CAPITAL STRATEGY AND CAPITAL PROGRAMME 2020/21 to 2024/25

Synopsis of report:

To recommend a draft Capital Strategy and Capital Programme for Full Council approval in February 2020.

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 2020/21 to be considered by Full Council in February 2020

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

Recommendations:

i) **The Capital Strategy at Appendix 1', the Capital Programme at Confidential Appendix 2 is approved.**

ii) **This committee consider future revisions to the Council's Capital and Treasury Management Strategies to maintain useable capital receipts at a prudent level.**

1. Context of report

1.1 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 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 and sustainable.

1.2 The Prudential Code for Capital Finance in Local Authorities 2017 together with the Governments Statutory guidance and CIPFA's Prudential Property Investment Guidance requires the Council to produce a comprehensive capital strategy. The purpose of the capital strategy is to describe how the investment of capital resources will contribute to the achievement of the Council's key objectives and priorities, and to describe the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. Runnymede has for some time produced an annual Capital Strategy which has been expanded to ensure that the new requirements, including the investment Guidance, are met.

1.3 Under the TM Code the Council must also have an approved investment strategy, and the implications associated with that detailed in the capital strategy. This includes financial and non-financial assets, for example, money on deposit is a financial asset and investment property is a non-financial asset.

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.

1.5 There have been no significant changes to the Council's strategies since the Council planned significant regeneration projects commencing in Addlestone and Egham (including a new leisure centre with an indoor swimming pool), and the detailed project plans for Marshall Place and Ashdene House. All of these place shaping projects commit considerable capital sums which revitalise areas of the Borough, create new leisure facilities including cinemas, employment opportunities, reduce running costs, provide much needed new housing, including affordable units and a long term sustainable income stream to fund a major regeneration project in Egham which commenced in early 2000.

1.6 Since the significant reductions in Government Grant 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 plans to be financially self-sufficient by the 2025. This has been the aim of the Council since 2014 and continues to be so over the life of the current Corporate Business Plan and the financial strategies which support it. Each year the financial strategies are updated and reviewed by Council.

1.8 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)
- Increasing the General Fund minimum working balance and set up a specific budget or earmarked reserve for void, bad debt loss or repairs to commercial assets that the tenant cannot fund to mitigate risk of loss of any kind.
- Continuous review of income, debt levels and void rates to ensure effective budgetary control of the Councils financial position regarding its commercial portfolio position.
- Rolling valuation of asset values with commercial properties being valued

1.7 The reduction in revenue resources detailed in the MTFS has a number of funding implications for the Capital Strategy and detailed capital programme. These include the following:

- Capital receipts have been declining for a number of years. However, the sale of the apartments in Addlestone will replenish capital receipts for the next few years. As Egham Gateway East is completed in 2021/22 further capital receipts will be received.
- Traditionally short life assets (heavy vehicles and plant, CCTV equipment) have mainly been funded from Capital receipts. The Council created a "Repairs and renewals fund " in 2018/19 to fund more "short life" assets from revenue income and place less reliance on capital receipts.
- The Council has ambition to commence further regeneration schemes when Egham Gateway East is completed. Income from the commercial portfolio is used to finance the Councils long term regeneration plans.

1.9 As part of the Councils governance arrangements the Capital Strategy, Treasury Management Strategy and MTFS take into account 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.

1.10 The Council has a proportion of its assets and all investment property assets valued by an external professional valuer in January each year as part of its stewardship arrangements in preparing the Statement of Accounts to report to the electorate. These include the assets and liabilities of the Council owned companies.

1.11 The overarching aims of these strategies in 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. Therefore, the strategies focus on 2020/21 and 2021/22.

2. Investment Strategy

2.1 In 2014 the Council commenced a major regeneration project on land it owned in Addlestone, construction commenced in 2015 which committed the Council to £75m of expenditure. The financial plans acknowledged that capital receipts from the sale of dwellings and rent income from dwelling and commercial premises would not start to flow until 2018/19 and not be fully on line until 2020/21. In 2014 it was known that commercial tenants with a good quality covenant, the type the Council wanted to attract to Addlestone often demanded a contribution to the "fit out" costs and a "rent free" period. The financial plans since 2014 accommodated those commercial realities.

2.2 In 2017 trading conditions in the private sector became challenging as the value of Sterling fell, uncertainty arose over trade links with the European Union and increases in interest rates were forecast. Together with more shopping on the internet this has led to several well-known names either ceasing to trade or significantly reducing their asset base. The well documented slow down on the high street economy has made it difficult to fully let the commercial elements of the Addlestone One development. Therefore in 2018/19 Council agreed a further capital budget of £5m to increase the potential “fit out costs” to complete the letting of the commercial units. It is anticipated the remaining commercial units in Addlestone will be rented out in 2020/21.

2.3 The Council also had significant aspirations around the development of Egham to improve the night time economy and increase the number of town centre dwellings. These plans will be implemented in January 2020 to 2021.

2.4 During the construction of Addlestone One, Egham Leisure Centre, Ashdene House etc. the Council planned to fund most of the costs through long term borrowing at fixed interest rates. Between the financial years 2011/12 and 2014/15 the General Fund working balance was consciously increased to £9.4m to pay for the cost of borrowing during construction. The General Fund working balance is being used to fund the Egham Gateway project but will remain above £4 million.

General Fund working balance						
	ACTUAL					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000	£'000
Balance 1 April	2,993	5,860	6,174	7,968	9,421	7,981
Increase / (decrease)	2,867	314	1,794	1,453	(1,440)	(1,444)
Balance 31 March	**5,860**	**6,174**	**7,968**	**9,421**	**7,981**	**6,537**

2.5 While there has been no change in the Council’s strategy, between 2012 and March 2020, the Council has faced, with most other organisations in the UK, a number of unforeseen cost pressures. These include reduced central government support, pension fund deficits, increases in fuel costs and general inflation which could not be completely offset by the over £6m efficiency savings made by the Council over the same period.

2.6 In 2016 the capital strategy was revised to include £400 million to acquire assets which would generate a sustainable income stream to mainly fund the Addlestone One and Egham construction projects. By March 2020 the majority of that sum will be spent or committed.

2.7 The Council’s asset portfolio is centred on the place shaping agenda in the Borough, however good quality commercial properties have been acquired outside of the Borough. The diverse portfolio includes office space leased to the NHS, supermarkets, hotels, light industrial / business parks, and a bonded warehouse serving most airports in the SE of England.

2.8 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 tax payer. 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. Part of this income can be set aside into a “repairs and renewals fund” to even out future year’s expenditure on the maintenance of the Council’s asset base.

2.9 Acquisition of commercial property carries risk – property prices falling, maintenance liabilities, rent default, void property should a tenant leave. The UK commercial property market is well established, attracts global investors and is defined in the market as a “mature asset class”. As such, it has a wide range of established investors including institutions such as pension funds, specialist property companies, charities, and local authorities.

2.10 The Council fully understands the risks involved in investing in property and the Capital Strategy sets out how the Council proactively mitigates these risks as far as possible. Fair value assessments will be made for all non-financial assets as part of the year end accounting process in accordance with International Accounting Standard 40: Investment Property. The Annual Capital Strategy will include a statement that a fair value assessment has been made within the past twelve months, and whether the underlying assets continue to provide security for the capital investment. Where this is no longer the case, details of the mitigating actions that the Council is taking or proposes to take to protect the capital invested are provided.

CAPITAL STRATEGY AND CAPITAL PROGRAMME 2020/21 to 2024/25

3. Capital Strategy

3.1 The Capital Strategy sets out the Council's rationale as to investment in capital assets and projects. This Strategy was last approved by the Council in February 2019 and an updated Strategy for 2020/21 is set out in Appendix 1 for approval in February 2020. The coverage of the updated Strategy has been extended from 5 years to 10 years. It is hoped to extend the coverage further in the future once a serious of property dilapidation surveys have been undertaken on the Council's asset base.

Schemes included in Capital Programme

3.2 The updated Capital Programme is set out at Confidential Appendix "X2" and has been extended from five to ten years. The main changes for 2020/21 are the phasing adjustments with schemes such as the Egham Gateway project slipping into 2020/21 from 2018/19 and the inclusion of new schemes approved as part of the departmental business plans. Set out below are some of the material schemes included in the capital plans (subject to Committee approval):

- Provision for potential new HRA new build of dwellings for rent schemes
- Disabled facility and renovation grants
- New housing schemes in the General Fund and the HRA, including buying "street" properties
- Major works to the Council owned housing stock
- Provision for Community Transport vehicle replacements
- Provision to replace refuse collection and street cleansing vehicles
- A continuing provision in the CCTV budget.
- Funding for Open Space play areas
- A scheme to improve facilities on the Runnymede Pleasure Grounds
- Significant investment in the Runnymede Regeneration Programme
- Continued investment in ICT systems to improve the service we deliver to residents

3.3 The total Capital Programme costs are as follows:

		Revised 2019/20	Budget 2020/21	Budget 2021/22	Budget 2022/23	Forecast 2023/24	Forecast 2024/25
		£	£	£	£	£	£
	Summary						
	Housing Services	6,331,770	9,827,507	9,851,507	7,751,507	7,451,507	7,401,507
	Community Services	3,027,351	4,897,715	273,000	561,000	267,000	433,000
	Environment & Sustainability	1,883,268	2,372,000	2,000,000	1,000,000	0	386,000
	Corporate and Business Services	94,709,920	140,972,611	61,334,340	7,112,500	32,222,500	30,722,500
		105,952,309	**158,069,833**	**73,458,847**	**16,425,007**	**39,941,007**	**38,943,007**

3.4 The programme is funded in a number of ways. 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 also use capital receipts for the sale of assets funds much of the remainder. In the General Fund most of the capital receipts are generated from the sale of apartments in the Addlestone One regeneration area, and in future years these will come from the sale of apartments in the Egham regeneration project.

3.5 The Council only borrows to fund large scale regeneration schemes and property investment to fund that regeneration initiative. All the loans are for fixed rate of interest and for fixed periods to provide certainty on costs over the next 50 years. The Council also sets aside rent income each year to fully repay loans when they mature. The proposed method for financing the Capital Programme is set out at Confidential Appendix 2.

Non-treasury Investments

3.6 One of the key changes to the Prudential Code, TM Code and MHCLG guidance is the inclusion of what is termed "non-treasury" investments. For Runnymede this is our commercial and investment property portfolio, and our loans to our wholly owned companies. These are entered into outside of normal treasury management activities, but nevertheless the Treasury Management Strategy comes into play in their financing.

3.7 The Council owns a significant investment property portfolio. Properties have been purchased which generate a significant rental stream exceeding the rates the Council is able to get with its cash investments. The Council takes a proactive stance in investing in property and property development to achieve several aims including diversification of assets, facilitate regeneration schemes, potential capital appreciation and to compensate for lost income during developments.

3.8 The Council's Property Investment Strategy ran until March 2020 and will invest up to £400 million over a four year period. The Budget report to follow proposes additional investment of £100 million to fund the Egham Gateway costs. These investments included a mix of Investment Properties as well as properties purchased for redevelopment purposes. Fair value assessments are made for all Investment Properties as part of the year end accounting process in accordance with International Accounting Standard 40: Investment Property.

3.9 A local authority 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 prudent if adopting a narrow definition of prioritising security and liquidity.

3.10 In 2015 the Council approved the establishment of the following three Council owned companies:

- RBC Investments (Surrey) Limited – (RBCI)
- RBC Services (Addlestone One) Limited – (RBCS)
- RBC Heat Company Limited – (RBCH)

As part of the setup of these companies a Loan Facilities Agreement was entered into between the Council and RBC Investments (Surrey) Limited. This allows for a development loan of up to £27.3m for the purchase of property and a working capital loan facility of up to £3.7 m 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 cost to the General Fund. The income generated to the General Fund from these loans is based on interest rates ascertained by following State Aid rules and the European Commission published methodology at the time of the agreement.

Capital receipts

3.12 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 (heavy 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.

3.13 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.

3.14 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 flats in the Addlestone One development, Marshall Place and Ashdene:

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Capital Receipts Summary	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Set Aside for Debt repayments						
Receipts at 1 April	2,655,000	2,901,100	3,151,100	1,445,100	1,695,100	1,945,100
Add new receipts in the year	246,100	250,000	250,000	250,000	250,000	320,000
Less Applied during the year	0	0	(1,956,000)	0	0	0
Anticipated year end balance	**2,901,100**	**3,151,100**	**1,445,100**	**1,695,100**	**1,945,100**	**2,265,100**
Set Aside for 1-4-1 Replacements						
Receipts at 1 April	1,926,000	1,159,000	367,180	104,280	21,380	28,480
Add new receipts in the year	0	221,700	307,100	307,100	307,100	984,200
Less Applied during the year	(767,000)	(1,013,520)	(570,000)	(390,000)	(300,000)	(390,000)
Anticipated year end balance	**1,159,000**	**367,180**	**104,280**	**21,380**	**28,480**	**622,680**
General Usable Receipts						
Receipts at 1 April	570,000	3,270,653	1,806,012	169,005	11,032,833	15,877,654
Add new receipts in the year	6,823,503	7,460,701	15,740,840	13,850,335	6,781,328	309,500
Less Applied during the year	(4,122,850)	(8,925,342)	(17,377,847)	(2,986,507)	(1,936,507)	(436,507)
Anticipated year end balance	**3,270,653**	**1,806,012**	**169,005**	**11,032,833**	**15,877,654**	**15,750,647**

3.15 The Government published statutory guidance on the flexible use of capital receipts which allows local authorities to use capital receipts to fund transformational projects which are expected to deliver future ongoing revenue savings. Transformation costs typically include:

- Investment in the modernisation of IT systems
- Review, transformation and remodelling of service delivery of front line and back office services (major restructure costs in one year which produce ongoing savings)

To date the Council has not used this flexibility, however it remains a financing option should the capital receipts position of the Council improve.

<u>Revenue funding and other funding streams (section 106, Community Infrastructure Levy)</u>

3.16 In setting the budget for 2020/21 and future years the Council approved an ongoing revenue budget of to fund ongoing ICT hardware and CCTV camera replacement as well as contributing to a Repairs and Renewals Fund . The remaining capital receipts can then be used to fund strategic investments which add to the Borough's vitality and/or generate an income to replace Government grant which will reduce significantly over the next few years. However, in the medium term the pressure on the revenue budget is likely to mean revenue funding of all short life assets remains aspirational.

3.17 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. 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.

3.18 In 2020/21 onwards the Council may be able to collect a planning charge known as Community Infrastructure Levy (CIL) which came into force on 6 April 2010. 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. Councils who wish to charge CIL must produce a Charging Schedule which is supported by an evidence base including an Economic Viability Study and an Infrastructure Delivery Plan.

3.19 Some of the assets used by the Council are leased, e.g. photocopiers. With the advent of Prudential borrowing this source of finance is less attractive as leasing interest rates are usually higher. There may be instances where leasing could offer value for money and it will be considered during option appraisal.

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

4 Treasury Management Strategy (TMS)

4.1 The Treasury Management Strategy is inextricably linked to the Capital 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.

4.2 The Treasury Management Strategy (TMS) sets out the framework each year for the Council's treasury operations. The TMS for 2019/20 is to be reported in March 2020 and should be read in conjunction with this report.

5. Borrowing

5.1 The Council investigates opportunities to resource 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). The Capital Strategy also allows borrowing for the regeneration programme, which invests in "bricks and mortar" assets.

5.2 In November 2014 the Corporate Management Committee agreed the use of borrowing to finance new property transactions. An updated report setting out the treasury and capital consequences of this, along with a new Minimum Revenue Provision Statement was approved by the Council on 11 December 2014 and has been updated each year as part of the annual TMS report to Council.

5.3 Since 2012 the Council has taken advantage of the Public Works Loans Board (PWLB) certainty rate which reduces loan rates by 20 basis points or 0.02%. The Council accessed this discount by providing Government annually with detailed information on its capital spending and borrowing plans. While the certainty rate still applies in October 2019 PWLB increased their margin from 0.8% to 1.8% making PWLB loans more expensive

5.4 To date most of the borrowing has been from the PWLB. Some very low interest loans have been taken from other local authorities and one at zero percent from the M3 LEP. The PWLB loans so far have all been maturity loans of with an average maturity of around 36 years. While annuity loans would be preferable, they increase the cash payments as an element of the principal sum borrowed is repaid as well as interest. As the repayment of loans for Addlestone One relied on the General Fund working balance until the commercial income came on line, maturity loans were the only viable option.

5.5 However, in May 2018, following an extensive due diligence process, the Council agreed a future annuity loan offer from Phoenix Life Ltd. In May 2021 the Council will take an annuity loan of £40 million at a fixed interest rate of 2.884%. The same loan from the PWLB in mid-September 2018 would be at a rate of 2.9%. While most economists expect rates to rise between now and 2021, this is not a given. The £40m will be used to fund the Egham project commencing in 2020. The Council will borrow two-year maturity loans at below 2.5 % to mature around May 2021 as shown in the table below. In effect this will considerably reduce the cost of borrowing to fund the Egham project and reduce the Minimum Revenue Provision requirement.

Interest rates - 7am 13 January 2020			
Period	1 year	5 year	10 year
PWLB certainty rate	2.41%	2.39%	2.61%

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, 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 indicator. A complete set of all indicators is included in the Treasury Management report.

6.3 In addition to the standard indicators the new CIPFA guidance advises including indicators that allow members to assess the Council's total risk exposure in terms of non-treasury investments. In this regard a list of all loans, and investment properties (some purchased many years ago) and other non-treasury related investments is set out at Confidential Appendix 4 and 5 for information.

7 Legal Implications

7.1 Under the Local Government Act 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 2017 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 2017 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.

7.2 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances.

7.3 The revised codes also required all local authorities to produce detailed Capital Strategies. 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. Conclusion

8.1 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 Strategic Business Plan, Medium Term Financial Strategy, Capital Strategy (including the Property Investment Strategy) and Treasury Management Strategy.

8.2 The Capital 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, Property Investment 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.

8.3 The financing of the capital programme continues to be compiled on the basis that it will:

- Use revenue resources where possible to fund relatively short life assets (IT and CCTV equipment) with a view to increasing the revenue funding when practicable.
- Use prudential borrowing or internal borrowing to finance General Fund capital expenditure and/or capital receipts to invest in the Council's asset base, especially schemes which repay the investment and generate a surplus for the General Fund.

8.4 In preparing these strategies the Council believes the capital strategies are deliverable within existing resources, including prudential borrowing for the regeneration programme. The revenue consequences are affordable as shown in the Council's Medium-Term Financial plan. Risks and governance of the strategies are actively monitored by officers and regularly reported to Members.

CAPITAL STRATEGY 2020/21 to 2024/2025

1. Introduction

1.1 The Capital and Investment Strategy forms a key part of the Councils 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 Most items of capital expenditure have associated revenue implications. For that reason, a majority 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.

1.3 The Council's Medium-Term Financial Strategy 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.

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

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.
- Runnymede Business Partnership 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) 2020/21 to 2024/25 and revenue budget and tax setting proposals for 2020/21. The objectives of the Prudential Code are to ensure:

- capital expenditure plans are affordable
- 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.

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

- **Operational** – supporting core business and service delivery e.g. 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., Community and day care centres
- **Regeneration** – enabling strategic place shaping and economic growth e.g. Addlestone One

1.8 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 plan- the key strategic planning document which articulates the Council's vision, aims and objectives.

2. Borough profile

2.1 Runnymede Borough lays in north-west Surrey some twenty 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 80,500 living in approximately 35,500 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.

3. Objectives

3.1 The Council's mission is to "deliver services, enhance our environment, and improve the economy by working with local people and partners for the greater good of the community", whilst it's vision is to produce "a vibrant Borough with a high quality environment, where we maximise opportunities with partners to provide services which are highly regarded by local people"

3.2 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.

3.3 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.

4 Capital Strategy strategic aims

4.1 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.
- Supports the Council's specific project plans – especially economic development and regeneration. This includes creating new, sustainable income streams from commercial and service driven activities.
- Spend to save – transformation projects to reduce costs and enhance the services we provide
- Addresses major infrastructure investment
- Delivers wider economic outcomes e.g. employment opportunities
- Asset Management maintenance and investment
- Is affordable, financially prudent and sustainable.

4.2 The Capital Strategy should be read in conjunction with the Treasury Management Strategy and the overarching MTFS. These three strategic plans show where capital and revenue investment can assist the Council in delivering its priorities. The impact of these strategies is summarised in the Medium-Term Financial Strategy. 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.

4.3 A key element of the Corporate Plan is the regeneration projects. This includes major schemes in Addlestone completed in 2019 and Egham Gateway due to commence in 2020. A new leisure centre, including a swimming pool opened in spring 2019.

4.4 Property investment over the five years ending March 2019 has seen £340 million investment in assets which generate a sustainable income stream for the Council. The remaining budget of £60m is likely to be used in the final quarter of 2019/20. The primary objective has been to fund the major regeneration schemes in Addlestone and Egham (including a new Leisure Centre). The pertinent sections of the former Property Investment Strategy have now been incorporated into the Capital Strategy.

4.5 The regeneration schemes themselves have a total budget of £195 million which is largely funded by borrowing. 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 new Property Investment strategy in 2016/17 (updating the previous 2014/15 version) which sought to acquire assets which would generate income to fund borrowing costs.

4.6 The Council does wish to continue its regeneration strategy in other phases of Addlestone, Egham and Chertsey. For that reason, the Council will continue to acquire assets that become available in the Borough, should they have:

- the potential to be included in a future regeneration scheme, and
- ongoing income that at least covers the capital financing charges until such time as the property is required for redevelopment.
- Makes a long term revenue return to fund the “regeneration” strategy.

5 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 e.g. Disabled Facilities Grants. The present Housing Strategy is 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. Such areas include providing CCTV equipment to aid Surrey Police and others.

5.4 It is anticipated “invest to save” and income generation projects will continue to play a large role to assist the Council in its efficiency and business transformation agenda.

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

- Housing investment (private and public sector)
- Asset maintenance and enhancement
- External partnerships commitments
- Invest to save
- Economic regeneration

6 Priorities and risk in property investment

6.1 The Council's objectives have largely been met as the income from the Property Investment Strategy are funding the regeneration schemes and going some way to replacing lost government grant.

6.2 The Council funds the purchase by borrowing money, mainly from the Government (PWLB) and always at a fixed rate of interest for a fixed period of years. For that reason, the Council faces no risk from increased borrowing costs over and above those planned for.

6.3 The rent income from the tenant is governed by the lease agreement which includes regular, normally every five years, rent reviews. The lease agreements are upwards only. As the starting rent more than covers the loan repayments, the net income to the Council will increase as rents are reviewed upwards.

6.4 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.

6.5 Acquisition for investment and treasury management purposes is linked to asset acquisition for regeneration and service delivery priorities. For example, the new leisure centre in Egham is an integral part of the regeneration scheme but replaces an old asset with considerable maintenance liabilities with a net cost to the council with a new facility which generates income.

6.6 The Council manages risk in its property portfolio in the following ways:

- the Council looks at the long-term financial health of the tenant and judges the ability to pay rent for a number of years in the future. This includes the subsidiaries and/or the ultimate parent company. The better the covenant, the more secure the rental income, the better the investment capital value. A tenant with a strong covenant and a long lease with no break clause and the tenant having responsibility for repairing and maintaining the property is the best type of investment. These are the type of acquisitions the Council has made.

- All out-of-borough acquisitions have been geographically close to Runnymede, in areas where the economy is performing well. The UK and SE England in particular has a well-established property market which attracts global investors and is defined as a "mature asset class". In addition, most of the assets are either new, or have had significant sums spent on refurbishment, normally by the tenant.

- The Council also spreads risk through the type of property it owns. A mix of office, light industrial, warehouse, leisure, hotels, supermarkets etc. So, while the Council is targeting tenants who are classed as "blue chip" on long leases with few, if any, break clauses. In essence the Council is buying an income stream from the investment.

- The rate of return needs to be greater than the return the Council would receive from alternative investments. This has been achieved consistently since 2016.

- Sets aside reserves to cover for any delapidations or loss of rent income from "re-gearing " of leases.

6.7 In summary the strategy has been to seek property let to tenants who have a strong covenant, good credit rating, sound financial standing with at least five years remaining on the lease.

7 Approach to investment

7.1 The existing Capital Programme for 2019/20 was approved by the Council in February 2019 and will be 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
- 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.

8 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.

- **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 (see below). Borrowing is restricted to funding assets which generate enough income to repay the loan completely.

9 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 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 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.

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 rent 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).

10 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.

10.2 Each proposed scheme includes a financial appraisal using a whole life costing approach for the capital and revenue implications, pay back periods etc.

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 Director of Resources and the Corporate Leadership Team using the Capital Project Appraisal Form.

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 (CLT). 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.

11 Prioritisation, governance and agreement of property purchase proposals

11.1 The Council had a Property Investment Strategy in place that ended in 2018/19. Full Council approved three progressive versions of the Strategy in 2014, 2015 and most recently at Full Council on 9 February 2017. The aim of the strategy was to:

- To invest resources that regenerate the main towns in Runnymede and which secure place shaping improvements and the creation of economically and socially sustainable communities.
- To develop a balanced property portfolio that produces sustainable and increasing revenue income streams that financially support the regeneration and place shaping of the Borough.

Whilst this strategy has now finished, the fundamental principles behind it still apply to any future potential property purchases the Council may choose to make. Therefore the main characteristics of the strategy have been replicated in this Capital Strategy.

11.2 In considering any future property purchases, the lifetime ownership costs of the asset will be taken into account and priority will be given for security and liquidity over yield. Where any such investment does not give priority for security and liquidity over yield, whether because of the nature if the assets themselves or for service reasons (i.e. redevelopment potential), any such decision will be explicitly explained and the additional risks set out clearly with the impact on financial sustainability identified and reported.

11.3 The prioritisation and governance surrounding the acquisition process for properties includes the following stages:

Stage 1
- The Commercial Services section identify a suitable property investment and obtain full particulars;

Stage 2
- To negotiate and agree a conditional purchase price, agree Heads of Terms and complete the Property Acquisition Template. The conditions will normally include:
  - i) Council approval of the purchase and terms;
  - ii) Building survey;
  - iii) The legal due diligence process (title, lease terms of tenants, collateral warranties for new buildings, appropriate surveys (environmental, asbestos, etc.) EPC Certification, etc.;
  - iv) An independent valuation – A valuation is obtained to inform the negotiations to purchase, but post purchase a formal independent valuation is obtained. For large or difficult to value purchases the valuation obtained will be using the Royal Institute of Chartered Surveyors' Red Book" valuation methodology, but for all other purchases an independent market valuation is preferred.

Stage 3

- Proposed purchase considered by the Property and Acquisitions Member Working Group who are provided with the following as a minimum:
  i) Location of asset, including photographs, scale drawings / plans etc.
  ii) Length of remaining lease and any break clauses
  iii) Stock condition survey and valuation
  iv) Credit rating and covenant evaluation of the tenant
  v) Gross yield normally 5% or more

Stage 4

- Proposed purchase considered by the Corporate Management Committee or Full Council who determine how to proceed (all property transactions are approved by the Corporate Management Committee unless no borrowing approval is in place when the decision has to be made by Full Council). If it is not possible to obtain Full Council or committee approval, Standing Order 42 (delegated decision-making in cases of urgency) may be used for acquisitions where the acquisition is in accordance with Property Investment Strategy and the value of acquisition is no greater than £1m excluding associated costs e.g. stamp duty, agent's fees)

Stage 5

- Detailed due diligence process and legal report and if the purchase remains appropriate, to exchange and complete the purchase, but having allowed a minimum of 5 working days before exchange to provide for the call in of a Corporate Management Committee decision by the Overview & Scrutiny Committee

11.4 In the event of properties for sale by auction, either the Director or Deputy Director of Commercial services will attend the auction, but having first sought the agreement to purchase by following Stages 1-5 above including an agreed purchase price range.

12 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). 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

13 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.

14 Risk management

14.1 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.

14.2 The Council recognises that the investment in other financial assets and property primarily for financial return, taken for non-treasury purposes, requires careful investment management. 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 may differ from that for treasury management and a full appraisal will be undertaken to mitigate any such risks.

14.3 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.

14.4 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 techniques to aid decision making.

14.5 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.

14.6 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 and risk management implications as a minimum.

<u>Capital Strategy Risk management</u>

14.7 Items can be included in the draft Capital Strategy which is approved by Council in February each year. However before a scheme can commence a full business case, prepared using the Councils project management and procurement methodology must be agreed by relevant service committee and the release of capital funds agreed by Corporate management Committee. Members receive reports on any potential variation to the project before officers are authorised to amend the project plan.

<u>Property Investments</u>

14.8 The Council takes a proactive stance in investing in property and property development to achieve a number of aims including diversification of assets, potential capital appreciation and higher returns than can be achieved through cash investments. In doing so, it recognises that such investments need greater financial risk assessment other than those set out in the Council Treasury Management Practices.

14.9 It is important to the Council that commercial property acquisitions will provide the stability of income required to fund the Council's place shaping and regeneration work. But the income created must also be sufficient to pay the interest cost of borrowing the capital and to set aside adequate funds that will accumulate to be able to repay the capital element of the loan upon maturity.

14.10 In general terms, the expected yield from a commercial asset should reflect the risk associated with the asset (income stability, responsibility for maintenance – tenant(s) or landlord, property condition and the attractiveness of the property to new tenants, etc.). Therefore, highly speculative acquisitions of buildings without tenants, in need of development / conversion, short period unexpired leases, etc. should attract lower selling prices and therefore higher expected gross yields. To protect against the risk associated with speculative investments, the Council has avoided such investments unless their purchase can be offset by a back-to-back agreement with a new tenant, but with a selling price that reflects the asset is vacant.

14.11 Additional property risks include loss of income during void periods, the risk the tenants cannot pay the rent, overall property market risk and the risk of falling property values. The Council mitigates these by having a diverse investment property portfolio, a review of tenant covenant strength prior to becoming a tenant, including a review of the company finances and credit checks. The Council will also request rent deposits where appropriate.

14.12 At 31 March the Council's balance sheet shows the value of each commercial asset. While the strategies are focused on place shaping and income generation, apart from those assets earmarked for redevelopment, most assets have increased in value. Clearly a risk going forward is that assets may fall in value as world economic conditions change, however, this is not an issue if there is no intention to sell the asset in question. However, to accommodate the risk of fluctuating values the Council:

- Has a balanced portfolio between asset types;
- Diversifies the location where properties are owned within the Borough and where relevant outside the Borough to create some geographic diversity;
- To ensure the diversification of tenants, such that for example the Council owns hotel and supermarket assets with a range of operators;
- To keep commercial assets in good repair with planned preventative maintenance regimes and where relevant complete refurbishment plans in place and where relevant commercially attractive but realistic service charge regimes that protect the assets.

14.13 The Council ensures that the ownership of commercial assets has proactive and professional management to optimise the value of the investments over time. As the Council has added both the outcome of regeneration projects and also property acquisitions, the Council has also increased the resources available for commercial property management. The Commercial Services Team have all worked in the private sector and the property surveyors have an extensive and successful private sector career before joining the Council to manage its property assets.

14.14 The Commercial Services Team monitor and support commercial tenant(s) by undertaking effective rent reviews, re-gearing leases where appropriate or remarketing the lease opportunity in a timely and market focussed manner. Furthermore, the Council ensures tenants fulfil their repair and maintenance obligations of their leases including dilapidation remediation on termination. But as the landlord, the Council ensures its commercial buildings remain attractive to tenants for letting both to preserve income levels but also to ensure the asset is attractive for re-letting

<u>Treasury Management Risks</u>

14.16 Treasury management activity involves risks which cannot be eliminated but need to be managed. The effective identification and management of these risks are integral to the Council's treasury management objectives. All treasury activity needs to be managed to maximise investment income and reduce debt interest whilst maintaining the Council's exposure to risk. The key treasury risks are set out in detail in the Council's Treasury Management Practices (TMPs) and in the Council's Statement of Accounts both of which can be found on the Council's website.

14.17 The Treasury Management Strategy details the Councils approach to borrowing. Risk mitigation in this regard can be summarised as:

- Only fixed interest rate loans can be taken out.
- Loans can only be taken out to fund tangible asset acquisition
- Since 2014 the Council has focused borrowing on income generating assets which repay debt and make a contribution to balances to allow regeneration projects to be undertaken. (to mitigate the risk of void rent loss, bad debts etc. the Council makes a provision for these sums in the budget each year).

15 Asset management planning and disposals

15.1 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.

15.2 Regular reviews are undertaken to identify assets that could be used as part of one of the Council's regeneration projects; redeveloped or their use changed to generate additional income; or in the absence of adding value or to contain the cost of asset ownership, to declare the asset surplus and maximises 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.

15.3 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.

15.4 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

15.5 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. Consultation

16.1 The Council consults on its strategies and provides feedback with the community and a wide variety of interested groups. This is undertaken through, special interest groups (e.g. Disability Liaison Group, Tenants Associations and Allotment Users), the Runnymede Business Partnership, other local authorities, other strategic partners, and a Citizens' Panel. This two-way process is informed by the use of relevant performance indicators, benchmarks and detailed outcome reports.

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

16.3 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.