeneration i.e. loans to external organisations that are delivering the Council's strategic objectives
-
- **Commercial Investment** – investments undertaken primarily for financial reasons including:
  - commercial loans to companies and other organisations, and
  - holding property for a financial return (investment property).

These Investment Management Practices cover the arrangements for these investments.

IMP1 Risk Management

An objective of the Prudential Code is that the risks associated with service and commercial investments are “proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services” In particular, could the authority’s budget survive a major reduction in its income from service and commercial investments if some perform badly or fail?

The Capital & Investment Strategy sets out some of the risks and mitigations in these types of investments in the following paragraphs which cover some the inherent risks in each area:

- Section 6 - Corporate Asset Management Strategy (and the Actual AMS itself)
- Section 11 - Expenditure on non-treasury investment
- Section 12 - Capital loans
- Section 15 - Risks (many of the risks being equally applicable to Non-treasury
    - related investments)
-

More detailed analysis of the risks associated with Commercial Investments can be found within the Asset Management Strategy where it acknowledges that a balanced portfolio will include a spread of differing risk profiles in relation to asset classification and differing investment sectors.

Section 7 of the Investment Report document contained within the Asset Management Strategy sets out the following range of risks that need to be addressed:

- Financial risks related to the investment of our assets, cash flow and market volatility
- Macroeconomic risks related to the growth or decline of the local economy, interest rates, inflation and the wider national and global economy
- Credit and counterparty risks related to investments, loans to public and private institutions
- Operational risks related to operational exposures within the organisation, its counterparties, partners and commercial interests
- Strategic risks related to key initiatives undertaken by us such as areas of organisational change necessary to enable the Council to meet its goals and objectives, significant capital schemes and major purchases and new ventures
- Reputational risks related to our dealings and interests, and the impact of adverse outcomes on our reputation and public perception
- Environmental and social risks related to the environmental and social impact of our Strategy and interests
- Governance risks related to ensuring that prudence and careful consideration are prominent in Council decision-making, augmented by quality independent advice and appropriate checks to ensure that we have the correct level of oversight, scrutiny and efficiency

Investment property risks, control measures, and mitigations will be reported to the Assets and Regeneration Group on a quarterly basis

IMP2 Performance measurement

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- The Council needs to be able to describe to a wide audience the role the investment property portfolio plays in the Council's capital and revenue strategies. The following table sets out the key performance indicators to be reported upon:
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• Reference	• Description	• Metric
• KPI 001	• Investment Property Income	• Variance from target income
• KPI 002	• Investment Property Rent Arrears	• As a percentage of the total portfolio income – to be taken in the 2-4 weeks prior to Quarterly Payment Dates
• KPI 003	• Vacancy Rates	• As a percentage of the total portfolio area in SQ FT
• KPI 004	• Tenant Retention	• Number of renewals completed and tenant breaks not exercised
• KPI 005	• Income Return (Proportionality)	• Investment income as a percentage of all general fund income
• KPI 006	• Capital Return	• Difference in Capital Values, annually.

It is anticipated that these measures will be further developed in 2023-24 using benchmarking analysis relative to the broader market, based on frequent data via a subscription to MSCI Analytics

IMP3 Decision making and analysis

The Council will maintain full records of its investment management decisions, and of processes and practices applied in reaching those decisions, both for the purpose of learning from the past and for demonstrating that all reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at that time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the Asset Management Schedule

IMP4 Reporting requirements and management information arrangements

Reporting of performance will be undertaken as part of the Quarterly Treasury and Capital Performance Monitoring report to the Corporate Management and Overview & Scrutiny Committees and/or the Quarterly Budget Monitoring report whichever is felt more appropriate at the time.

IMP5 Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the management of property are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The present arrangements are set out in the Asset Management Strategy.

IMP6 Use of external service providers

The Council recognises that responsibility for investment decisions remains with the Council at all times. It recognises that there may be potential value of employing external independent and expert advice in order to acquire access to specialist skills and resources to ensure due diligence is suitably robust before any new transactions are entered into.

When it employs such service providers it will ensure it does so for reasons which have been submitted to a full evaluation of costs and benefits. It will also ensure that the terms of appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.

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