Public Document Pack

Corporate Management Committee

Thursday, 18 January 2024 at 7.30 pm

Council Chamber - Civic Centre

Members of the Committee

Councillors: T Gracey (Chair), C Howorth (Vice-Chair), D Coen, MD Cressey, L Gillham, S Jenkins, R King, M Nuti, S Ringham, P Snow, D Whyte and M Willingale

In accordance with Standing Order 29.1, any Member of the Council may attend the meeting of this Committee, but may speak only with the permission of the Chairman of the Committee, if they are not a member of this Committee.

AGENDA

Notes:

1) Any report on the Agenda involving confidential information (as defined by section 100A(3) of the Local Government Act 1972) must be discussed in private. Any report involving exempt information (as defined by section 100I of the Local Government Act 1972), whether it appears in Part 1 or Part 2 below, may be discussed in private but only if the Committee so resolves.

2) The relevant 'background papers' are listed after each report in Part 1. Enquiries about any of the Agenda reports and background papers should be directed in the first instance to **Mr G Lelliott, Democratic Services Section, Law and Governance Business Centre, Runnymede Civic Centre, Station Road, Addlestone (Tel: Direct Line: 01932 425620). (Email: gary.lelliott@runnymede.gov.uk).**

3) Agendas and Minutes are available on a subscription basis. For details, please ring 01932 425620. Agendas and Minutes for all the Council's Committees may also be viewed on www.runnymede.gov.uk.

4) In the unlikely event of an alarm sounding, members of the public should leave the building immediately, either using the staircase leading from the public gallery or following other instructions as appropriate.

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Filming should be limited to the formal meeting area and not extend to those in the public seating area.

The Chairman will make the final decision on all matters of dispute in regard to the use of social media audio-recording, photography and filming in the Committee meeting.

List of matters for consideration
Part I

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Matters in respect of which reports have been made available for public inspection

Part II

Matters involving Exempt or Confidential Information in respect of which reports have not been made available for public inspection

Runnymede Borough Council

Corporate Management Committee

Thursday, 14 December 2023 at 7.30 pm

Members of the Council present:	Councillors T Gracey (Chairman), C Howorth (Vice-Chair), D Coen, MD Cressey, L Gillham, J Hulley (In place of M Willingale), S Jenkins, A King (In place of S Ringham), R King, M Nuti, P Snow and D Whyte.
Members of the Council absent:	Councillors S Ringham and M Willingale.
In attendance:	Councillors T Burton, S Lewis, T Gates and M Smith.

107 **Notification of Changes to Committee Membership**

Councillor A. King substituted for Cllr Ringham, and councillor Hulley substituted for councillor Willingale.

108 **Minutes**

The minutes of the meeting held on 23 November 2023 were confirmed and signed as a correct record.

109 **Apologies for Absence**

There were no apologies for absence.

110 **Declarations of Interest**

There were no declarations of interest.

111 **Social Media Work Plan 2024-26**

The social media work plan was intended to bring structure to how the Council's Communications team propose to develop its social media platforms, which had become one of the most important ways to engage with residents and explain the work of the Council.

Each platform would be used in a nuanced way to play to the strengths of each one, and it was confirmed that during the trial of Instagram the Communications team would investigate the full functionality of the platform, which would include the alt text tool that benefits those with a visual impairment.

Resolved that:

1. **Members adopted the Social Media Work Plan 2024-26**

2. **Delegated authority was given to the Head of Public Relations and Marketing to pause the use of X/ Twitter for six months during 2024 to trial the use of Instagram.**

112 **Social Media Policy**

It was anticipated that a social media policy would bring framework to the way the Council uses social media, primarily for the Communications team, but also across the Council, setting out how the staff would operate on social media and how platforms would be managed. Guidance was also provided on staff members' personal use of social media, the type of content deemed acceptable, as well as how the Council would respond to urgent and emerging situations.

There was debate on the appropriateness of publishing communication on behalf of other community representatives, with some members preferring to focus social media channels on the work done by Council. Whilst it was suggested to refer to other community representatives by title, other members felt that these groups helping each other to achieve maximum reach on a particular post was worthwhile and should be remain in the policy.

Whilst not explicit in the policy, it was confirmed that committee chairs would continue to be the spokesperson for matters relating to their committee, which was reflected in the constitution, and furthermore there was the need for the members' code of conduct to be updated to reflect member use on social media.

Resolved that:

1. **The Social Media Policy was approved.**

2. **The Head of Public Relations and Marketing and his delegates were authorised to implement the policy on a day to day basis.**

113 **Medium Term Financial Strategy**

In picking out the salient points in the report, the chief executive highlighted that inflation pressures that resulted in a higher pay increase to staff last year were still in existence but revised figures gave confidence that a tapered reduction could now be put in place. However, it was stressed that the figure was the total budgeted figure from which the pay award would be funded and did not predetermine what that award would be. It also included work to change the salary banding in line with the national living wage coming into force in April 2024, however it was noted that this would be part of a broader review to decompress some of the grades and posts affected.

It was felt that the modest number of growth items were considered essential and unavoidable, whilst it was stressed that the c£1m taken out of the staffing budget was a technical accounting piece designed to ensure reconciliation between the HR and finance systems and was not the removal of any existing job posts. This would ensure that the council's resources were appropriately allocated.

A cautious approach had been taken to the savings identified, with only savings included that had a defined savings plan and were not subject to outside factors such as a democratic vote or contractual agreement.

The Leader confirmed to a member that webstreaming council meetings remained an aspirational growth item, but would be brought forward at the appropriate time to ensure it synchronises with work to the council chamber and ensures the best value for money.

A member highlighted that the report should be viewed in the wider context of the risk appetite recently agreed by full council, whilst another member felt that they could not support the MTFS, partly based on previous decisions on the Council's asset base, along with the perceived lack of security central government provides local government around rate reviews and funding settlements making it impossible for the council to provide the full range of services that residents require.

It was recommended to full council that:

1. The Medium-Term Financial Strategy to be approved.

It was resolved that:

2. The growth items as set out in Appendix 4 for approval and inclusion in the budget for 2024/25 to be presented to the January Corporate Management Committee were agreed; and

3. The Head of Paid Service (Chief Executive) was authorised to enter into pay negotiations with staff and Union representatives within the total provision set out in the report.

114 **Council Tax - determination of tax base and estimated collection funds surplus or deficit**

The chief executive advised committee that as the borough council were the council tax collecting authority so understanding the base would allow partners to set their own budget, the precept for which the borough council collects on their behalf.

Resolved that:

1. The tax base (showing the estimated number of Band D equivalent dwellings within the Borough for the financial year 2024/25) was approved at 35,495.8.

2. The estimated surplus on the Collection Fund for 2023/24 be declared at £415,403 to be split amongst precepting authorities as set out in the report, in accordance with the relevant statutory requirements

115 **Review of Local Council Tax Discounts**

The report was welcomed by Committee, some of whom expressed regret that it had not been forthcoming earlier. It was stressed that the approach would entail a more compassionate and personalised approach to debt recovery, with more leeway for payment and additional support for care leavers, Ukrainian refugees and properties affected by flooding.

It was **recommended to full council** that:

1) That with effect from 1 April 2024:

- **To recommend the continuation of existing discounts for:**
  - ➢ **Care leavers**
  - ➢ **Ukrainian Refugees**
  - ➢ **Properties affected by flooding**

2) The Council Tax Discount for unoccupied and unfurnished dwellings would be reduced from 100% for up to 3 months to 100% for up to 28 days (Class C of the Council Tax (Prescribed Classes of Dwellings) (England) (Amendment) Regulations 2012)

3) That with effect from 1 April 2025:

- **In accordance with Section 11B of the Local Government Finance Act 1992 and Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018, the additional amount payable for Council Tax be**

increased from 50% to 100% for dwellings that are unoccupied and substantially unfurnished for more than one year.

- **The additional amount of Council Tax to be increased from 50% to 200% for properties that are unoccupied and unfurnished for more than five years.**

- **The additional amount of Council Tax be increased from 50% to 300% for properties that are unoccupied and unfurnished for more than ten years.**

116 **Financial Inclusion and Housing Benefit Overpayment Recovery**

The committee welcomed the robust but compassionate proposal, which had stemmed from an invest to save opportunity and was a corporate approach to debt recovery whilst having regard to an individual's ability to pay.

The 12 month pilot was supported, and the prospect of assessing an individual's ability to pay through Credit Save was welcomed to avoid going through the courts to chase a debt where an individual had no way of paying. Whilst no milestones were in place a report would be brought back to committee at the end of the trial period, along with an interim report after six months.

Resolved that:

1) **A supplementary estimate of approximately £50,000, to employ a dedicated resource to undertake a more corporate approach to debt recovery whilst having regard to a person's propensity to pay, to be funded from the Service Transformation reserve was agreed.**

2) **The business case for Welfare Support and Corporate Debt Software and the release of the £20,000 provision set aside in the capital programme to procure the specialist software systems to access third party financial information to maximise collection of monies owed to the Council, to be funded from the Service Transformation reserve was approved.**

117 **Exclusion of Press and Public**

By resolution of the Committee, the press and public were excluded from the remainder of the meeting during the consideration of the remaining matters under Section 100A (4) of the Local Government Act 1972 on the grounds that the discussion would be likely to involve the disclosure of exempt information as set out in Schedule 12A to Part 1 of the Act

118 **Referral from Standards & Audit Committee - Internal Audit Provision**

With the Council's internal audit contract soon up for renewal officers had recommended membership of the Southern Internal Audit Partnership (SIAP), which was a combination of local authorities hosted by Hampshire County Council that would provide Runnymede a seat on the partnership board, with the ability to influence policy and learn lessons from peers.

During the debate members sought reassurance that SIAP had the capacity to deliver the services, as well as querying the depth of the advice they were able to offer given that the partnership was made up entirely of local authorities with no input or involvement from other sectors.

The officer from SIAP confirmed that they were currently slightly over-capacity, which reflected their desire to grow, and were subject to the same assessment and scrutiny as any other internal auditors. And whilst the requirement for assessment was every five years SIAP's assessments were voluntarily undertaken every three years, with the next assessment due to take into account the changing standards of the industry.

Resolved that:

1. With effect from 1 April 2024, the Council would discharge its Internal Audit function under Section 101 of the Local Government Act 1972 to Hampshire County Council so that Southern Internal Audit Partnership (SIAP) could provide the Internal Audit Service for Runnymede Borough Council,

2. The Council's Section 151 and Monitoring Officers were authorised to enter into the Joint Working Agreement by way of a deed of accession with Southern Internal Audit Partnership and undertake all necessary legal arrangements to do so, and

3. The Council's Section 151 Officer or nominated officer represents the Council's interests by becoming a voting member of the Southern Internal Audit Partnership Key Stakeholder Board.

119 **Microsoft Procurement**

The report sought to ensure continuity with the Council's Microsoft Licensing. The Crown Commercial Service (CCS) Framework had been utilised for an aggregation opportunity, with the sole supplier awarded the contract. As the value of the contract, despite being within agreed budgets, exceeded the Council's financial threshold for contract awards as set out in the Constitution, it was necessary to seek committee approval.

Resolved that:

The procurement of the Microsoft Enterprise Licensing Contract was agreed.

120 **Procurement exercises relating to Runnymede owned trees incorporating the procurement of a borough wide tree audit and procurement of a contractor or contractors to deliver tree maintenance and emergency works**

Approval was sought for the procurement of a tree works contractor or suite of contractors to work across all services on Runnymede owned trees, as well as the procurement of a supplier to undertake the audit of Council owned trees on communal land owned by the authority.

Resolved that:

1. The procurement of a tree works contractor or suite of contractors to the value set out in the report was approved. The contractor would work across all services on Runnymede owned trees and the work would be funded from existing revenue budgets.

2. The procurement of a supplier to undertake the audit of Runnymede Borough Council owned trees on communal land owned by the authority was approved based on the estimated cost of the work as set out in the report.

121 **Procurement of Grave Digging Contractor**

The grave digging contract had initially been up for renewal in 2020 but had been waivered on an ongoing basis since then. Enquiries had been made about bringing the service inhouse but it was concluded that the workflow was too intermittent to sustain a member of staff in the post on a full-time basis.

Complaints about the spoil overspill in the existing contract was noted, and this would be tightened up in the new contract, whilst it was confirmed that the Council did not currently subsidise the service, although that position may change in future as graveyards fill up.

Resolved that:

The procurement of a company to dig graves as required in Runnymede Cemeteries via an open competitive tender was approved.

122 **Waste Management IT upgrades**

The proposal took a three-pronged approach to the IT around waste management, which would involve the upgrading of handheld devices and improve the digitalisation of how work was allocated and provide lives updates, as well as optimising the technology to ensure depot rounds were balanced. The third strand was the integration with the back office system and the ability to provide real-time updates to residents.

The project had come in below the budget set aside for it and it was confirmed that the local knowledge of drivers would be utilised to sense-check routes to ensure the appropriate optimisation. This would in turn have a knock on effect by reducing the number of miles the vehicles do, reduce fuel consumption and the Council's overall carbon footprint.

Resolved that –

1.The business case for improving waste and recycling operations and service delivery was agreed.

2. The release of the provision set aside in the capital programme already identified for the project was agreed.

3. The release of the provision set aside in the General Fund Revenue Budget and Business Plan for this purpose was agreed.

123 **Referral from Environment & Sustainability Committee: Environmental Services Restructure**

The report, which had been to Environment & Sustainability Committee, sought permission to open a consultation on a cost neutral restructure that would deliver a new management structure for Environmental Health, increased capacity in Green Spaces front line services, including arboriculture and the transfer of street naming and numbering from Engineering to the GIS team giving greater resilience to the GIS team.

Resolved that –

A consultation on the proposed restructure as outlined in the report and to delegate authority to take forward the agreed changes to the head of paid services subject to no significant issues being raised during the consultation exercise was agreed.

124 **Bid Acceptance**

Following the Committee's previous approval to dispose of one of the Council's assets, a marketing exercise had been carried out and multiple enquiries had been received and viewings undertaken.

Following the closure of the marketing window bids had been invited, and officers were recommending a preferred bidder for acceptance.

During the debate the fine balance between the offer and level of overage was discussed by committee.

The time constraints of completing the deal was acknowledged and in order to give officers flexibility in negotiations it was **resolved that –**

1. Committee agreed to the disposal of the property detailed in the report to the recommended bidder

2. Corporate Head of Assets and Regeneration to provide a written update to committee on how negotiations were proceeding with regard to the overage clauses as the deal approached final terms to allow committee the prospect of further deliberations should they be necessary.

125 **Potential Letting at Building 5, Pine Trees**

The proposed letting was for part of the ground floor, with the proposed tenant a relatively new company. Measures had been taken to minimise the risk involving a deposit and guarantor, however the company operated over Europe and had a solid reputation. Should the deal proceed to completion, in addition to the future rental income it would also mean that the Council would no longer have to pay services charges and business rates on the property.

On the basis most of the interest in the unit was based on part of the ground floor it was considered prudent to subdivide the floor regardless of whether the letting or not the letting proceeded to completion. There were limited configuration opens open to the subdivision, and all fell within a few square feet. It was confirmed that sub diving the second floor would not be structurally possible due to the fire escape.

Resolved that –

1. Details of the letting on the terms set out in the report were agreed, including the Landlord's works to split the ground floor into two units; and

2. Delegation was agreed for the Assistant Chief Executive (Section 151) and Corporate Head of Assets and Regeneration, in consultation with the Chairman and Vice Chairman of Corporate Management Committee, to be able to make necessary amendments to the proposed terms in order to ensure they progress to completion, provided the deal continues to fulfil the statutory obligation of best consideration reasonably obtainable;

3. In the event the proposed letting did not proceed to completion, the sub-division of the ground floor on a speculative basis was agreed, provided the cost of the works fell within existing budgets.

126 **Asset Disposal**

Following a previous report to Corporate Management Committee where it was resolved that Officers should implement a triple-tracking approach of re-letting, sale and development for the asset, a number of options had been considered and officers were now recommending the freehold disposal of the property on the open market.

During the debate the committee weighed up any offer against the cost of an alternative approach, with holding costs for the asset significant and at odds with the need to proactively manage the property portfolio in an efficient and pragmatic way. It was anticipated that disposing of the asset would allow officers to focus on less and achieve more.

Whilst the committee was in general agreement with officers' recommendation, it was felt that the process and governance around decisions of this magnitude would require member approval of a total sale figure, therefore following receipt of any offers, officers were advised to present these to a future meeting of Corporate Management Committee.

Resolved that –

1) Committee approved the freehold disposal on the open market of the asset listed in the report; and

2) Following receipt of offers the proposed terms be brought back to a subsequent meeting of Corporate Management Committee.

(The meeting ended at 10.16 pm.) Chair

Report title	**Operational Properties Condition Surveys**
Report author	Alex Williams
Department	Assets and Regeneration
Exempt?	No
Exemption type	Not applicable
Reasons for exemption	Not applicable.

Purpose of report:

To resolve

Synopsis of report:

This report provides further detail on the delivery method and costs associated with the 2023/24 submitted business case to undertake mechanical and electrical condition surveys across the operational estate and to allow release of the provision set aside in the 2023/2024 budget.

Recommendation(s):

i) **Committee approve the business case for Operational Properties Condition Surveys**

ii) **Committee approve the release of £60,000 provision set aside in the General Fund Revenue Budget and Business Plan for this purpose**

1. Context and background of report

1.1 In July 2022 CMC approved the procurement via the Workplace and Facilities framework agreement established and administered by Fusion 21 for a complete facilities management service for both the commercial and operational assets held by the Council.

1.2 The procurement exercise is complete and contract award letter has been issued and external lawyers are working with the asset and regeneration team to put in place the contract documentation and commence mobilisation of the contract which will commence on 1st April 2024. The contract has been procured within budget and by putting in situ a fully comprehensive facilities management contract dealing with both hard and soft facilities management aspects in respect of both our operational and investment estate enabling us to deliver a value for money contract meeting the Council's financial obligations but also ensuring the prudent management of its property assets.

1.3 As part of the 2022/2023 budget process a growth bid was approved subject to a completed business case see **Appendix A** to carry out condition surveys for mechanical and electrical elements for the whole of the operational asset base. The cost allocated for the mechanical and electrical condition surveys is £60,000 and following the procurement of the contract this cost has come within budget. Costs currently provided evidence that these surveys could be bought in below budget but until they are completed and the data provided it is not possible to confirm this. Any underspend will be allocated back to the general fund. To enable us to deliver a compliant fit for purpose operational estate which can deliver the key services that we provide to our residence, it is essential we understand what condition these assets are in. This report seeks committee approval to release those monies to facilitate this key work.

2. The Operational Estate

2.1 The operational estate of the Council is shown below:

Site	Site
Addlestone Cemetery	Hythe Centre
Addlestone Moor Playing Fields	Literary Institute
Barrsbrook Allotment	Manor Farm Day Centre
Chertsey Cemetery	Orchard and Abbeyfields
Chertsey Depot	Orchard Day Centre
Chertsey Hall	Ottershaw Memorial Fields
Chertsey Museum	Runnymede Pleasure Grounds
Chertsey Museum Store	St Ann's Allotment
Chertsey Recreation Ground	St Annes Hill
Civic Centre	Stroude Road Allotment
Coopers Hill Public Conveniences	Thorpe Cemetery
Eileen Tozer Day Centre	Thorpe Village Hall
Englefield Green Cemetery	Victory Park Recreation Ground
Englefield Green Pavilion	Virginia Lodge Day Centre
Gogmore Farm	Virginia Water War Memorial
Heathervale Recreation Ground	Woodham Lodge Day Centre
Homewood Park	

2.2 As part of the specification of the comprehensive facilities management contract we asked for the mechanical and electrical condition surveys to form part of the mobilisation work for the contract. Aspects such as replacement of plant, lighting, BMS (building management systems) will be covered in the surveys. The work will be managed by the main contractor and for each asset we will have a full list of the plant and equipment of each site, what condition it is, what works need doing immediate works, short term works e.g. within the next two years and long term works namely those that are required over a five year period. It will also split revenue and capital costs, enabling financial planning and enabling us to consider budget aspects. Where possible it will investigate if there are any sustainable measures that can be inputted to deliver our carbon net zero target and advise what the cost is and the payback period.

2.3 The condition survey work will be carried out during the first three months and as highlighted above as part of mobilisation. We have secured all property intelligence rights to ensure that the information belongs to Runnymede Borough Council. The surveys with the costs once analyzed and understood will then be brought back to this Committee and discussions on how we will fund the works if they exceed the existing budget provision can be further discussed.

3. Policy framework implications

3.1 As outlined in the Assets and Regenerations Strategy our operational assets should be maintained to a good standard and be fit for purpose for their use, by carrying out these condition surveys and releasing monies will ensure that we are following this principle.

4 Resource implications/Value for Money

4.1 The 2023/2024 budget approved by full council in February 2023 included a provision for £60,000 for mechanical and electrical surveys to be carried out on the operational estate. This money was subject to a future committee including the submission of a full business case for member approval. The business case as set out in **Appendix A** outlines the position.

4.2 If members are content with the detail presented in the report and business case and the costs presented are within the amount provided for in the growth provision, the Committee can provide their approval to proceed for the budget provision to be released.

4.3 As the budgetary provision has already been agreed by full Council through the budgetary process, the release of this money does not require further referral.

5. Legal implications

5.1 The Council is the owner of various buildings located at the sites set out in the body of the report which are occupied or used by a number of organisations. As the owner of the buildings the Council is responsible for maintaining the fabric of buildings. A failure to maintain the fabric of a building can result in financial and health and safety consequences. Undertaking the proposed surveys enables the Council to meet its various legal obligations.

6. Equality implications

6.1 The condition surveys will be undertaking during working hours and appointments made in advance to ensure that there is no disruption to the services that sit within the operational estate.

7. Environmental/Sustainability/Biodiversity implications

7.1 The condition surveys will where possible, endeavour to incorporate all feasible sustainability enhancements. However other key considerations such as costs and payback periods will also need to be weighed up in respect of any recommendations that are made. Details of carbon emission reductions as well as any other environmental enhancements will be captured and bought back to Committee for consideration and at the same time will be discussed with the Climate Change Team along with Climate Change Update Reports/Annual Carbon Emissions Reports.

8. Risk Implications

8.1 If we do not release the budget provision to undertake the condition surveys it will be hard for us to financial budget for what monies need to be spent on the operational estate over the next five years to ensure that the operational estate remains compliant and fit for purpose for the services they deliver from that asset base. On 19th December 2023 we are service with a Best Value Notice and it is important that we fully understand our financial landscape on our asset base

9. Other implications

9.1 The condition surveys form part of the Asset Strategy that was approved by Council in February 2023. They also are part of the asset and regeneration business centre plan. The contract for the facilities management contract has gone through a compliant procurement process through the Workplace and Facilities framework agreement established and administered by Fusion 21 for a complete facilities management service.

10. Timetable for Implementation

10.1 The contract documents should be signed within the next month and mobilization will commence straight away. The condition surveys will be undertaken during this time, but it will take officers time to analyse and bring back to committee the full planned preventative maintenance cost for the 5 years on the operational estate. It will also look at capital cost and ascertain how best replacement plant/equipment etc can be funded over the coming years.

11. Conclusions

11.1 To release the monies as set out in **Appendix A** for the amount of £60,000 to undertake mechanical and electrical surveys for the operational estate.

12. Background papers

Held in Assets and Regeneration

13. Appendices

- Appendix A growth bid

Business Case – AR012 *M&E Survey of Operational Sites*

Runnymede Borough Council

Project Initiation Stage

Project/Item Title	M&E Survey of Operational Sites	**Version**	**1.0**
Corporate Head	Alex Williams	**Service Area**	Assets & Regen
Service Committee to Approve Budget	CMC		
Anticipated Cost of Proposal (Capital)		**Anticipated Cost Proposal (Revenue)**	£60,000

To be completed for Projects only (AR012)

Type of Project	Improvement	**Project Duration**	12 months
Proposed Project Start Date	TBA	**Proposed Project End Date**	TBA

Business Case Context

Background

Describe the purpose of the Business Case, what benefits are expected to be delivered or what problem will be solved (What is wrong with the status quo? What are the drivers for change?). Is the scheme a result of legal/statutory requirements or a stakeholder consultation?

Currently the Council owns and managed approx. 25 operational site, which comprises of park toilets, day centres, cemeteries, halls, depots, etc. all of which have some kind of electrical and mechanical equipment that is needed operationally. As these assets have regular compliance checks undertaken and obviously defects are highlighted and rectified.

There has never been a five year plan undertaken for the lifecycles of the plant and equipment within these buildings and therefore, there is no plan in place of when the council should be planning replacement of the equipment within these building enabling the Council to reflect these costs in the MTFS to ensure that we have fit for purpose properties that are delivering some key services to residents.

In order to better understand the condition of the plant and equipment within these operational sites, there is a need to undertake a condition survey of these individual sites by a qualifies electrical and mechanical engineers to provide a five year plan on the condition of these equipment together with costings. This will then bring science to our planned expenditure along with the fabric of these buildings and therefore a more meaningful cost for forward planning. Capital investment required as a result of the survey will be subject to an in-year supplemental capital request once requirements and costs are known.

As this exercise has never been undertaken and previously the regime was 'fix it when it breaks' is not a feasible to manage any sort of building. All the buildings appear to be neglected in terms of the age of the equipment and turning a blind eye is not best practice. Therefore, it is essential for Asset & Regen to undertake this piece of work to better manage the portfolio on behalf of the Council.

Strategic Links - relate this Business Case to RBC Corporate Strategies and Corporate Values

Corporate Strategies	**Describe how this Business Case meets / contributes to the Corporate Business Plan through each of the Corporate Strategies.** - *Delete those not applicable*
Climate Change Strategy *Reducing Carbon emissions from the Council's operations and the wider Runnymede community.*	Currently the Council owns and manages approx. 25 operational site. There has never been a five year plan undertaken for the lifecycles of the plant and equipment within these buildings and therefore, there is no plan in place of when the council should be planning replacement of the equipment within these buildings, and so enabling the Council to reflect these costs in the MTFS, and to ensure that we have fit for purpose properties that are delivering some key services to residents. This survey would provide the council with a better financial understanding of the condition of their assets and forward plan cost required to maintain and improve their assets. This supports the Council's Climate Change Strategy and Economic Development Strategy.
Organisational Development Strategy *Enable Officers and Members to perform their duties to the best of their ability and make Runnymede Borough Council the employer of choice for local people.*	
Economic Development Strategy *Ensuring that the Borough continues to be a leading economy in Surrey and the wider sub-region.*	
Empowering the Community Strategy *Evidence Based Decision Making, Listening to residents, Enabling Communities to help themselves and to take control of services or plans for their areas, Working effectively with partner organisations, Dealing with inequalities.*	
Health and Wellbeing Strategy *Support the delivery of a range of services and functions to improve outcomes for residents and their quality of life.*	

Corporate Values	**Describe where this Business Case fits in our Corporate Values** - *Delete those not applicable*
People-focussed – *we will put people at the heart of what we do and they will be able to deal with us easily.*	
Passionate – *we will empower our staff to be passionate about all we do.*	
Performance driven – *we will strive for excellence in all we do.*	
Innovative – *we will aim to creatively improve our services and be open to new ways of providing services.*	
Promoting equality and diversity – *we believe in fairness as well as maintaining a diverse workforce so we can draw upon a wide range of views and experiences to meet the changing needs of our communities.*	
Delivering excellent value for money – *we will strive to be as efficient and effective as possible.*	
Collaborative – *we will work together and with others to deliver positive outcomes for our communities.*	
Transparent – *we will be open and honest to all about what we do.*	

Business Case – AR012 *M&E Survey of Operational Sites*

Runnymede BOROUGH COUNCIL

Project Initiation Stage

List your Business Case Objectives, ensuring they are Specific, Measurable, Achievable, Realistic and Timely

Appoint an external M&E consultant to provide a five year condition survey and costing of all Operational Building and then plug these costs into the planned budgets and MTFS some replacement works can be classed as capital if they can be shown as improvements and add value to the asset.

List the Constraints or Parameters in which this Business Case will operate

N/A

List the Outcomes and Benefits (including efficiency gains) you expect the scheme to achieve

This would then provide the council with a better financial understanding of the condition of their assets and forward plan cost required to maintain and improve their assets.

Appraisal of Business Options (must include evaluation of a 'do nothing' option)

Option 1 (preferred option):
Description
Describe the preferred option and why. Describe the current position and the consequences/reasons that do nothing is not a viable option.

Undertake survey of all M&E plant and equipment.
Capital investment will definitely be required as a result of the survey will be subject to an in-year supplemental capital request once requirements and costs are known.

Option 2
Continue with the current situation with reactive repairs and replacement with no cost certainty or condition of plant and equipment and possibly end in closure of asset if it doesn't comply with the energy legislation along with building safety act 2022

Impact of do nothing: Failure of not doing these surveys and ascertaining cost of replacement/refurbishment/repair could mean that the operation estate will fail and no longer be able to be opened to serve our residents and holding assets that are not used would also have a financial impact on the Council,

Benefits (comparison to other options considered)
Consider any tangible benefits of the Preferred Option, consider benefits such as income generation, savings, great efficiency, compliance with legislation / industry standards – soft benefits, reputation, residents' satisfaction, perception of Council

Users of the building will benefit with certainty of good equipment and plant in good working order. Our H&S risks will be greatly reduces. Council will have a good oversite of the condition of all the assets and better plan for future works.

Advantages to Service Area (preferred option)	Disadvantages to Service Area (preferred option)
Reduced reactive maintenance cost and Council in better position as to their Assets.	Cannot be undertaken by existing staff therefore there is a requirement to use external contractors for the survey with costs that are not currently budgeted for.

Costs to Organisation (preferred option)	Benefits to Organisation (preferred option)
£60K Staff resources in Procurement and Legal	Low maintenance costs over the next 5-10 years and a sustainable operational estate which will meet our ambition to be net carbon zero

Resource Requirements
Staffing Appraisal (preferred option):
Outline the expected staffing / resourcing requirements for the preferred option in the table below, think about resources required in your team and others. This should include job titles, number of hours worked and salary.

Existing Staffing	New RBC Staff Requested	New External Staff Requested
Facilities and Contracts Manager and Senior building and projects surveyor	None	Consultants only

Add any costs into the financial appraisal table.

FINANCIAL APPRAISAL

Finance Appraisal (preferred option) - To be completed with the Finance Department:
Describe the financial and resource implications of this option. See Financial Appraisal below to capture numbers.
How will it be financed? Is a Supplementary Revenue Estimate required? Can it be resourced via a Virement (including areas other than your own)?
Is there other funding available? Has funding been agreed? Demonstrate how the council can receive a return on investment, whether cashable, cost avoidance or quantifying tangible benefits – **Seek advice from your accountant**. **Business cases will not be considered by the Chief Executive unless a full financial appraisal has been agreed by the Accountancy Team.**

Explain how the cost estimate has been drawn up e.g. based on the costs of a similar project/item; based on quotes from suppliers etc.:	£60K estimated only needs to be tendered
Please explain how you have considered the VAT implications of the project/item:	VAT not included in above but services so will need to
If this project involves building or refurbishment work within corporate assets has the project/work been consulted on and agreed by the Corporate Head of Strategic Land and Property Assets? Please give details.	Yes

CAPITAL COSTS

Capital Expenditure (specify codes required)	Year 1 (£)	Year 2 (£)	Year 3 (£)	Year 4 (£)	Year 5 (£)	Year 6 (£)
NIL	-	-	-	-	-	-
Total Capital Expenditure	-	-	-	-	-	-

Business Case – AR012 *M&E Survey of Operational Sites*

Project Initiation Stage

Capital Income (specify codes required)	Year 1 (£)	Year 2 (£)	Year 3 (£)	Year 4 (£)	Year 5 (£)	Year 6 (£)
NIL	-	-	-	-	-	-
Total Capital Income	-	-	-	-	-	-
Net Capital Outlay	**-**	**-**	**-**	**-**	**-**	**-**

REVENUE COSTS

Revenue Expenditure (specify codes required)	Year 1 (£)	Year 2 (£)	Year 3 (£)	Year 4 (£)	Year 5 (£)	Year 6 (£)
Surveys are revenue expenditure but works to improve asset can be capitalised	60,000					
Less: Savings to existing budget (Please specify)						
Total Revenue Expenditure	60,000	-	-	-	-	-

Revenue Income (specify codes required)	Year 1 (£)	Year 2 (£)	Year 3 (£)	Year 4 (£)	Year 5 (£)	Year 6 (£)
Total Revenue Income	-	-	-	-	-	-
Net change to revenue budgets	**60,000**	**0**	**0**	**0**	**0**	**0**

Business Case / Risks

Outline the risks (Managerial, Financial, Operational etc.) to RBC if delivering the preferred option. A risk summary only is required here.

Risk Description	Mitigation / Help needed
Buildings could close and not compliant	Works will have to be done
Alternative facilities found	Additional pressure on resources

Impact - if improvements are made will only assist our carbon footprint and ensure we working to a sustainable operational estate

Authorisation

Approved by Corporate Head of Finance	Paul French			Date	01/12/23
Approved by Corporate Leadership Team	Yes	Date	19/10/22	Priority	MUST
Committee Report to be presented to:		Date			

Report title	**Update on use of RIPA powers and review and adoption of revised RIPA policy**
Report author	Mario Leo – Corporate Head of Law and Governance
Department	Law and Governance
Exempt?	No
Exemption type	Not applicable
Reasons for exemption	Not applicable

Purpose of report:

- **To recommend to full Council**

Synopsis of report:

The purpose of this report is to advise Members on the use by the Council of powers available to it under the provisions of the Regulation of Investigatory Powers Act 2000 (RIPA) during the last twelve months and adoption of a revised policy to govern the use of such powers.

Recommendation(s):

That the Corporate Management Committee recommend to the Council that it:

1. **Note that the Council has not used its RIPA powers during the period 01/01/2023 to 31/12/2023 and further note that such powers have not been used since 2011.**

2. **Adopt a revised Policy to govern the use of RIPA powers for the period 09/02/2024 to 07/02/2025.**

1. Context and background of report

1.1 The Regulation of Investigatory Powers Act 2000 (“the 2000 Act”) authorises public authorities to undertake covert surveillance that is likely to result in the obtaining of private information about a person and to use a covert human intelligence source (CHIS).

1.2 Section 71 of the 2000 Act provides that the Secretary of State shall issue one or more codes of practice in relation to the powers and duties in Part 2 of the 2000 Act (which deals with the use of such covert surveillance powers).

1.3 Paragraph 4.47 of the Covert Surveillance and Property Interference Revised Code of Practice August 2018 edition requires elected members of a local authority to review the authority’s use of the 2000 Act and set the policy at least once a year.

Paragraph 3.46 of the Covert Human Intelligence Sources Revised Code of Practice December 2022 edition imposes a similar requirement in the context of a policy regulating the use of a Covert Human Intelligence Source (CHIS).

2. Report and, where applicable, options considered and recommended

2.1 Part II of the 2000 Act provides for the authorisation of covert surveillance by public authorities where that surveillance is likely to result in the obtaining of private information about a person.

2.2 Surveillance, for the purpose of the 2000 Act, includes monitoring, observing or listening to persons, their movements, conversations, or other activities and communications. It may be conducted with or without the assistance of a surveillance device and includes the recording of any information obtained.

2.3 Surveillance is covert if, and only if, it is carried out in a manner calculated to ensure that any persons who are subject to the surveillance are unaware that it is or may be taking place.

2.4 Specifically, covert surveillance may be authorised under the 2000 Act if it is directed:

- Directed surveillance is covert surveillance that is not intrusive and is carried out in relation to a specific investigation or operation in such a manner as is likely to result in the obtaining of private information about any person (other than by way of an immediate response to events or circumstances such that it is not reasonably practicable to seek authorisation under the 2000 Act).

2.5 The Human Rights Act 1998 gave effect in UK law to the rights set out in the European Convention on Human Rights (ECHR). Some of these rights are absolute, such as the prohibition on torture, while others are qualified, meaning that it is permissible for the state to interfere with those rights if certain conditions are satisfied.

2.6 Amongst the qualified rights is a person’s right to respect for their private and family life, home, and correspondence, as provided for by Article 8 of the ECHR. It is Article 8 that is most likely to be engaged when public authorities seek to obtain private information about a person by means of covert surveillance. Property interference activity may also engage Article 1 of the First Protocol, the right to peaceful enjoyment of possessions, which could include any property subject to interference by public authorities. Article 6 of the ECHR, the right to a fair trial, is also relevant where a prosecution follows the use of covert techniques, particularly where the prosecution seek to protect the use of those techniques through public interest immunity procedures.

2.7 Part II of the 2000 Act provides a statutory framework under which covert surveillance or property interference activity can be authorised and conducted compatibly with the ECHR.

2.8 Surveillance is directed surveillance if the following are all true:

- it is covert, but not intrusive surveillance;
- it is conducted for the purposes of a specific investigation or operation;
- it is likely to result in the obtaining of private information about a person (whether

or not one specifically identified for the purposes of the investigation or operation);
- it is conducted otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable for an authorisation under Part II of the 2000 Act to be sought.

2.9 Thus, the planned covert surveillance of a specific person, where not intrusive, would constitute directed surveillance if such surveillance is likely to result in the obtaining of private information about that, or any other person.

2.10 The Protection of Freedoms Act 2012 amended the 2000 Act to make local authority authorisations subject to judicial approval. The change means that local authorities need to obtain an order approving the grant or renewal of an authorisation from a judicial authority, before it can take effect. In England and Wales an application for such an order must be made to a Justice of the Peace (JP). If the JP is satisfied that the statutory tests have been met and that the use of the technique is necessary and proportionate, they will issue an order approving the grant or renewal for the use of the technique as described in the application. The amendment means that local authorities are no longer able to orally authorise the use of RIPA techniques. All authorisations must be made in writing and require JP approval. The authorisation cannot commence until this has been obtained.

2.11 Under the 2000 Act, a person is a CHIS if:

- they establish or maintain a personal or other relationship with a person for the covert purpose of facilitating the doing of anything falling within Section 26(8)(b) or (c);
- they covertly use such a relationship to obtain information or to provide access to any information to another person; or
- they covertly disclose information obtained by the use of such a relationship or as a consequence of the existence of such a relationship.

2.12 A relationship is established or maintained for a covert purpose if and only if it is conducted in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the purpose.

2.13 A relationship is used covertly, and information obtained is disclosed covertly, if and only if the relationship is used or the information is disclosed in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the use or disclosure in question.

2.14 It is necessary to obtain an authorisation under the provisions of Section 29 of the 2000 Act to use a CHIS. The 2000 Act requires that the person granting a Section 29 authorisation believes that the use or conduct to be authorised is necessary on one or more of the statutory grounds listed in Section 29(3) of the 2000 Act.

2.15 Local authorities in England and Wales need to obtain an order approving the grant or renewal of a Section 29 authorisation from a Justice of the Peace before it can take effect. If the Justice of the Peace is satisfied that the statutory tests have been met and that the use or conduct is necessary and proportionate, they will issue an order approving the grant or renewal for the use of the CHIS as described in the application.

2.16 The Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) (Amendment) Order 2012 has the following effects:

- Local authorities in England and Wales can only authorise use of directed surveillance under RIPA to prevent or detect criminal offences that are either punishable, whether on summary conviction or indictment, by a maximum term of at least 6 months' imprisonment or are related to the underage sale of alcohol and tobacco or nicotine inhaling products.
- Local authorities cannot authorise directed surveillance for the purpose of preventing disorder unless this involves a criminal offence(s) punishable (whether on summary conviction or indictment) by a maximum term of at least 6 months' imprisonment.
- Local authorities may therefore continue to authorise use of directed surveillance in more serious cases as long as the other tests are met – i.e., that it is necessary and proportionate and where prior approval from a JP has been granted. Examples of cases where the offence being investigated attracts a maximum custodial sentence of six months or more could include more serious criminal damage, dangerous waste dumping and serious or serial benefit fraud.
- Local authorities may also continue to authorise the use of directed surveillance for the purpose of preventing or detecting specified criminal offences relating to the underage sale of alcohol and tobacco where the necessity and proportionality test is met and prior approval from a JP has been granted.
- A local authority may not authorise the use of directed surveillance under RIPA to investigate disorder that does not involve criminal offences or to investigate low-level offences which may include, for example, littering, dog control and fly posting.

2.17 Members are advised that for the period 01/01/2023 to 31/12/2023 the Council did not use its RIPA powers. The Council has not used such powers since 2011 as there are few matters which it enforces that carry custodial penalties which would justify the use of such powers. The underage sale of alcohol and tobacco are dealt with by Surrey County Council in its capacity as Trading Standards authority. Whilst fly tipping could carry such a custodial sentence the Council only uses cameras to observe a particular location rather than conducting surveillance on a particular individual.

2.18 Investigation work is undertaken on behalf of the Council by officers at Reigate and Banstead. Their officers are trained in the use of such powers, and should they wish to use such powers they would need to be authorised by the Council. No requests for authorisations have been received during the time they have undertaken work for the Council.

2.1 The Council has in place a RIPA Policy which complies with all the legal requirements. Members are invited to adopt the revised RIPA Policy which appears at Appendix A with tracked changes. The Policy has been reviewed to ensure that statutory references are up to date and has replaced two of the authorised officers whose details appear in the Annex. The change is because two of the officers previously named are no longer employed by the Council. Those officers have been replaced by officers of a similar grade familiar with the legislation's requirements. The policy has also been updated to reflect changes in guidance and legislation.

3. Policy framework implications

3.1 There is requirement on local authorities to have a policy in place to govern their use of powers under the Regulation of Investigatory Powers Act 2000. The proposals contained in this report enable the Council to comply with that legal obligation.

4 Resource implications/Value for Money (where applicable)

4.1 There are no resource implications associated with the matters contained within this report. The preparation of this report has been undertaken by officers as part of their normal duties. The review of the RIPA Policy has also been undertaken as part the normal duties of officers. Should it be necessary to use RIPA powers this will be undertaken by officers as part of their normal duties. If the Council had to seek judicial authorisation to use RIPA powers, there is currently no fee payable.

5. Legal implications

5.1 Legal implications are contained within the body of the report.

6. Equality implications

6.1 This policy is for criminal investigations to ensure that covert surveillance is conducted lawfully and proportionately. This policy safeguards citizens as it puts in place a clear procedure to ensure that all surveillance is only conducted where it is lawful to do so. A test of necessity, proportionality and collateral intrusion are carried out as part of the process.

7. Environmental/Sustainability/Biodiversity implications

7.1 Should the Council exercise its RIPA powers this may involve the use of CCTV technology which would enable activities to be undertaken remotely without any adverse environmental impact. There may be instances which involve officers travelling by motor vehicles which could have an environmental impact. Efforts will be made to minimise any such impact.

8. Risk Implications

8.1 By not having in place a policy to govern the use of RIPA powers the Council would be failing to adhere to the Codes of Practice issued to regulate such matters. There could be a reputational risk to the Council as it will be subject to criticism by the body which oversees the exercise of such powers by public authorities. Failing to have an up-to-date policy could also lead the Council to act in an unlawful manner.

9. Other implications (where applicable)

9.1 As indicated in the body of the report the use of RIPA powers would have to comply with Human Rights, Data Protection and Equalities legislation.

10. Timetable for Implementation

10.1 The revised RIPA Policy will come into operation from the date of formal adoption by Full Council.

11. Conclusions

11.1 RIPA powers are one of the tools available to local authorities to discharge their various regulatory functions. The use of the powers by local authorities has declined dramatically over the last decade because of the constraints which apply to their use. Nevertheless, the powers still exist, and the Council is required to have in place the necessary policies and procedures to ensure that if it were to use the powers they are utilised in a lawful manner.

12. Background papers

12.1 None

13. Appendices

- Revised RIPA Policy detailing proposed changes

REGULATION OF INVESTIGATORY POWERS ACT POLICY

Contents

Updated ~~Nov 2019~~Jan 2024

Introduction

The Council has a number of regulatory and enforcement responsibilities. These functions are primarily for the purpose of protecting the greater good of the wider community within the jurisdiction of the Council.

The regulatory and enforcement activity, and the responsibility to ensure the safety of the community requires the Council to pursue and enforce statutory activity where appropriate.

The investigations required to fulfil these duties may require surveillance or information gathering of a covert nature.

Article 8 of the European Convention on Human Rights provides:

Article 8.1 Everyone has the right to respect for his private and family life, his home and his correspondence.

Article 8.2 There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary ina democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of rights and freedoms of others.

This right is not absolute, it is a qualified right. This means that in certain circumstances the Council may interfere with the right if the interference is:

- in accordance with the law
- necessary, and
- proportionate

Covert Surveillance and information gathering may constitute an interference with the right to respect for private and family life. To ensure that such activity is in accordance with the law the Council should rely upon the **Regulation of Investigatory Powers Act 2000 (RIPA)** where appropriate.

The Council is listed as a **'Relevant Public Authority'** within **Statutory Instrument 2010 No. 521. The Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010.**

The Statutory Instrument describes the prescribed office of a person with the authority to authorise directed surveillance or a Covert Human Intelligence Source as **Director, Head of Service, Service Manager or equivalent.**

RIPA sets out a statutory mechanism for authorising covert surveillance and the use of covert human intelligence sources.

RIPA requires the Council to have in place procedures to ensure that RIPA activity is in accordance with the law, compliant with the relevant Codes of Practice.

RIPA also provides for oversight by the Investigatory Powers Commissioners Office (IPCO). The IPCO conduct inspections publish annual reports, and procedures and guidance.

The Council endeavours to ensure the guidance provided by these resources, together with case law and Investigatory Powers Tribunal (IPT) judgements, educate and inform policy and procedure within the Council.

The Council provides training on a regular basis to ensure relevant personnel have adequate skills and knowledge and are updated in relation to current developments.

Grounds for Necessity

Necessary

The **statutory grounds for necessity** are set out within the legislation. There are several statutory grounds, however, the Council may only use RIPA authorisation for one statutory ground detailed in Sec 28(3) and Sec 29(3) of the R~~egulation of~~ I~~nvestigatory~~ P~~owers~~ A~~ct~~ -

(b) - The purpose of preventing or detecting crime or of preventing disorder

As to if the proposed conduct is necessary, those involved with the process must make reference to the relevant section within the codes of practice~~, and also the OSC Procedures and Guidance 2016 for guidance~~.

Commented [ML1]: This document was withdrawn as was produced by organisation that no longer exists.

Both applicant and authorising officer must articulate in their own words why theproposed activity is necessary in all of the particular circumstances relating to the case concerned.

The lawfulness of the activity relies upon (amongst other issues), necessity.

As a consequence of the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) (Amendment) Order 2012, the circumstances in which local authorities may authoris~~z~~e directed surveillance is now restricted to the investigation of offences which are punishable by a maximum term of at least six months imprisonment or constitutes an offence under sections 146, 147 or 147a of Licensing Act 2003 (sale of alcohol to children) or section 7 of the Children and Young Persons Act 1993 (sale of tobacco to children under 18 years old).

Proportionality

As to if the proposed conduct is proportionate, those involved with the process must make reference to the relevant section within the codes of practice~~, and also the OSC Procedures and Guidance 2016 for guidance~~.

Commented [ML2]: This document was withdrawn as was produced by organisation that no longer exists.

Both applicant and authorising officer must articulate in their own words why theproposed activity is proportionate in all of the particular circumstances relating to the case concerned.

Any consideration of proportionality should contain a consideration of the three elements:

(a) that the proposed covert surveillance is proportional to the mischief under investigation;

(b) that it is proportional to the degree of anticipated intrusion on the target and others; and

(c) it is the only option, other overt means having been considered and discounted

The lawfulness of the activity relies upon (amongst other issues) proportionality.

RIPA Compliance and Council Policy

Although RIPA does not impose a requirement for the Council to comply with it, it is essential for the Council to do so to ensure that it is less vulnerable to a challengeunder the Human Rights Act and that any material gathered is in accordance with the law.

Following the requirements of RIPA and acting in accordance with this Policy, will therefore protect the Council against potential challenges to its decisions and procedures.

This document is the Council's policy on RIPA. As such, it should be adhered to unlessit is found to conflict with changes in law, or either of the Codes of Practice which have been made under RIPA.

The Codes of Practice are admissible as evidence in court and **must** be complied with. In the event of a trial or hearing this Policy might also be adduced in the court.

Policy Review

This policy will be reviewed on an annual basis. Earlier reviews will take place should circumstances such as changes in law, case reviews, or other similar circumstances so require it. Minor adjustment may be made from time to time.

The policy will be presented for review, to Elected Members on an annual basis or earlier if substantial amendment is required.

Terms and Definitions

Surveillance

Surveillance includes:

monitoring, observing, listening to persons, watching or following their movements, listening to their conversations and other such activities or communications:

- recording anything mentioned above in the course of authorised surveillance
- surveillance, by or with, the assistance of appropriate surveillance device(s)
- the interception of a communication in the course of its transmission by means of a postal service or telecommunication system if it is one sent by, or intended for, a person who has consented to the interception of the communication.

Surveillance can be overt to covert.

Overt Surveillance

Most of the surveillance carried out by the Council will be done overtly.

General observations made by officers in the course of their duties constitutes overt surveillance.

Warning the person about the surveillance (preferably in writing) constitutes overt surveillance. (Consideration should be given to how long the warning should last. This must be a reasonable length of time and each case must be assessed as to what is reasonable having regard to the circumstances.)

Overt surveillance does not require authorisation under RIPA.

Covert Surveillance

"Covert Surveillance" means surveillance which is carried out in a manner calculated to ensure that the persons subject to the surveillance are unaware that it is or may be taking place.

Covert surveillance does require authorisation under RIPA if other criteria as set out within the codes also apply.

Different Types of Covert Surveillance

RIPA regulates two types of covert surveillance:

- Directed Surveillance, and
- Intrusive Surveillance; - **The Council cannot conduct intrusive surveillance**

RIPA also regulates the use of Covert Human Intelligence Sources.

Directed Surveillance

Directed surveillance is defined as surveillance which is:

- covert,
- not intrusive (see definition below)
- undertake for the purposes of a specific investigation or specific operation;
- carried out in such a manner as is likely to result in the obtaining of private information about a person (whether or not that person is the target of the
- investigation or operation); and
- undertaken in a pre-planned manner, and not as an immediate response to events or circumstances.

***If the proposed activity fulfils all of the criteria for directed surveillance, then RIPA authorisation is required*.**

Intrusive surveillance (not permitted by the Council)

Intrusive surveillance is surveillance in any residential premises or in any private vehicle carried out by a person or by means of a surveillance device on the premises or in the vehicle which provides information of the same quality and details as if it was on the premises or in the vehicle.

Covert Human Intelligence Sources

The term Covert Human Intelligence Sources is used to describe people who are more commonly known as informants or officers working "undercover".

Throughout this document these people are referred to as "CHIS"

This does not include members of the public who volunteer information to the Councilas part of their normal civic duties or to contact numbers set up to receive information.

Definition of a CHIS

A person is a CHIS if he/she:

establishes or maintains a personal or other relationship for the purpose of:

- obtaining information; or
- providing access to information to another person; or
- discloses information obtained by the use or existence of that relationship

RIPA authorisation is required for CHIS activity

If a CHIS is to be used there should be a controller who will have overall control of the operation involving the use of the CHIS.

There are particular procedures relating to the conduct and use of CHIS authorisation, together with risk assessment and other procedures. There are also issues relating to the management of the personal details of a CHIS and the information obtained as a result of such activity. **Whilst the Council will make use of CHIS authorisation if appropriate, it is a tactic that must be discussed with the Legal Department.**

There are also special rules for using juveniles or vulnerable persons as CHIS, and only the Chief Executive can authorise such surveillance (or in his absence his nominated deputy~~.~~).

If the conduct to be authorised may involve the acquisition of confidential or religious material, or require an authorisation for using juveniles or vulnerable persons as a CHIS, the Authorising Officer is, by law, the Chief Executive (or in his absence either of the Assistant Chief Executives who has been nominated to act in his place).

Further advice should be sought from the Council's Legal Department in such cases.

Authorisation Procedures

Directed surveillance and the use of a CHIS can only be lawfully carried out if properly authorised and conducted in strict accordance with the terms of the authorisation.

All directed surveillance and use of a CHIS shall be:

- Applied for in writing ~~(or verbally in cases of urgency)~~
- Authorised by an appointed Authorising Officer and subsequently by a Justice of the Peace
- Conducted in accordance with the authorisation
- Monitored and reviewed when required and in any case in accordance with reviews set by the Authorising Officer
- Renewed if applicable
- Cancelled as soon as the objective has been achieved or the activity is no longer to be conducted, whichever is sooner~~.~~

The Standard Forms

Directed Surveillance

Application for directed surveillance authori~~z~~ation
Application to Magistrates' Court
Review of directed surveillance authorisation
Application for cancellation of directed surveillance authorisation
Application for renewal of directed surveillance authorisation

Use of a CHIS

Application for conduct-use of a CHIS authorisation
Application to Magistrates' Court
Review of use of a CHIS authorisation
Application for renewal of use of a CHIS authorisation
Application for cancellation of conduct-use of a CHIS authorisation

The Standard Forms are available from the Senior Responsible Officer.

The Senior Responsible Officer's Role

The Council's Senior Responsible Officer is ***(listed in the annex to this document).***

Responsible for:

- the integrity of the process in place within the Council for the management of C~~overt~~ H~~uman~~ I~~ntelligence~~ S~~ource~~s and Directed Surveillance
- compliance with Part II of RIPA and the Codes of Practice
- oversight of the reporting of errors to the relevant oversight Commissioner and the identification of both the cause(s) of errors and the implementation of processes to minimise repetition of errors
- engagement with the IPCO inspectors when they conduct their inspections
- oversight of the implementation of any post-inspection action plan approved by the IPCO
- ensuring that all Authorising Officers are of an appropriate standard in light of any recommendations in the inspection reports by the IPCO.
- Preparing and presenting reports for ~~e~~Elected ~~m~~Members and presenting the policy on a regular basis to the ~~e~~Elected ~~m~~Members for review.

Management of Records

The Senior Responsible Officer is responsible for ensuring a central register of authorisations is maintained.

The register and all associated documents relating to authorisations, reviews, cancellations, or renewals and refused applications should be retained in an auditable format, with each particular authorisation allocated a unique reference number for that particular investigation or activity.

The Senior Responsible Officer is responsible for making regular reports to Elected Members.

The Senior Responsible Officer is responsible for submitting annual statistics to the IPCO in relation to authorisations.

The Senior Responsible Person is also responsible for communicating to the IPCO any unauthorised activity that might come to the attention of the authority. This must be done within 5 working days. The records, documentation, and associated documentation relating to this unauthorised activity must be retained by the Senior Responsible Officer and disclosed to the IPCO upon request, and certainly to aninspector from the IPCO at the commencement of the next scheduled inspection.

Management of the records by the Senior Responsible Officer requires that person to carry out sufficient audit and checking in order to provide for a reasonable level of quality control. Any identified issues should be communicated with the authorising officer and any others concerned in order to ensure review drives improvement in compliance.

The Elected Members are responsible for checking the consistency of the report with this policy. They will not, however, be involved in making decisions on specific authorisations.

The RIPA Monitoring Officer's Role

The Council's RIPA Monitoring Officer is **(listed in annex to this document)**.

Responsible for:

- maintaining the central register of authorisations and collating the original applications/authorisations, reviews, renewals and cancellations
- oversight of submitted RIPA documentation
- organising a RIPA training programme
- raising RIPA awareness within the Council

The Applicant's Role

The Application

You will need to consider:

Whether covert surveillance is needed

Consideration must be given as to whether covert surveillance is needed. You are advised to discuss the need to undertake directed surveillance or the use of CHIS with your line manager before seeking authorisation. All other options to obtain the information to be obtained by the authorised activity should be considered and used if appropriate.

Whether directed surveillance or use of a CHIS is needed

You must establish what type of "surveillance" is required having regard to the guidance contained in this document. The type of surveillance you require affects which application forms you need to complete.

Whether directed surveillance or use of CHIS is necessary for statutory reasons (identify the particular offence to be prevented or detected, or what disorder is to be prevented).

Authorisation may only be granted if it is necessary for the reason permitted by RIPA. For local authorities the only statutory reason is for the purposes of preventing and detecting crime or of preventing disorder (and now for certain offences only). You must set out this ground in your application form and provide details of the reasons why it is necessary to use covert surveillance.

Whether directed surveillance or use of a CHIS is proportionate

You must consider why the activity applied for is proportionate.

The methods must do no more than ensure you meet your objective. The proportionality test will also require you to consider whether there are any other appropriate means of obtaining the information and whether there is a risk of collateral intrusion (see consideration below) and how this can be minimised or managed, or if it is acceptable in the circumstances.

The following aspects of proportionality must be considered and evidenced:-

- balancing the size and scope of the proposed activity against the gravity and extent of the perceived crime or offence
- explaining how and why the methods to be adopted will cause the least possible intrusion on the target and others
- considering whether the activity is an appropriate use of the legislation and a reasonable way, having considered all reasonable alternatives, of obtaining the necessary result
- evidencing, as far as reasonably practicable, what other methods have been considered fully and why these were not implemented~~.~~

The risk and amount of collateral intrusion

Collateral intrusion is the risk of intrusion into the privacy of persons other than the target. You are required to assess the risk of collateral intrusion. Details of any potential collateral intrusion should be specified. Measures must be taken wherever practicable to avoid or minimise collateral intrusion and a plan should be included in your application specifying how the potential for collateral intrusions will be minimised. You should give as much detail as possible, insufficient information may lead to the rejection of the application.

Conduct a risk assessment in relation to health and safety of personnel and public (not a statutory requirement under RIPA, but an operational requirement)

This requirement is not in relation to compliance with RIPA. However, it is a fundamental requirement when conducting any activity at work. The risk assessment helps the line manager and the authorising officer to consider if the health and safety risks to personnel and public are identified, and if possible measured and controlled, and only the level of risk to be taken will be that which reflects the benefit to the authority.

Consideration: Surveillance from private premises

It is preferable for surveillance to be carried out from a public place, such as a public highway. However, there may be circumstances where private premises may be required for the carrying out of surveillance. In which case, it is essential that you obtain the consent of the owner and/or occupier of the premises prior to authorisation being sought.

You should seek further guidance from the Council's Legal Department since there are other considerations in relation to management of Criminal Procedure and Investigations Act 1996 (CPIA) ~~CPIA~~ Disclosure, and use of the product of the surveillance as evidence.

Making an Application

All applications must be made in writing on the standard forms provided.

The relevant forms are:

- An application for directed surveillance authoris~~z~~ation, and/or
- An application for use of a CHIS
- An application to a Justice of the Peace

The considerations set out above, form part of the application form.

~~In urgent cases, verbal authorisation may be sought and authorisation recorded in writing. The same considerations and actions as set out above should be considered and recorded, and the original documents and notes provided with a reference number and submitted to the central register of records.~~

~~Cases should only be regarded as urgent if there is a likelihood of endangering life or jeopardising the investigation or operation if authorisation is not immediate. An urgent verbal authorisation may last for 72 hours. However, if the surveillance continues and there is opportunity before the expiration of 72 hours, authorisation in writing should be applied for and authorised if appropriate.~~

A Justice of the Peace may consider granting an authorisation granting an authorisation out of hours. You will need to contact the Legal Department if this is viewed as necessary.

Authorisation Duration

An authorisation for Directed Surveillance will last for three months from the date of authorisation unless renewed. It must be cancelled as soon as it is no longer required.

An authorisation for use of an adult CHIS will last for 12 months from the date of authorisation unless renewed. It must be cancelled as soon as it is no longer required.

~~Urgent authorisation for either Directed Surveillance or use of a CHIS will last 72 hours beginning with the time when the authorisation was granted, unless subsequently endorsed by written authorisation.~~

Review dates for the authorisation will be set by the Authorising Officer.

During the course of an investigation the type and seriousness of offences may change. The option of authoris~~z~~ing directed surveillance is dependent on the offence under investigation attracting a sentence of a maximum six months imprisonment or more or being related to the underage sale of alcohol and tobacco. Providing the offence under investigation is one which appears on the statute book with at least a maximum six months term of imprisonment or is related to the specific offences listed in the Regulation of Investigatory Powers (Directed Surveillance and Covert HumanIntelligence Sources) Order 2010 as amended, concerning the underage sale of alcohol or tobacco, an application can be made. However, if during the investigation, it becomes clear that the activity being investigated does not amount to a criminal offence or that it would be a less serious offence that does not meet the threshold the use of directed surveillance should cease. If a directed surveillance authoris~~z~~ation is already in force it should be cancelled.

Conduct of Authorisation

It will be the responsibility of the applicant and persons conducting the authorised activity to ensure that any Directed Surveillance or use of a CHIS is only undertaken under an appropriate and valid authorisation.

During the surveillance, you should ensure:

- Surveillance is carried out in accordance with the authorisation
- Collateral intrusion is monitored and minimised as far as possible
- Intrusive surveillance is not carried out
- All information obtained is recorded and managed appropriately and in accordance with the Data Protection Act (subsequently other legislation such as Police and ~~A~~Criminal Evidence Act 1984 and CPIA are likely to apply to the product of the surveillance).

During the use of CHIS, you should also ensure that the source is aware that:

- Only the tasks authorised are carried out
- Third party collateral intrusion is minimised as far as possible
- Intrusive surveillance is not carried out
- Agent Provocateur (Entrapment) is not committed
- They must regularly report to you

You should also be mindful of the date when reviews and renewals are required.

You must inform the Authorising Officer if the authorised activity unexpectedly interferes with the privacy of individuals who are not covered by the authorisation or if there is another change in circumstances usually brought about by unforeseen action.

When the original authorisation may not be sufficient, consideration should be given to whether the authorisation needs to be amended and re-authorised (for minor amendments only) or whether it should be cancelled and a new authorisation obtained.

The relevant forms should be used.

Particular care should be taken when using a CHIS to ensure that authorisation is sufficient. It is difficult to predict what might occur each time a meeting with a CHIS takes place. If unforeseen action takes place, the occurrence should be recorded as soon as possible after the event and the sufficiency of the authorisation must be considered.

You must bring to the attention of the Authorising Officer any concerns about the personal circumstances of the CHIS in relation to: the validity of the risk assessment; the conduct of the CHIS; the safety and welfare of the CHIS.

Renewals

Once the authorisation expires, surveillance must cease unless a renewal has been applied for and approved (by both the Authorising Officer and a JP).

If it appears that the directed surveillance or use of a CHIS is needed beyond the authorisation date, you must seek a renewal of the authorisation.

You must consider whether covert methods are still necessary and proportionate.

An application for renewal for either Directed Surveillance and/or use of a CHIS should be made on the relevant form and passed to the Authorising Officer for consideration.

~~Authorisation for renewal may be sought verbally, but only in exceptional circumstances.~~

Cancellations

All authorisations, including renewals, must be cancelled if the reason why Directed Surveillance or use of a CHIS was required no longer exists or is no longer proportionate. This will occur in most instances when the purpose for which surveillance was required has been achieved and officers must be mindful of the need to cancel any authorisation which has been issued.

To cancel an authorisation, you should complete the Cancellation of Authorisation form and submit it to the Authorising Officer for the Authorising Officer to cancel the authorised activity.

Equipment

Equipment and surveillance logs should be allocated from a central record of equipment, and an audit trail maintained in relation to the equipment and surveillance logs.

Upon cancellation all equipment in use must be removed immediately or else as soon as practicable, since further recordings will amount to unauthorised surveillance.

Authorising Officer Responsibilities under RIPA

The Council's Authorising Officers are **(listed in the annex to this document)**.

If the conduct to be authorised may involve the acquisition of confidential or religious material, or require an authorisation for using juveniles or vulnerable persons as CHIS, the Authorising Officers is, by law, the Chief Executive (or in his absence one of the Assistant Chief Executives~~Corporate Directors~~).

Authorising Officers should not be responsible for authorising investigations or operations in which they are directly involved. ~~—~~If this is the case, the application form for authorisation should be noted to this effect together with an explanation as to why this has taken place.

Authorising Officer Responsibilities

Responsibility for authorising the carrying out of direct surveillance or using a CHIS rests with the Authorising Officer and requires the personal authority of the Authorising Officer.

You must be satisfied that a defensible case can be made for the conduct authorised.

Authorisation is a safeguard against the abuse of power by public authorities. Full consideration of necessity and proportionality will make the action less vulnerable to challenge.

You should refer to both the relevant Codes of Practice~~, and the OSC Procedures and Guidance 2016~~ when fulfilling your role, and if required seek the guidance of the Legal Department and Senior Responsible Officer on issues that you are uncertain about.

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You are required to consider the application for authorisation in relation to the following:

Crime Threshold

Amendments to the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010 mean that a local authority can now only grant an authoris~~z~~ation under RIPA for the use of directed surveillance where the local authority is investigating particular types of criminal offences. These are offences which attract a maximum custodial sentence of six months or more or are offences relating to the underage sale of alcohol or tobacco.

Necessity

Firstly, you must consider whether it is **necessary** to carry out the covert activity.

This is an important consideration and must be recorded on the form. The Codes of Practice ~~and OSC Procedures and Guidance 2016~~ both provide guidance in relation to this consideration.

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Secondly, as authorisation may only be granted if it is necessary for the reason permitted by RIPA. You should consider, having regard to the outline of the case provided by the applicant, whether authorisation is necessary for the purposes of **preventing or detecting certain crimes only or for preventing disorder.**

Proportionality

This involves balancing the intrusiveness of the activity on the target and others who may be affected by it (see "consideration: risk of collateral intrusion" below) against the need for the activity in operational terms. The Codes of Practice ~~and OSC Procedures and Guidance 2016~~ both provide guidance in relation to this consideration.

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Collateral Intrusion

You must take into account the risk of interfering with the privacy of persons other than the target (collateral intrusion). Full details of potential collateral intrusion and the steps to be taken to minimise such intrusion must be included in the form. If there are insufficient details further information should be sought.

Collateral intrusion forms part of the proportionality test and is therefore very important. The application form should detail expected collateral intrusion, what has been done to minimise or control it, why the expected level is unavoidable but acceptable in the circumstances, what other investigative methods have been pursued or considered, and why this activity is the chose option.

If equipment is to be used you should enquire with the operative as to its capability and the extent to which it is to be used in order to be able to recognise what might be recorded.

Confidential Material

In cases where through the use of the directed surveillance or the use of a CHIS, it is likely that knowledge of confidential information will be acquired, authorisation may only be granted by the Chief Executive or in his absence his nominated deputy.

Confidential information consists of matters subject to legal privilege, confidential personal information or confidential journalistic material.

Authorisation involving the acquisition of confidential information should only be given in exceptional and compelling circumstances having full regard to the proportionality issues involved.

Further details about the type of information covered under this category are to be found in the relevant Code of Practice. Further advice may be sought from the Council's Legal Department.

Safety and Welfare arrangements of a CHIS

When authorising the conduct or use of CHIS, you must be satisfied:

- That the conduct and/or use of the CHIS is proportionate to what is sought to be achieved;
- That arrangements exist for the management and oversight of the CHIS, particularly the health and safety of the CHIS including:
- Identifying the person who will have day to day responsibility for dealing with the CHIS
- Security and welfare arrangements of the CHIS both during and after the investigation/operation
- Monitoring and recording the information supplied by the CHIS
- Ensuring records disclosing the identity of the CHIS will not be made available to persons except where there is a need for access to them
- Records relating to the CHIS meet the lawful requirements (CHIS Records).

Local Community Sensitivities

You should consider whether there are any particular sensitivities in the local community where surveillance will be taking place.

Authorisation

Having taken all these factors into consideration, you may either approve the application or refuse it. You can authorise some of the activity applied for, but cannot add and authorise other activity you feel is appropriate. If there is further activity that should be conducted that is not contained within the application, a further application will be required, and then considered upon its merits.

Authorisation Refused

You must complete the form and give your reasons for refusal. Then follow the procedures below ("I have completed the form what do I do with it?").

Authorisation Approved

The applicant or operative responsible for the conduct authorised must be informed exactly what activity has been authorised.

Before the Authorisation can take effect, the local authority must obtain an order approving the Authorisation or a renewal from a Justice of the Peace (a District Judge or lay magistrate). If the Justice of the Peace is satisfied that the statutory tests have been met and that the use of the technique is necessary and proportionate they~~he/she~~ will issue an order approving the grant or renewal as set out in the Authorisation.

Regular reviews should be set and undertaken to assess the continued need for surveillance or use of a CHIS and whether it is still proportionate.

Where the surveillance or use of a CHIS provides access to confidential information or involves collateral intrusion, reviews should be more frequent. You will therefore need to consider a relevant appropriate Review Date(s)

Both types of authorisation require you to specify a date when the authorisation should be reviewed (the Review Date) and the frequency of the review thereafter.

This must be stated on the form.

~~Urgent Verbal Authorisation~~

~~Urgent authorisations should not be necessary. In exceptional circumstances, however, urgent authorisations may be given orally if the time that would elapse before a written authority can be granted would be likely to endanger life or jeopardise the investigation or operation for which the authorisation was being given.~~

~~It will not be deemed urgent where the need for authorisation has been neglected or is of the officers own making.~~

~~The same matters as set out above for a written application must be considered before a verbal authorisation is granted and before it may be implemented.~~

~~It is good practice for both applicant and you to make notes of what the applicant says, and what you authorise.~~

~~Urgent authorisations last for no more than 72 hours. The original notes must be placed with the central record of authorisations. If there is a subsequent writtenauthorisation, the notes should be appended to this authorisation, and the relevant boxes within the form relating to urgent authorisation should be completed.~~

~~Upon authorisation or refusal the applicant must be made aware of exactly whatconduct has been authorised, and in the event of a refusal, or reduction in activity authorised, the reasons should be recorded on the form and communicated to the applicant.~~

~~There will still be a need to obtain a JP order before the authorisation can be implemented.~~

Authorisation Duration

An authorisation for Directed Surveillance will last for three months from the date of authorisation unless renewed.

An authorisation of use of a CHIS will last for 12 months from the date of authorisation unless renewed.

~~Urgent authorisation for either Directed Surveillance or use of a CHIS will last 72 hours beginning with the time when the authorisation was confirmed by a JP, unless subsequently endorsed by written authorisation.~~

Authorisation Review

It is important to set a review date which gives the opportunity to review the level of collateral intrusion and the effectiveness of the methods used. Reviews should be more frequent to reflect any particular concerns you might have.

If surveillance is to be continued, set another review date. If the authorisation is to be cancelled, submit the relevant signed cancellation form.

Renewals

Once the authorisation expires, surveillance must cease unless a renewal has been applied for and approved.

You may apply for a renewal of an authorisation before it expires if it is necessary forthe authorisation to continue for the purpose for which it was given (but a further JP confirmation will still be required).

You must consider the application for renewal in relation to the original purpose for which authorisation was granted, taking into account any change in circumstances.You should be satisfied that:

- There is a need to renew the authorisation (applying the test of necessity)
- That such a renewal is likely to contribute to the investigation or operation (it is proportionate to the aim)
- That the information could not be reasonably obtained by other less intrusive means
- The risk of collateral intrusion has not altered - you should consider what collateral intrusion has occurred
- The risks associated with the use of a CHIS have not increased beyond an acceptable level.

The outcome of a consideration for renewal may lead to:

- Approval
- A new application
- Refusal

If you decide to approve a renewal you will need to provide details of why in your opinion you believe the renewal is justified, and state the date and time when the renewed authorisation will commence and expire on the application form, prior to applying to a Justice of the Peace for confirmation.

The maximum time that renewal of authorisation can be approved for, is three months at a time for ~~d~~Directed ~~s~~Surveillance and 12 months for the use of a CHIS. You should also set appropriate Review Dates.

A new application for authorisation

If the application circumstances resulting in the original authorisation have changed then the outstanding authorisation should be cancelled and new authorisation sought by way of a new application. You will need to note the refusal to renew the application on the renewal form setting out the reasons for your decision. You will also need to follow the procedures for cancellation and advise the applicant to seek new authorisation.

Refusal

If in your opinion surveillance is no longer required, or justified, or proportionate, the renewal should be refused and the authorisation cancelled. ~~-~~You will need to note on the renewal form your reasons for refusal.

Cancellation

All authorisations, including renewals, must be cancelled if the reason why ~~d~~Directed ~~s~~Surveillance or use of a CHIS was required no longer exists or is no longer proportionate.

This will occur in most instances when the purpose for which surveillance was required has been achieved and officers must be mindful of the need to cancel any authorisation which has been issued. A cancellation should be issued at the expiry date if not before.

The responsibility to ensure that authorisations are cancelled rests with the Authorising Officer. If you think cancellation should have been applied for, then you should make enquiries as part of your monitoring of the authorisation. On receipt of the cancellation form you must consider the reasons for cancellation and if acceptable endorse the form.

As soon as the decision is taken that ~~d~~Directed ~~s~~Surveillance or use of a CHIS should be discontinued, the instruction must be given to those involved to stop all surveillance of the subject. The date and time when such an instruction was given should be recorded on the cancellation form.

Where necessary the safety and welfare of the CHIS should continue to be taken into account after the authorisation has been cancelled.

All equipment should be retrieved and recording ceased.

The product of the authorised activity is your responsibility, not in so much as you personally take possession of it, but you ensure directions and processes are in place to ensure its appropriate management in accordance with Data Protection and other relevant legislation.

Review upon Cancellation

There should be a full review of the usefulness of the authorised activity. This should include what has been achieved and what was not. The review should identify why any objectives were not achieved. This information should be recorded and presented upon inspection by the IPCO Inspector. The information should also be used by all involved in the procedures in order to educate future applications and authorisations.

Working with or through other Agencies

When some other agency has been instructed on behalf of the Council to undertake some action under RIPA, this Policy and the forms referred to in it, must be used in the normal way and the agency advised as necessary of the various requirements. They must be made aware explicitly what they are authorised to do.

They are acting as agents of the Council, and must follow the same procedures as Council personnel.

It is possible for two public authorities to carry out a joint ~~d~~Directed ~~s~~Surveillance investigation or use of a CHIS. It must be decided which of the authorities is to take the lead role. The Authorising Officer from the lead organisation must make the decisions on the necessary and proportionality of the surveillance or use of a CHIS . This Authorising Officer authorises the activity he or she feels appropriate.

If resources such as personnel or equipment belonging to the other agency within the investigation are to be used, the authorisation must be seen and then the use of the resources authorised by the relevant line manager.

Record Keeping

The Council must keep a detailed record of all authorisations, renewals, cancellations and rejections in Departments and a Central Register of all these forms will be maintained and monitored by the Senior Responsible Officer.

In all cases, the following documentation must be retained:

- the application and authorisation together with (i) any supplementary documentation and notification of the approval given by the Authorising Officer and (ii) the Justice of the Peace Order
- a record of the period over which the surveillance has taken place;
- the frequency of reviews prescribed by the Authorising Officer;
- a record of the result of each review of the authorisation;
- a copy of any renewal of an authorisation, together with (i) the supporting documentation submitted when the renewal was requested and (ii) the requisite Justice of the Peace Order
- the date and time when any instruction was given by the Authorising Officer
- a record of the use made of any CHIS.

The Council will retain records in accordance with the Data Protection Policy.

However, records should be retained at least until the next IPCO inspection, and consideration should be given to use as evidence or unused material in pending trials or appeals.

Material obtained from Directed Surveillance and/or use of CHIS operations

Material, or product, such as: written records (including notebook records); video and audio recordings; photographs and negatives; and electronic files, obtained under authorisation of Directed Surveillance or use of a CHIS investigations or operations should be handled, stored and disseminated according to the following guidance and with regard to the Council's Data Protection Policy.

Where material obtained during the course of an investigation may be relevant to pending or future criminal or civil proceedings, it should be retained in accordance with the established disclosure requirements having regard to the CPIA~~Criminal Procedure and Investigations Act 1996~~ and Civil Procedure Rules.

Where material is obtained which is not related to a criminal or other investigation, or to any person who is the subject of the investigation, and there is no reason to suspect that it will be relevant to any future civil or criminal proceedings, it should be assessed for retention or destruction under the Council's Data Protection Policy.

Material may not be used in investigations other than the one for which authorisation was issued.

Confidential Information

This is privileged information from, for example, lawyers, doctors, priests etc. Where such persons are involved, and there is a possibility that you may be obtaining confidential material, then further additional precautions must be taken. If this is the case, seek appropriate advice from the Legal Department.

Social Networking Sites and Internet Sites

Whilst it is the responsibility of an individual to set privacy settings to protect against unsolicited access to their private information on a social networking site, and even though the data may be deemed published and no longer under the control of the author, it is unwise to regard it as ‘open source’ or publicly available; the author has a reasonable expectation of privacy if access controls are applied. Where privacy settings are available but not applied, the data may be considered open source and an authorisation is not usually required.

If it necessary and proportionate for the Council to covertly breach access controls, the minimum requirement is an authorisation for directed surveillance. An authorisation for the use and conduct of a CHIS is necessary if a relationship is established or maintained by the officer (i.e. the activity is more than mere reading of the site’s content). ~~-~~This could occur if an officer covertly asks to become a ‘friend’ of someone on a social networking site.

Complaints

The R~~egulation of~~ I~~nvestigatory~~ P~~owers~~ A~~ct~~ has established an Independent Tribunal. This Tribunal is made up of senior members of the judiciary and the legal profession and is independent of the Government. The Tribunal has full powers to investigate and decide any cases within its jurisdiction. It also has the power to award compensation.

Details of the relevant complaints procedure can be obtained from the following address:

Investigatory Powers Tribunal
P O Box 33220
London
SW1H 9ZQ

Other actions that could be taken against the Council for failing to meet the requirements of RIPA are civil proceedings under the Human Rights Act 1998 or a complaint to the Ombudsman.

Annex

AUTHORISING OFFICERS

The following Officers, regardless of their current job titles, shall be designated Authorising Officers on behalf of the Council under the Regulation of Investigatory Powers Act 2000.

Andrew Pritchard~~Paul Turrell~~ Chief Executive

Mario Leo Corporate Head of Law and Governance

Amanda Fahey ~~Peter McKenzie~~ Assistant Chief

Executive (151)

Phil Turner Assistant Chief Executive (Place)

SENIOR RESPONSIBLE OFFICER

Mario Leo ~~-~~ Corporate Head of Law and Governance

RIPA MONITORING OFFICER

Mario Leo - Corporate Head of Law and Governance

For further information, please see links below

Covert Surveillance and Property Interference revised Code of

~~Practise~~Practice

Covert Human Intelligence Sources revised Code of ~~Practise~~Practice

Code of ~~Practise~~Practice for the Investigation of Protected Electronic Information

Report title	**Treasury Management Strategy 2024/25**
Report author	Paul French, Corporate Head of Finance
Department	Financial Services
Exempt?	No
Exemption type	Not applicable
Reasons for exemption	Not applicable

Purpose of report:

For noting and recommendation

Synopsis of report:

The report sets out the Treasury Management Strategy, Prudential and Treasury Management Indicators, and Minimum Revenue Provision Statement for 2024/25.

All the information required under the relevant legislation and professional codes of practice is set out in the report including:

- **training requirements**
- **the policy on use of external service providers**
- **the Council's prudential indicators**
- **the minimum revenue provision (MRP) policy**
- **the current treasury position**
- **prospects for interest rates**
- **the borrowing strategy**
- **policy on borrowing in advance of need**
- **debt rescheduling**
- **the investment strategy**

The report highlights changes that have been, or will be, made following the DLUHC Consultation on Local Government capital risk metrics and from the introduction of the new International Financial Reporting Standard on leases. Additional changes have also been included for the proposed new Minimum Revenue Provision (MRP) requirements that need to be in place and approved by full Council by 1 April 2024.

This report should be read in conjunction with the Capital & Investment Strategy report for 2024/25

Recommendation:

The members are invited to note the content of the report and recommend that the Council approve the following:

i) **The proposed 2024/25 Treasury Management Strategy encompassing the Annual Investment Strategy**

ii) **The Prudential and Treasury Management Indicators for 2024/25**

iii) **The Authorised Limit for external borrowing by the Council in 2024/25, be set at £723,443,000 (this being the statutory limit determined under Section 3 (1) of the Local Government Act 2003.**

iv) **The MRP Policy for 2024/25 as set out in paragraph 7.15**

1. Context of report

1.1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus cash is managed (invested) according to the Council's risk appetite, prioritising cash security and adequate liquidity over investment returns.

1.2. Another function of the treasury management function is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the long-term cash flow planning to ensure that the Council can meet its capital spending and financing obligations. This management of long-term cash flow may involve arranging long-term financing (in the form of loans or use of the reserves). On occasion, when it is prudent and economic, any existing debt may be restructured to meet Council risk or cost objectives.

1.3. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the local authority's borrowing, investments and cashflows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.5. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), and the CIPFA Prudential Code for Capital Finance in Local Authorities ("the Prudential Code").

1.6. Whilst any commercial initiatives or loans to the third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.7. The Council recognises that effective financial planning and appraisal, risk management and governance are essential to achieving a prudent approach to capital expenditure, investment, and financing. Therefore, all investment decisions (treasury and non-treasury) are taken having regard to the Council's Corporate Business Plan, Medium Term Financial Strategy, Capital Strategy and Treasury Management Strategy.

2. Treasury Reporting Requirements

2.1. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These are:

i) **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report which is forward looking and covers:

- the capital expenditure plans and associated prudential indicators
- a minimum revenue provision ("MRP") policy, (how residual capital expenditure is charged to revenue over time)
- the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an Annual Investment Strategy, (the parameters on how investments are to be managed)

ii) **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

iii) **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2.2. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. Therefore, these reports are required to be adequately scrutinised before being recommended to the Council by the Overview and Scrutiny Select Committee.

2.3. In addition to the three major reports detailed above, additional quarterly reporting (end of June/end of December) is now required. Although these additional reports do not have to be reported to Full Council, they must be reviewed by the Corporate Management and Overview & Scrutiny Committees.

2.4. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Corporate Management Committee, and for the execution and administration of treasury management decisions to the Assistant Chief Executive (s151), who will act in accordance with the Council's Treasury Policy Statement and Treasury Management Practices ("TMPs").

2.5. A glossary of treasury terms has been included in Appendix A to assist Members with understanding some of the terms used in this report.

3. Treasury Management Strategy for 2024/25

3.1. The strategy for 2024/25 covers the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

3.2. The CIPFA Prudential and Treasury Management Codes require all local authorities to include a Capital Strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

3.3. The aim of the Capital Strategy is to ensure that all elected members on the Full Council fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite. The draft Capital & Investment Strategy for 2024/25 is set out elsewhere on this agenda.

4. Training

4.1. The CIPFA Treasury Management Code (the Code) requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

4.2. Furthermore, the Code states that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance, and decision making”.

4.3. Training courses on Treasury Management are carried out for the Council members on a bi-annual basis and were last delivered in October 2022 (one arranged by the Council's Finance officers and another one run by the Link Group). In addition to this, further training will be arranged as required. The next series of formal treasury training sessions has been scheduled for October 2024 and will be preceded by a self-assessment questionnaire to ensure training needs are met.

4.4. Relevant training courses, seminars and conferences are provided throughout the year to the Council’s staff involved in treasury management activities by a range of organisations including the Link Group and CIPFA.

4.5. A formal record of the training received by officers is maintained by the Corporate Head of Finance. Similarly, a formal record of the treasury management/capital finance training received by Council members is maintained by Democratic Services.

5. Treasury management consultants

5.1. Link Treasury Services Limited (part of the Link Group) act as the Council’s external treasury management advisor.

5.2. The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of the external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

5.3. It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

5.4. The quality of this service is controlled by the Assistant Chief Executive (s151) assessing the quality of advice offered and other services provided by Link. In particular, the Assistant Chief Executive (s151) holds regular meetings with Link (normally twice a year) where, in addition to discussing treasury strategy, the performance of the consultants is reviewed.

6. Capital Prudential Indicators 2024/25 – 2026/27

6.1. The Authority's capital expenditure plans are the key driver of treasury management activity and are set out in the Capital & Investment Strategy report presented to the Corporate Management Committee each January. The output of the capital expenditure plans are reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The Capital Prudential Indicators for the years 2024/25-2026/27 are included in Appendix B

6.2. The 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 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.

6.3. 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 Corporate Business Plan, Medium Term Financial Strategy, Capital & Investment Strategy, Asset Management Strategy and Treasury Management Strategy.

<u>DLUHC Consultation on Local Government capital risk metrics</u>

6.4. In October 2023, the Government introduced The Levelling Up and Regeneration Act 2023 (LURA), which includes new provisions that expand the government's statutory powers to directly tackle excessive risk within local government capital system. A local authority comes into scope of the new powers when a 'trigger point' is breached with respect to any of the following four capital risk metrics as set out in the LURA.

i. The total of a local authority's debt (including credit arrangements) as compared to the financial resources at the disposal of the authority.

ii. The proportion of the total of a local authority's capital assets which is investments made, or held, wholly or mainly in order to generate financial return.

iii. The proportion of the total of a local authority's debt (including credit arrangements) in relation to which the counterparty is not central government or a local authority.

iv. The amount of minimum revenue provision charged by a local authority to a revenue account for a financial year.

6.5. DLUHC's consultation process on how the above capital risk metrics are calculated was completed at the end of September 2023. To date, the detailed guidance from DLUHC has not been published, however, the metrics requirement becomes effective from 01 April 2024. As these are reporting requirements only, no attempt has been made to include (i) or (ii) in this report, they will instead be reported as part of the quarterly treasury reports to committee once the calculations have been confirmed. However, paragraph 10.7 sets out (iii) the proportion of the total of the Council's debt (excluding credit arrangements) in relation to which the counterparty is not central government or a local authority as a comparator, and (iv) the MRP charged to the General Fund (excluding credit arrangements), is already shown in the Prudential Indicators set out in Appendix B.

6.6. In addition to the above, in late December 2023 the Council received a non-statutory Best Value Notice from DLUHC. This Strategy is consistent with the ongoing dialogue with DLUHC and reflects our interaction with CIPFA (including their report).

Implementation of IFRS16: Leases

6.7. From 1 April 2024 the accounting standard which sets out the guidelines for accounting for leases changes from IAS 17 (International Accounting Standard) to IFRS 16 (International Financial Reporting Standard). This means from this date the way the Council accounts for assets it leases will change.

6.8. The definition of a lease has been adapted for the public sector as being 'a contract, or part of a contract, that conveys the right to use an asset for a period of time.'

6.9. The adoption of IFRS16 will result in bringing more lease liabilities on to the balance sheet (e.g. right of use, embedded, rolling and peppercorn leases) which will have an impact on the Council's Prudential Indicators such as Capital Financing Requirement (CFR), Minimum Revenue Provision (MRP) as well as indicators such as Authorised Borrowing Limit and Operational Boundary etc.

6.10. When any leased asset is recognised in the balance sheet, such as our Community Meals Service fleet or Chertsey Museum, a corresponding liability will then be created, representing the obligation to make lease payments for the life of the contract. When the Council makes a lease payment rather than it showing as an expense against the relevant cost centre, it is split between paying off this liability and interest payments. The asset is depreciated in the same way as similar assets of that class, usually over the life of the lease unless the asset useful life is lower.

6.11. IFRS16 treatments will largely affect indicators for estimates that are subject to monitoring, rather than those that provide limits within which the authority must operate. The impact of IFRS16 implementation can therefore reasonably be reported after the fact as a variation on the original estimates. However, the Authorised Limit is a fixed limit and the Council will be in breach of its statutory powers if this Limit is exceeded.

6.12. The Prudential Code requires the Authorised Limit to be set with components for borrowing and for other long-term liabilities. The limits set for either of these two components can be exceeded, provided that the overall Authorised Limit is not broken. If this happens, the event must be reported to the next meeting of full Council.

6.13. The usual consequence of breaching the Authorised Limit is that the new borrowing or the new or modified credit arrangement that caused the breach would have been entered into unlawfully (sections 2 and 8 of the Local Government Act

2003 respectively). Changes can be made to the Authorised Limit at any time, but timeliness will then be constrained by the Council's administrative process for securing full Council authorisation and the risk that members might not wish to give such authorisation. The complications will therefore be largely administrative and reputational.

6.14. The assessment for the IFRS16 impact is due to be completed by 31 March 2024 however to avoid breaching the Authorised Limit, assumptions as to the effects of these changes has been built into the Prudential Indicators for 2024/25. This has been based on the following:

- an estimate based on the minimum lease payments expected to be recorded in the 2023/24 Statement of Accounts for existing leased assets (approximately £1m)
- a contingent amount of £5m to cover the transition liabilities and any right of use assets (which will be confirmed and reported when they are known)

Should this be inadequate, a further report will be submitted to Full Council to amend the Authorised Limit to avoid a breach which would be unlawful under sections 2 and 8 of the Local Government Act 2003.

7. Minimum Revenue Provision (MRP)

7.1. When a Council funds capital expenditure by borrowing, the costs are charged to the Council Taxpayers in future years, reflecting the long-term use of the assets. Unlike a mortgage where amounts of principal are repaid each month, the borrowing undertaken by a Council is usually repayable on maturity at an agreed future date. The interest on borrowing is charged in the year it is payable.

7.2. To reflect this, the Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision – "MRP"), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision – "VRP"). The MRP exists as a charge to revenue each year in order to have sufficient monies set aside to meet the future repayment of principle on any borrowing undertaken. There isn't an earmarked reserve for MRP, it is represented in the accounts as increased cash.

7.3. The MRP charge must be calculated with respect to all capital expenditure financed by debt (and which has not yet been provided for). The appropriate measure for this is the Capital Financing Requirement (CFR) as, when calculated correctly, this a complete measure of all capital expenditure that has not yet been funded by either capital or revenue resources, and will include capital expenditure financed by external borrowing, internal borrowing and credit arrangements. The CFR is calculated in accordance with the requirements set out in the Prudential Code.

7.4. There is no requirement on the Housing Revenue Account (HRA) to make MRP. This does not remove the requirement for an authority to consider the debt associated with its HRA and ensure sufficient provision is made over the life of the assets to repay debt and make additional charges with respect to MRP if deemed necessary. The HRA Business plan starts making provision for repayment of its loans (over and above the statutory set-aside) from 2031.

7.5. Statutory guidance from the DLUHC requires local authorities to have Full Council approval of a MRP Policy Statement in advance of each year. The aim of the DLUHC

Investment Guidance is to ensure that debt is repaid over a period that is commensurate with that over which the capital expenditure provides benefits. The guidance recommends the following options for all unsupported borrowing from April 2008:

- **Asset life method** – MRP will be based on the estimated useful life of the asset. There are two main methods by which this can be achieved:

    a. Equal instalment method
    b. Annuity Method

- **Depreciation Method -** MRP will be equal to the provision required in accordance with depreciation accounting for each asset.

- Another method which the Authority has deemed a more suitable method after having regard to the MRP Guidance

7.6. The Council's current MRP Policy is based on the Asset Life (Annuity) Method.

7.7. Any charges made over the statutory MRP, VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed for use in the budget, the Council's MRP policy must disclose the cumulative overpayment made each year. To date the Council had not made such VRP or overpayments.

<u>MRP Consultation and other changes</u>

7.8. As reported in Section 6 above, IFRS16 will have an effect on MRP calculations as the addition of leases and right-of-use assets will need to be included in future capital financing arrangements.

7.9. The Statutory Guidance on MRP has already been amended to extend the treatment previously expected for finance leases to all leases. The MRP charge for the year should be the element of the rent that goes to write down the lease liabilities. As this is generally the only element of the rent that has not already been charged to revenue, it is basically an instruction for the total charge to the General Fund Balance to equal the rents payable for the year. The Council's MRP policy will need to be updated to reflect the new requirements.

7.10. On 21 December 2023 the government issued a further consultation document on proposed changes to the MRP Regulations building on the consultations carried out from November 2021 to February 2022 and June to July 2022 on proposals to strengthen the duty to make MRP with the objective of eradicating imprudent MRP policies relating to investment properties, capital loans and abatement by capital receipts. The latest proposed draft regulations remain substantively the same as previously consulted on in the June-July 2022 consultation, with some minor changes to reflect responses. This consultation closes on 16 February 2024 with the proposed revised regulations due to come into effect from 1 April 2024.

7.11. The revised regulations provide that:

- Capital receipts may not be used in place of the revenue charge for MRP
- Prudent MRP must be determined with respect to the authority's total Capital Financing Requirement
- capital loans can be excluded from the MRP requirement (if they are not made for commercial reasons) but a charge must be made for expected credit losses.

7.12 Whilst, from a Runnymede perspective, there are no substantive changes to the Regulations, the proposed Statutory Guidance that accompanies them has also been amended. This includes a new paragraph setting out the minimum expectations for the contents of the MRP Statement, including such things as to how the authority has considered the Statutory Guidance and any departures made.

Proposed new MRP Policy Statement

7.13 The proposed new MRP Policy Statement takes into account all the requirements of the new MRP guidance and the introduction of IFRS16. This includes policies on areas that the Council has no intention on utilising, such as capital directives, but which need to be included for completeness.

7.14 Another issue expected to be covered by the MRP Statement is how capital receipts will be used to reduce indebtedness and the impact on the MRP charge.

7.15 The Council has considered the requirements set out in statute and the proposed MRP Guidance amendments are the resulting proposed MRP Policy for 2024/25 will be as follows:

- ***The Council will use the asset life (annuity) method as its main method for calculating MRP***

- ***In normal circumstances, MRP will be set aside from the date of acquisition. However, in relation to capital expenditure on redevelopment schemes, we will start setting aside an MRP provision from the date that the asset becomes operational and/or revenue income is generated***

- ***The Council will apply the asset life method for any expenditure capitalised under a Capitalisation Direction***

- ***Where the Council has acquired assets under leases, an MRP charge will be made for the amount by which the liabilities recognised for rents due over the remaining terms of the leases have been reduced by payments of rent in the financial year. The overall impact of this policy is that the annual charge against the General Fund Balance for leases will be the rents payable for each financial year.***

- ***For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.***

Capital receipts generated from the sale of investment properties funded by borrowing will be used to reduce the Council's overall CFR by the outstanding borrowed amounts against each property sold.

There are currently no plans to make any Voluntary Revenue Provision (VRP) payments or general MRP overpayments in 2024/25.

8. Economic Data

Interest Rates

8.1. The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 07 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates:

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

8.2. Our central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least the second half (H2) of 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

8.3. Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

8.4. In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

8.5. On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB rates

8.6. Gilt yield curve movements have broadened since our last Newsflash. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

8.7. The balance of risks to the UK economy: - The overall balance of risks to economic growth in the UK is to the downside.

8.8. Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

8.9. Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Despite the recent tightening to 5.25%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer-term US treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so).

- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

8.10. We now expect the MPC will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

8.11. Further economic background data can be found in Appendix C

9. Borrowing Strategy

9.1. The Prudential Code considers that legitimate examples of prudent borrowing include:

- financing capital expenditure primarily related to the delivery of a local authority's functions

- temporary management of cash flow within the context of a balanced budget

- securing affordability by removing exposure to future interest rate rises

- refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.

9.2. The Prudential Code determines certain acts or practices that are not prudent activity for a local authority and incurs risk to the affordability of local authority investment. To this extent the guidance states "***An authority must not borrow to invest for the primary purpose of commercial return***". These principles apply to prudential borrowing for capital financing, such as externalising internal borrowing for the primary purpose of commercial return.

9.3. Access to the PWLB is essential for the Council to ensure liquidity and cheap borrowing. The Government's rules for access to PWLB lending require statutory Chief Finance Officers to certify that their Council's capital spending plans do not include the acquisition of assets primarily for yield, reflecting the view that local authority borrowing powers are granted to finance direct investment in local service delivery (including housing, regeneration and local infrastructure) and for cash flow management rather than to add gearing to return-seeking investment activity. Local authorities should not borrow to finance acquisitions where obtaining commercial returns is a primary aim.

9.4. In general, the Council will borrow for one of two purposes – to finance cash flow in the short term or to fund capital investment over the longer term. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

9.5. A key aim of the Treasury Management Strategy is to minimise the cost of the Council's loan portfolio whilst ensuring that the obligation to repay the loan is spread over a period. This reduces the impact on the revenue budget of interest payments.

9.6. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period which the funds are required. Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Assistant Chief Executive (s151) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

9.7. Short term borrowing is the cheapest option but leaves the Council exposed to refinancing risk, which can be divided into interest rate risk (the risk that rates will rise) and availability risk (the risk that no-one will lend to the Council).

9.8. The Council's strategy for the long-term borrowing (over 12 months) could be summarised as follows:

Sources of borrowing
The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board (PWLB)
- any institution approved for investments
- any other bank or building society approved by the Financial Conduct Authority

- UK public and private sector pension funds and Insurance Companies (except the Surrey Pension Fund)
- Capital market bond investors
- UK Municipal Bond Agency plc and other special purpose companies created to enable joint local authority bond issues (subject to committee report).

Other sources of borrowing may be considered during the year in which case they will be the subject of future committee reports before being submitted for approval at full Council.

Debt instruments

Borrowing will be arranged by one of the following debt instruments:

- fixed term loans at fixed or variable rates of interest, subject to the limits in the treasury management indicators
- bonds

9.9. Any proposed borrowing will only be undertaken on a phased basis in accordance with agreed plans and requirements at that time. The borrowing of money purely to invest or lend-on to make a return is unlawful.

9.10. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the sums borrowed. Any decision to borrow in advance will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

9.11. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism. In determining whether borrowing will be undertaken in advance of need the Council will:

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consider the merits and demerits of alternative forms of funding.

9.12. The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be no more than six months, although the Council does not link particular loans with particular items of expenditure.

9.13. From time to time there may be potential opportunities to generate savings by switching from long term debt to short term debt and vice versa. Any such debt restructuring will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

9.14. The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;

- helping to fulfil the treasury strategy;
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

9.15. All rescheduling will be reported to the Council, at the earliest meeting following its action.

10. Annual Investment Strategy 2024/25

10.1. DLUHC and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments (see section 12 below). This report deals solely with financial investments. Non-financial investments are held for two purposes, to generate income and to meet a strategic priority. These are entered into outside of normal treasury management activities, but nevertheless the TMS comes into play in their financing. The Council recognises that other financial investments also require careful management and discusses those in the Capital Investment Strategy.

10.2. Local authorities must draw up an “Annual Investment Strategy” for the following financial year. This strategy may be revised at any time, but full Council must approve the revisions. Both the TM Code and the DLUHC Investment Guidance place a high priority on the management of risk and require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking high returns (yield). This SLY approach is inherent in our treasury management strategy.

10.3. In accordance with the above guidance, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration of risk.

10.4. The DLUHC Investment Guidance requires local authorities to cover a number of issues in their Annual Investment Strategy and the Council’s strategy fully complies with these requirements. The Council approved its Annual Investment Strategy for 2023/24 in February 2023. There are no proposed changes to the Strategy for 2024/25.

<u>2024/25 Treasury Activity</u>

10.5. Link’s suggested budgeted earnings rates for investments up to about three months’ duration in each financial year are as follows:

Average earnings in each year	
2024/25	4.70%
2025/26	3.20%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

10.6. The Council’s treasury investments as of 31 December 2023 is comprised of:

Total Investments	31 Mar 23 £’000	**31 Dec 23 £’000**
Specified Investments		
Banking sector	25,000	39,000
Building societies	6,000	0
Local Authorities	26,000	5,000
Money Market Funds	12,000	17,500
Unspecified Investments		
Pooled Funds & Collective Investment Schemes	4,000	4,000
Funding Circle	42	23
Total Investments	**73,042**	**65,523**

10.7. The Council’s borrowings as of 31 December 2023 is comprised of:

Total Borrowing	31 Mar 23 £’000	**31 Dec 23 £’000**
Central government or a local authority		
PWLB	599,000	589,000
Local Authorities	5,000	0
Other		
Pheonix Life	39,181	38,900
Trusts and Charities (RPG, Cabrera Trust etc)	391	377
Total Borrowing	**643,572**	**628,277**
The proportion of the Council’s debt which is not central government or a local authority	**7%**	**6%**

The proportion of the Council’s debt which is not central government or a local authority is one of the new capital metrics as set out in paragraph 6.4 above.

10.8. Investments will be made with reference to the systemic balances and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked at the end of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns. The Council manages its treasury investments to maximise investment income, whilst managing its exposure to risk and maintaining appropriate liquidity to meet its needs.

10.9. Based on the above forecasts, the 2024/25 estimate for investment income split between the General Fund and Housing Revenue Account (HRA) is as follows:

	General Fund £’000	**HRA £’000**	**Total £’000**
Gross external investment income	3,565	1,220	4,785
Interest on loans to RBC companies	2,117	0	2,117

Dividend income	160	0	160
Interest paid on deposits and balances	(25)	0	(25)
Net Investment Income	**5,817**	**1,220**	**7,037**
Debt Interest	(12,909)	(3,379)	(16,288)
Net Investment Income / (Debt interest)	**(7,092)**	**(2,159)**	**(9,251)**

10.10. The estimate is based on achieving the assumed interest rates set out in paragraph 10.5 above and using the level of revenue and capital reserves for 2024/25 as set out in the latest capital and revenue budgets contained in the Medium-Term Financial Strategy and HRA Business Plan.

10.11. Further details for counterparty limits and Council's investment strategy in 2024/25 are detailed in Appendix D.

Interest charge to the Housing Revenue Account (HRA)

10.12 The Council operates a two-pooled approach to its loans portfolio, which means we separate HRA and General Fund long-term loans. Interest payable and other costs or income arising from long-term loans (for example premiums and discounts on early redemption) are charged or credited to the respective revenue account.

10.13 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. We will calculate an average balance for the year and interest will be transferred between the General Fund and HRA at the Council's weighted average return on all its investments, adjusted for credit risk. This credit risk adjustment reflects the risk that any investment default will be a charge to the General Fund regardless of whether it was HRA cash that was lost.

Pooled Funds & Collective Investment Schemes

10.14 The Council invests in two Pooled Funds (operated by CCLA (Churches, Charities and Local Authorities) Investment Management Limited). These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Investments in these funds are long term in nature and over long-term horizons they provide investors with relatively strong levels of interest (in the form of dividends). However, the capital values of these assets can be subject to large fluctuations (both up and down) over relatively short time frames.

10.15 The differences between the original sums invested and the values at the year-end are held on the Council's Balance Sheet in the Pooled Investments Adjustment Account. Normal accounting convention would mean that under IFRS9: Financial Instruments, movements in the value of the amount invested should be charged directly to the General Fund, however, in November 2018, the then MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS9 for five years ending 31 March 2023. More recently, a further extension to the over-ride to 31 March 2025 has been agreed by the Government.

11. Treasury Risk Management

11.1. The Council's updated Risk Management framework was approved by Full Council in October 2023 and sets out the processes and procedures for the identification and evaluation of risks and opportunities and the cost-effective control of risks to ensure that they are reduced to an acceptable level and any impact on delivery of objectives is minimised.

11.2. Risks are assessed continually from both an operational and financial perspective. Under the Risk Management Framework for 2024/25, the Council has adopted a "Cautious" approach for financial risks, which means "*Seeking safe delivery options with little residual financial loss only if it could yield upside opportunities*". Our Treasury Management approach is cautious as cash reserves are managed carefully using SLY principles to avoid risky investments.

11.3. In varying degrees and in the course of the normal business, the Council will have exposures to counterparty credit, interest rate, foreign exchange, commodity price or other market events which could have significant effects on financial results if movements occur. The elimination of all risks and resultant income volatility is neither possible nor desirable. The management of the risks that the Council chooses to accept lies at the heart of the treasury risk management. The effective identification of exposures and management of these risks are integral to the Council's treasury management objectives. All treasury activity needs to be managed with the view to reduce the level of risk that remains over and above that the Council chooses to accept as part of its normal activities.

11.4. Overall responsibility for management of treasury risks (including funding and liquidity) always remains with the Council. None of the regulations or guidance prescribes any particular treasury management strategy for local authorities to adopt. The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year to minimise future risks.

11.5. As for the investment exposures, DLUHC issued revised statutory guidance on Local Government Investments in 2018, the DLUHC Investment Guidance, and this forms the structure of the Council's policies. The key intention of the DLUHC Investment Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the DLUHC Investment Guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2021 Edition) (TM Code).

11.6. The Prudential and Treasury Codes set the security of funds as a prime policy objective for cash management, and the avoidance of exposing public funds to unnecessary or unqualified risk. All authorities should consider a balance between security, liquidity and yield which reflects their own appetite, but which prioritises security over yield.

11.7. In accordance with the TM Code, the key treasury risks are discussed in detail in the Council's Treasury Management Practices (TMPs).

12. Non-Treasury Investments

12.1. Investment in non-financial (or non-treasury) investments, e.g. investment in property, do not form part of treasury management activities carried out by the treasury management team of the Council, and typically relate to either Service Type Investments or Commercial Type Investments. Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital & Investment Strategy Report submitted to the Corporate Management Committee in January 2024.

12.2. *Service type investments* are where capital or revenue cash is advanced for a specific council objective and will be approved directly through committee. This may be an advance to a third party for economic regeneration, or for maintaining a community asset that meets the Council's own objectives.

12.3. *Commercial type investments* are where the objective is primarily to generate capital or revenue resources. The resources generated would then help facilitate local authority services.

13. Legal Implications

13.1. The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 (LGA 2003) and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code and the DLUHC Investment Guidance when carrying out their treasury management functions.

13.2. Part 1 of the LGA 2003 established the legislative framework for the prudential capital finance system for local authorities.

13.3. The LGA 2003 requires each Council to set an affordable borrowing limit. The Full Council must carry out this duty; it cannot be delegated. Having set this limit the Council may not exceed it except for specified temporary purposes. However, the Council can make a new limit at any time.

13.4. Regulations require local authorities to have regard to The Prudential Code when carrying out their duties under Part 1 of the LGA 2003. The Code requires that all prudential indicators are set, and revised, only by the Full Council. This is because the need for Members to approve prudential indicators for capital finance is regarded as an important part of the governance responsibilities of a local authority.

13.5. The LGA 2003 provides the Government with reserve powers to set borrowing limits for local authorities that override their locally determined limits. This could be in the form of a national limit – this can only be imposed for national economic reasons – or a specific limit to prevent an individual authority borrowing more than it could afford.

13.6. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) state:

"A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent."

14. Environmental/Sustainability/Biodiversity implications

14.1. Ethical or Sustainable investing is becoming a more commonplace discussion within the wider investment community. There are currently a small, but growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products however the types of products we can invest in are constrained to those set out in our Investment Strategy which is driven by investment guidance, both statutory and from CIPFA, making it clear that all investing must adopt SLY principles – Security, Liquidity and Yield: ethical issues must play a subordinate role to those priorities.

14.2. ESG investing means different things to different people and can be highly subjective. For instance, some funds may invest in products that are known to be harmful, such as tobacco and alcohol but will not touch those that engage in other legal but morally ambiguous products. Likewise, gas or electricity companies may be shunned by a fund that does not like its green credentials, but which may turn a blind eye and invest in companies that have a poor attitude to labour and the working process.

14.3. As well as establishing what funds invest in, before investing in an ESG product, one of the most important issues is to understand the ESG "risks" that an entity is exposed to and evaluating how well it manages these risks which is not something that officers have the experience or available capacity to undertake. This is why, the Council predominantly invests in fixed term deposits with banks, building societies and other local authorities and uses Money Market Funds that predominantly do the same but on a much larger scale. However, all the rating agencies are now extoling how they incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings and in using these, the Council is by default already using ESG metrics in its ordinary course of business.

14.4. The Council's Treasury Policy Statement and Treasury Management Practices (TMPs) refer to ESG principles in investing.

15. Timetable for Implementation

15.1. After consideration by the Corporate Management Committee, the Treasury Management Strategy will be the subject of review by the Overview and Scrutiny Select Committee before being referred to full Council for approval. Once approved it will take effect from the 1 April 2024.

16. Conclusions

16.1. 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 in conjunction with the Council's Corporate Business Plan, Medium Term Financial Strategy, Capital & Investment Strategy and Treasury Management Strategy.

16.2. With higher interest rates, increasing global political risks, potential recessions in 2024, sustained cost of living crisis, high inflation, potential financing constraints and more budget pressures, the investment policy and borrowing must remain prudent and affordable in combination with rigorous risk management practices.

17. Background Papers

- Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition
- The Prudential Code for finance in local authorities - 2021 Edition
- Ministry for Housing, Communities and Local Government – MHCLG) Guidance on Local Authority Investments
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
- The Levelling Up and Regeneration Act 2023
- DLUHC Consultation on changes to statutory guidance and regulations: Minimum Revenue Provision

18. Appendices

- Appendix A – Glossary of Terms
- Appendix B – Prudential and Treasury Management Indicators 2024/25
- Appendix C – Economic Date
- Appendix D – Annual Investment Strategy 2024/25

Glossary

Term	Definition
Basis Point	1/100th of 1%, i.e. 0.01%
The Bank of England	The central bank of the United Kingdom and the model on which most modern central banks have been based.
Call Accounts	Deposit accounts with banks and building societies that provide same day access to invested balances. Interest paid is usually linked to the level of the official base rate.
CFR – Capital Financing Requirement	The underlying need to borrow for capital purposes
CDs – Certificates of Deposit	Negotiable time deposits issued by banks and building societies which can pay either fixed or floating rates of interest. They can be traded on the secondary market, enabling the holder to sell the CD to a third party to release cash before the maturity date.
CPI – Consumer Price Index	This is a measure of the general level of price changes for consumer goods and services but excludes most owner occupier housing costs such as mortgage interest payments, council tax, dwellings insurance, rents etc.
Corporate bonds	Corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments. The key difference between corporate bonds and government bonds is the risk of default.
Cost of Carry	Costs incurred as a result of an investment position, for example the additional cost incurred when borrowing in advance of need, if investment returns don't match the interest payable on the debt.
Counterparties	These are the organisations responsible for repaying the Council's investment upon maturity and making interim interest payments.
CDS – Credit Default Swaps	A swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
DMADF – Debt Management Agency Deposit Facility	An investment facility run by part of the HM Treasury taking deposits at fixed rates for up to 6 months.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded.

DMO – Debt Management Office	An Agency of HM Treasury whose responsibility includes debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.
ECB – European Central Bank	Sets the central interest rates in the European Monetary Union area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%
EIP – Equal Instalments of Principal	A repayment method whereby a fixed amount of principal is repaid at regular intervals with interest being calculated on the principal outstanding.
Fixed Deposits	These are loans to banks, building societies or other local authorities which are for a fixed period and at a fixed rate of interest.
FRN – Floating Rate Notes	Debt securities with payments that are reset periodically against a benchmark rate. FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.
Gilts / Gilt Edged Securities	These are issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest. At the end of the set period the investment is repaid (at face value) by the Government. However, during the life of a gilt it will often be traded (bought and sold) at a price decided by the market.
Maturity loans	A repayment method whereby interest is repaid throughout the period of the loan and the principal is repaid at the end of the loan period.
MMF – Money Market Funds	Externally managed pooled investment schemes investing in short term cash instruments.
MRP – Minimum Revenue Provision	The minimum amount which must be charged to an authority’s revenue account each year and set aside towards repaying borrowing.
MPC – Monetary Policy Committee	The MPC (Monetary Policy Committee of the Bank of England) is a group of nine individuals who, independently of government, set short term interest rates. Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Multilateral Investment banks	International financial institutions that provide financial and technical assistance for economic development.
Municipal Bonds Agency	An independent body owned by the local government sector that seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities.
Pooled Funds	Investments made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification and professional money management.

Prudential Code	A governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good practice.
PWLB – Public Works Loans Board	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow to finance capital spending from this source.
Repo – Reverse Repurchase Agreements	An agreement to purchase a security from a counterparty, typically a bank, and then sell the security back to the bank on a predetermined date for the principal amount plus interest. The security is collateral to be used in the event of a default by the counterparty.
SONIA – Sterling Overnight Index Average	SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
Supranational Bonds	These are very similar in nature to gilts except that rather than being issued by the UK Government they are issued by supranational bodies supported by more than one national government such as the European Investment Bank which is supported by all of the EU member states.
Treasury Bills	Tradable debt securities issued by the UK Government with a short term maturity (3 months to 1 year) issued at a discount. The income from these is in the form of a capital gain rather than interest income.
TMP – Treasury Management Practices	Schedule of treasury management functions and how those functions will be carried out.
TMS – Treasury Management Schedules	More detailed schedules supporting the TMP at a detailed operational level specifying the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions
VRP - Voluntary Revenue Provision	A voluntary amount charged to an authority's revenue account and set aside towards repaying borrowing.
Working Capital	Timing differences between income and expenditure (debtors and creditors).

CAPITAL & AFFORDABILITY RELATED INDICATORS

The Council's capital expenditure plans are one of the key drivers of treasury management activity. The Capital Programme is set out in detail in the Capital Strategy. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

1. Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements which have been updated in line with the phased borrowing requirements of the new property investment plans. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
HRA	6,459	11,249	28,549	18,912	13,662
General Fund	18,048	15,326	6,466	7,593	4,761
Leased assets (IFRS16)	0	0	6,000		
Non-Financial Investments*	11,838	0	0	0	0
Total	**36,345**	**26,575**	**41,015**	**26,505**	**18,423**
Financed by:					
Capital Receipts	13,948	12,565	1,567	3,580	2,260
Earmarked Reserves	355	9,387	14,319	12,591	11,337
Capital Grants & Contributions	3,878	2,428	11,037	1,027	1,244
Revenue	5,907	2,195	8,092	9,307	3,562
Total	**24,088**	**26,575**	**35,015**	**26,505**	**18,403**
Net financing need for the year**	**12,257**	**0**	**6,000**	**0**	**0**

* Non-financial Investments relate to areas such as capital expenditure on Investment Properties, Loans to third parties etc. The net financing need for non-financial investments included in the above table against expenditure is shown in the table below.

** The borrowing in 2024/25 relates solely to the inclusion of leased assets being brought onto the balance sheet in order to comply with new International Financial Reporting Standards.

Capital Expenditure – Non-Financial Investments	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
Capital expenditure	11,838	0	0	0	0
Financing costs met	11,838	0	0	0	0
Net financing need for the year	**0**	**0**	**0**	**0**	**0**
Percentage of total net financing need	0%	0%	0%	0%	0%

2. The Council's borrowing need (the Capital Financing Requirement)

The Council's Capital Financing Requirement (CFR) is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes.

The Council is asked to approve the CFR projections below:

Capital Financing Requirement	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
HRA	100,000	100,000	100,000	100,000	100,000
General Fund	145,470	161,971	160,827	165,640	164,404
Non-Financial Investments	454,016	445,481	441,718	437,803	433,732
CFR at 1 April	**699,486**	**707,452**	**702,545**	**703,443**	**698,136**
Net financing need for the year	12,257	0	6,000	0	0
Less: MRP/VRP	(4,291)	(4,907)	(5,102)	(5,307)	(5,519)
CFR at 31 March	**707,452**	**702,545**	**703,443**	**698,136**	**692,617**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in section 1 and the details above demonstrate the scope of this activity and, by approving these figures, members consider the scale proportionate to the Authority's remaining activity.

3. Liability Benchmark

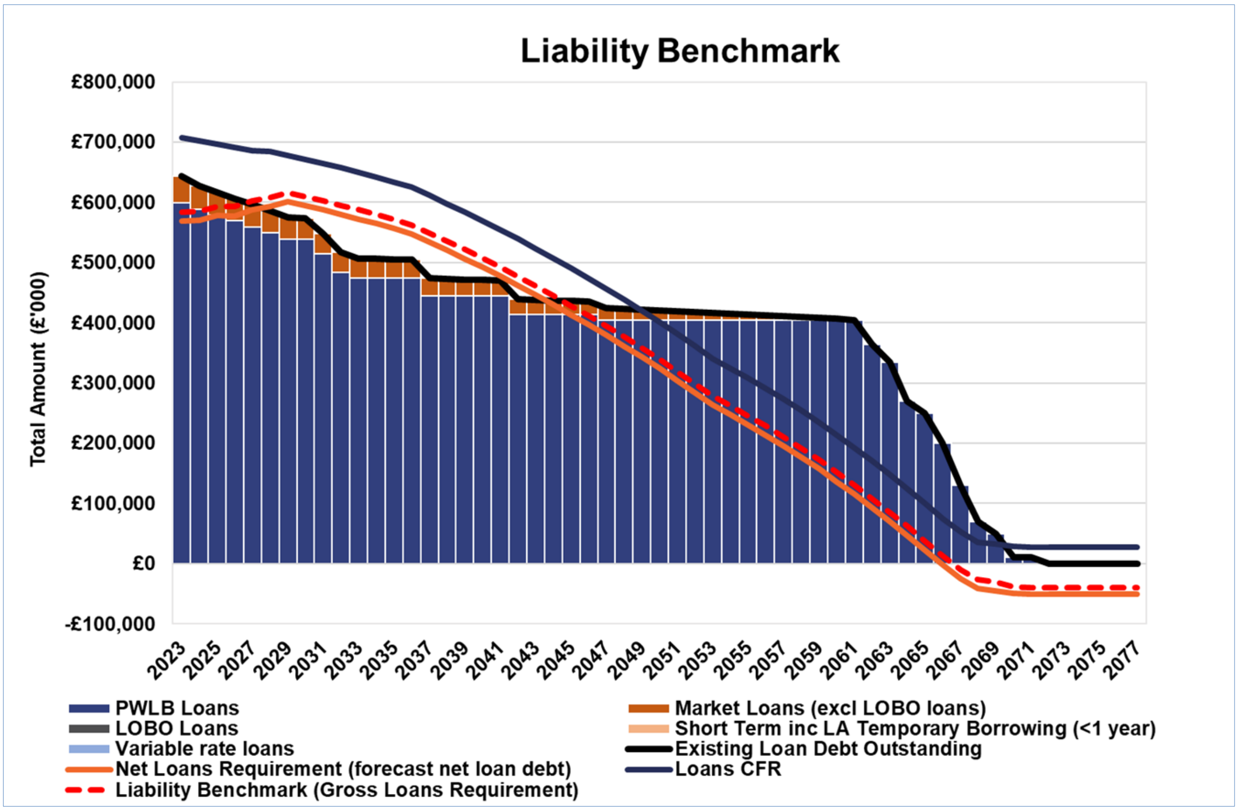
The Council is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum and should ideally cover the full debt maturity profile of a local authority. The liability benchmark model only includes the approved capital expenditure (as per the CIPFA Treasury Management Code) and so does not reflect the financing of future capital ambitions

There are four components to the Liability Benchmark: -

- **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding.
- **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The Treasury Management Code states that: *"The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark should be explained. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment."*

The liability benchmark starting position is based on a snapshot at the last Balance Sheet date. It is not unusual or necessarily an issue to be under / over the benchmark, the liability benchmark is intended to be used as a tool along with other factors used to feed into the authorities ongoing borrowing decisions.

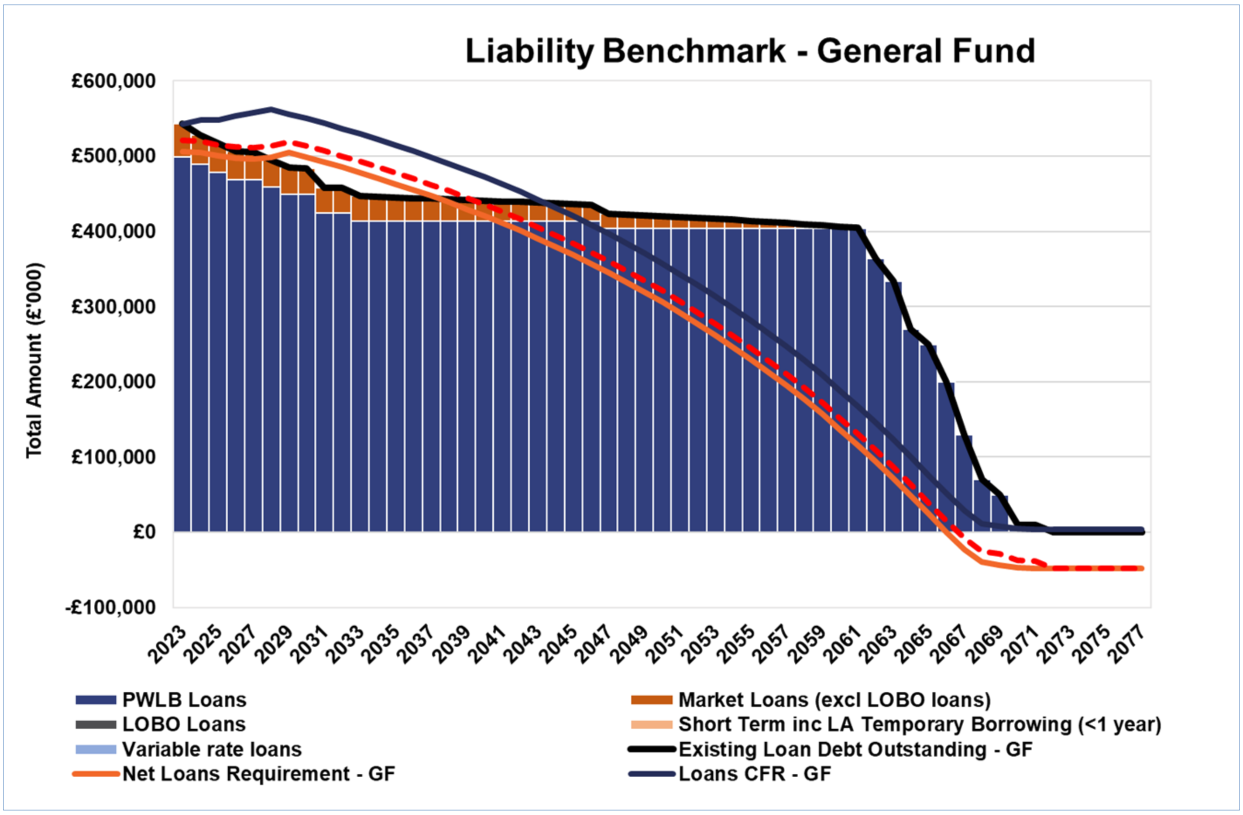


The above chart shows the overall Council position taking both HRA and General Fund debt together. The overall position starts initially as being £74m over the liability benchmark and by 2027 shows a forecast net loans requirement which then increases each year as the PWLB loans mature (the model assumes loans are repaid without replacement).

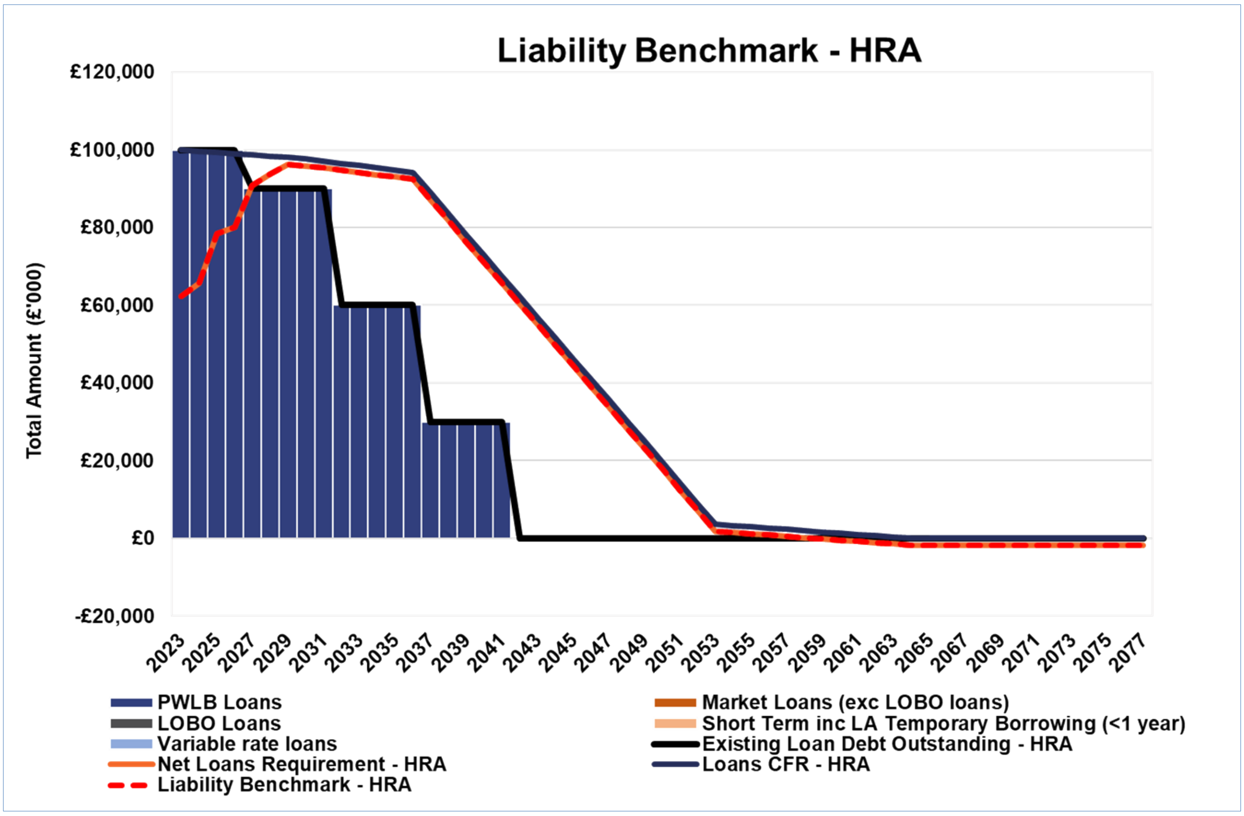
The overall position has a liquidity allowance of £15m, which sets the liability benchmark meaning the authority plans (as per liability benchmark model only) to utilise all but £15m of internal borrowing capacity (i.e. defer borrowing by utilising Balance Sheet cash resources such as reserves & working capital) to finance the CFR before taking on further PWLB or other external loan debt.

Where the actual loans outstanding exceed the benchmark, this represents an overborrowed position, which will result in excess cash requiring investment. Officers will keep an eye on this and may look to repay some loans early if it is prudent to do so. Alternatively, depending on Council finances at the time, it may be possible to switch the loans to HRA loans when the HRA loans are due for repayment if it is both prudent and affordable to both the GF & HRA.

Breaking the Benchmark down into separate HRA and General Fund graphs produces the following results:



The GF forecast liability benchmark shows that by 2027 there will be a need to temporarily borrow to repay some loans as they mature due to the running down of balances and reserves. The liability benchmark by 2040 shows outstanding borrowing that is over the forecast liability benchmark. By 2070 all debt has been repaid.



The HRA has been financed with PWLB debt that is relatively short dated with regular maturities from 2027 (year 5) onwards. The HRA is not required to make MRP. The 30 year HRA Business plan agreed by Committee in March 2023 starts to make a voluntary set aside of £250,000 a year from 2031 increasing to £5m from 2037 to repay debt. Although the HRA starts off over the Liability Benchmark indicator due to investment balances held, by 2028 the model shows a forecast borrowing requirement (the gap between the actual loans and the net loans required) that increases each year as the PWLB loans mature so have exposure to potentially higher interest rates when refinancing the maturing debt.

4. Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances based on assumed cash movements in the MTFS and Capital Programme.

Expected Investment Balances	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
General Fund Reserves	51,313	48,183	47,933	45,652	41,446
HRA Reserves	37,684	35,632	23,619	20,919	16,355
Capital Reserves	17,258	11,528	15,835	12,484	7,294
Total Core Funds	**106,255**	**95,343**	**87,387**	**79,055**	**65,095**
Working Capital*	32,162	39,867	29,223	25,229	18,758
Under/Over Borrowing**	(63,880)	(74,101)	(64,582)	(59,874)	(59,971)
Expected Investments at year end	**74,537**	**61,109**	**52,028**	**44,410**	**23,882**

* Working capital balances shown are estimated year-end; these may be higher mid-year
** Under/Over Borrowing is set out in 6.1 below

5. Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

5.1. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The net revenue stream is a term used to describe the amount in the General Fund to be met from Government grant and local taxpayers. For the HRA it is the total HRA income shown in the accounts i.e. rent and other income.

Ratio of financing costs to net revenue stream	2022/23 Actual %	2023/24 Revised %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
Ratio of Net Financing Costs to Net Revenue Stream	**59.41%**	**38.56%**	**39.88%**	**47.60%**	**53.83%**
General Fund	247.23%	111.51%	100.57%	123.43%	153.99%
Housing Revenue Account	2.71%	-2.10%	0.45%	2.50%	2.45%

The General Fund percentage is high due to past borrowing to fund the former Property Investment Strategy and regeneration schemes. These costs are fully met by additional revenue income rather than Government grant and local taxpayers, however this income is not allowed to be included in this calculation. Including the income generated by the Investment Strategy in the calculations turns the General Fund figure into a negative figure (a net contributor).

5.2. Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The upper limit for principal sums invested for longer than 365 days is set at:

Investment Limit	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
Upper limits on Principal sums invested for over 365 days	0	3,000	3,000	3,000	3,000

5.3. Investment risk benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, 90 day and 365 day backward looking SONIA (Sterling Overnight Index Average rate).

6. Borrowing

The capital expenditure plans set out in the Capital Programme and Capital & Investment Strategy approved by the Council in February each year provide details of the service activity of the Authority

The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury/ prudential indicators, the current and projected debt positions and the annual investment strategy.

6.1. Current portfolio position

The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (Capital Financing Requirement – CFR), highlighting any over or under borrowing.

Current Portfolio position	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
External Debt at 1 April	654,084	643,572	628,444	638,861	638,262
Expected change in Debt	(10,512)	(15,128)	10,417	(599)	(5,616)
Actual gross debt at 31 March	**643,572**	**628,444**	**638,861**	**638,262**	**632,646**
Capital Financing Requirement	707,452	702,545	703,443	698,136	692,617
Under / (over) borrowing	**63,880**	**74,101**	**64,582**	**59,874**	**59,971**

The positive balances show that the Council is under borrowing (i.e. borrowing internally using cash balances).

Within the above figures the level of debt relating to non-financial investment is:

Current Portfolio position – Non-Financial Investments	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
Overall Debt at 31 March	643,572	628,444	638,861	638,262	632,646
Outstanding Non-Financial Instrument Debt	445,481	441,718	437,803	433,732	429,498
Percentage of total external debt	**69%**	**70%**	**69%**	**68%**	**68%**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following three financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

The Assistant Chief Executive reports that the Council has so far complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

6.2. The operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

The Operational Boundary	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
General Fund	-	528,444	527,861	527,262	526,646
Housing Revenue Account	-	100,000	100,000	100,000	90,000
Internal Borrowing	-	74,101	64,582	59,874	59,971
IFRS16: Existing leases	-	-	1,000	1,000	1,000
IFRS16: Provision for new leases	-	-	5,000	5,000	5,000
Total Operational Boundary	**695,710**	**702,545**	**698,443**	**693,136**	**682,617**

Two new sections have been added to both the Operational Boundary and Authorised Limit indicators from 2024/25 to account for the introduction of International Financial reporting Standard 16: Leases (IFRS16). As set out in the main report, this brings all leases onto the Balance Sheet from 1 April. These figures are shown in the CFR elsewhere in this report but have been extracted in these figures for transparency.

6.3. The authorised limit for external debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

- The Council is asked to approve the following authorised limit:

The Authorised Limit	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
General Fund	-	528,444	527,861	527,262	526,646
Housing Revenue Account	-	110,000	110,000	110,000	99,000
Internal Borrowing	-	74,101	64,582	59,874	59,971
IFRS16: Existing Leases	-	-	1,000	1,000	1,000
IFRS16: Provision for new Leases	-	-	5,000	5,000	5,000
Other (Temporary borrowing etc)	-	5,000	15,000	15,000	15,000
Total Authorised Limit	**720,710**	**717,545**	**723,443**	**718,136**	**706,617**

This limit includes a "cushion" to allow for the non repayment of any borrowing at the required time and headroom for rescheduling of debts (i.e. borrowing new money in advance of repayment of existing).

6.4. Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Interest Rate exposure	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
Upper limits on **fixed** interest rates based on net debt	658,191	666,436	681,415	683,726	692,735
Upper limits on **variable** interest rates based on net debt	-	-	-	-	-

The Upper Limit on fixed interest rates is calculated using the maximum allowed debt (The Authorised Borrowing Limit) less Fixed Term investments. The Council heavily uses Money Market Funds whose rates change daily therefore it has been assumed that of the Expected Investments balance shown above, £10m will be invested at variable rates, the rest as fixed term investments.

As the Council does not borrow at variable interest rates, the upper limit on this type of debt will always be nil.

6.5. Maturity structure of borrowing (Upper Limit)

This indicator is set to control the Council's net exposure (taking borrowings and investments together) to interest rate risk. Its intention is to ensure that the Council is not exposed to interest rate rises which could adversely impact the revenue budget. The upper limits proposed on fixed and variable rate interest rate exposures, expressed as the principal sums outstanding in respect of borrowing.

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. If it is not clear whether an instrument should be treated as fixed or variable rate, then it is treated as variable rate.

Maturity structure borrowing 2024/25	FIXED RATE Lower Limit	FIXED RATE Upper Limit	FIXED RATE Lower Limit	FIXED RATE Upper Limit
Under 12 months	0%	25%	0%	0%
12 months to 2 years	0%	25%	0%	0%

2 years to 5 years	0%	25%	0%	0%
5 years to 10 years	0%	50%	0%	0%
10 years and above	0%	100%	0%	0%
20 years to 30 years	0%	100%	0%	0%
30 years to 40 years	0%	100%	0%	0%
40 years to 50 years	0%	100%	0%	0%

The variable rate upper limit of zero means that the Council is minimising its exposure to uncertain future interest rates on its debt. This will still allow a proportion of the debt to be taken as variable as fixed term investments maturing within one year are classified as variable for the purposes of this indicator.

7. Proportionality

The concept of proportionality was introduced to ensure that the level of debt and aggregate risk are proportionate to the size of the authority.

The Council has therefore created a prudential indicator to measure the proportion of the income from commercial and/or service investments to the revenue stream (or in other words a % of non-financial investment income as a contribution to the revenue budget). This takes account of General Fund income only and includes all taxation, grants and other income that goes to pay for General Fund services.

Proportionality	2022/23 Actual £000s	2023/24 Revised £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
Total Non-Financial Investments Income	28,066	25,972	26,034	27,354	27,545
Total Revenue	69,576	68,656	70,484	71,021	68,935
Non-financial investments as a percentage of total income	**40%**	**38%**	**37%**	**39%**	**40%**

This shows that nearly 40% of all the Council's General Fund income comes from Non -Financial Investment income. Ensuring that these types of investments are managed effectively and addressing the risks associated with them is key to the authority. For this reason the key risks and additional reporting and monitoring of data is set out in both the Investment Management Practices (IMP) in the Capital & Investment Strategy and the Asset Management Strategy.

Economic Background
(as provided by Link Asset Services)

The first half of 2023/24 saw:

- Interest rates rise by a further 100 basis points, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- Consumer Price Index ("CPI") inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.

The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.

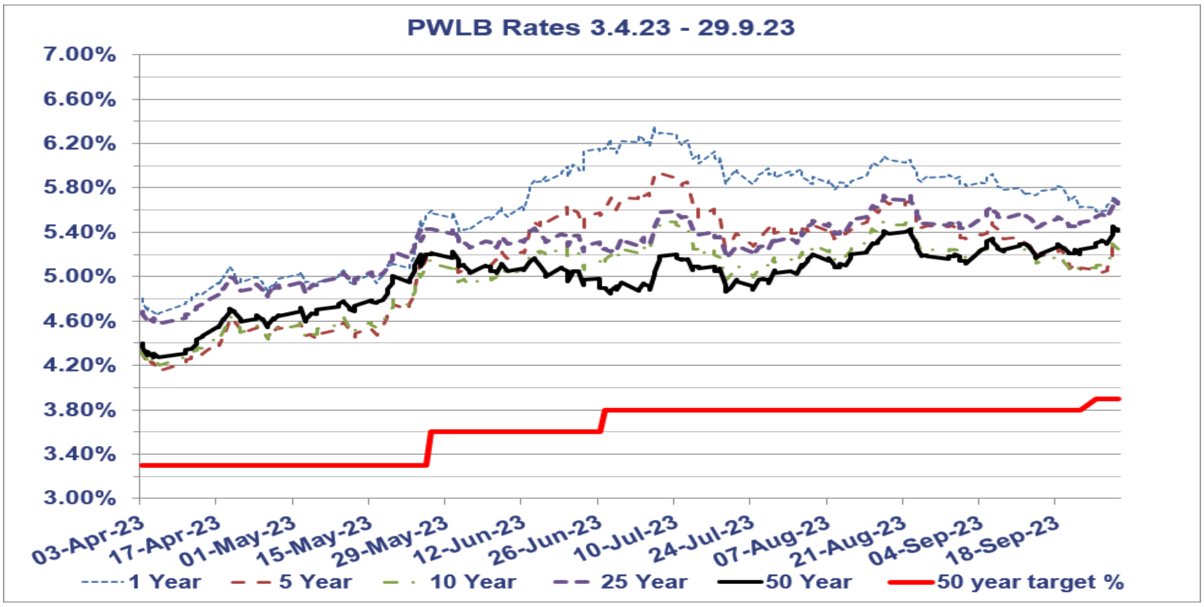
In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

Like the US Federal Reserve, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.

PWLB RATES 01.04.23 - 29.09.23



HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

Currently, the US Federal Reserve has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. Eurozone rates have also increased to 4% with further tightening a possibility.

Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Introduction

1. The Council's investment policy has regard to the DLUHC's Guidance on Local Government Investments (3rd Edition) ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (2021 Edition) ("the TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

2. This strategy applies to both in-house and externally managed funds. Where used, managers of External funds must confirm the acceptability of a counterparty before an investment is made.

3. The Council approved the Annual Investment Strategy for 2023/24 on 09 February 2023.

Investment Policy

4. In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of these reflected in the eyes of each agency. Using our treasury advisers ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

5. Further, the Council's Officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisers to maintain and monitor market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

6. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

7. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration of risk.

8. The intention of the strategy is to provide security of investment and minimisation of risk.

Creditworthiness Policy

9. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

   - It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and

   - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

10. The Assistant Chief Executive will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties that are considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

11. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies and one meets the Council's criteria, and the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by Link Asset Services, the Council's treasury advisers, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to Officers almost immediately after they occur and this information is considered before dealing.

12. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for Officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Investment criteria and limits

13. The Guidance defines specified investments as those expected to offer relatively high security and liquidity and can be entered into with the minimum of formalities. The Guidance defines specified investments as those:

- denominated in pounds sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Council defines the following as being of "high credit quality" (as per the Guidance), subject to the monetary and time limits shown.

Specified investments				
	Paragraph (where applicable)	**Fitch Long term Rating (or equivalent)**	**£ Limit**	**Duration**
UK Banks 1	16	AA- or higher A+ A A-	£7.5m £6.0m £5.0m £4.0m	365 days 365 days 189 days 100 days
Non-UK Banks 1	16	AA- or higher A+ A A-	£3.0m £2.0m £1.0m £1.0m	365 days 365 days 189 days 100 days
Banks 2 (Part nationalised)	17	N/A	£3.0m	365 days
Banks 3 (Council's own bankers)	18	N/A	£1.0m	1 business day
Building Societies	19	A+ A A-	£5.0m £4.0m £3.0m	365 days 189 days 100 days

UK Central Government (DMADF – Debt Management Agency Deposit Facility)		UK sovereign rating	Unlimited	189 days
Local, Police, Fire, Civil Defence & Transport Authorities		N/A	£5.0m	365 days
Money Market Funds (CNAV / LVNAV)	20	AAA	£10.0m	Liquid
Government bonds (gilts) and treasury bills	21	N/A	No limit	365 days
Multinational Development Banks		AAA	£1.0m	365 days

14. Investments in any parent and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that parent or its subsidiaries.

15. With the exception of investments with the UK Government, no investment with any one provider/organisation will exceed £7.5m in total.

Banks

16. **Banks 1** – Banks will be regarded as having high credit quality if they meet the following criteria:

    i) are UK banks (no country limit will apply to investments in the UK, irrespective of the sovereign credit rating); and/or
    ii) are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA or AA+

    and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

    i) Short term – F1 / P-1 / A-1
    ii) Long term – A- / A3 / A-

17. **Banks 2 –** Part nationalised UK banks. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

18. **Banks 3 –** The Council's own banker for transactional purposes if the bank falls below the above criteria. This is because it is needed to facilitate short term liquidity requirements (overnight and weekend) and to provide business continuity.

Building societies

19. The Council will use all building societies with assets in excess of £1bn which meet the ratings for banks outlined above.

Money market funds

20. Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. The Council will only use Money Market Funds with a Constant or Low Volatility Net Asset Value (CNAV / LVNAV).

Government bonds (gilts) and treasury bills (T-bills)

21. Conventional gilt is a liability of the Government which guarantees to pay the holder of the gilt a fixed cash payment (coupon) every six months until the maturity date, at which point the holder receives the final coupon payment and the return of the principal.

22. T-Bills are short term securities issued by HM Treasury on a discount basis. For example, a £100 coupon will be issued below its value to the investor and on maturity the investor will receive £100. The difference will be the capital gain received. The security can also be cashed before maturity in the active secondary market giving the lending party more freedom to cash in the T-bill before maturity date.

Foreign countries

23. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch (or equivalent). This list will be added to, or deducted from, by Officers should ratings change in accordance with this policy.

24. Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 (paragraph 17) above and will be limited to a maximum of £3 million to be placed with any non-UK country at any time;

25. Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

Non-specified investments

26. Any investment not meeting the definition of a specified investment (see paragraph 13) is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any with sub-investment credit quality bodies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement.

27. The limit on the amount that may be held in non-specified investments, these being long-term investments only, at any time in the financial year is £3 million (excluding any accrued interest).

28. The advice of our treasury management consultants will be sought prior to making any long-term investment as to the appropriateness of the investment.

Non Specified investments				
	Paragraph (where applicable)	**Fitch Long term Rating (or equivalent)**	**£ Limit**	**Duration**
Any bank or building society (including forward deals in excess of one year from inception to repayment).	37	AAA AA+ AA AA-	£1.0m £1.0m £1.0m £1.0m	3 years 3 years 3 years 2 years
Gilt edged securities.	37	N/A	£1.0m	3 years
Supranational bonds greater than 1 year to maturity a) Multilateral development bank bonds	30, 37	AAA	£1.0m	3 years

b) A financial institution that is guaranteed by the United Kingdom Government		N/A	£1.0m	3 years
Short Dated Bond Funds / Enhanced Cash Funds	30, 37	N/A	£2.0m per fund £6m in total	2 years
Pooled Funds and Collective Investment Schemes	31	N/A	£2.0m per fund £6m in total	N/A
UK Small & Medium Sized Enterprises via the Funding Circle	32	N/A	£5,000 per organisation (subject to an overall limit of £0.5m)	N/A
Investment in Property	33	Subject to the limits set out in the Capital Strategy		

Supranational bonds

29. The Council will invest in two types of bonds:

a) **Multilateral development bank bonds** are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).

b) **A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}). The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

Short Dated Bond Funds / Enhanced Cash Funds

30. Short dated Bond Funds / Enhanced Cash Funds are pooled investment vehicles with an average duration of between 3 months and 2 years with a variable net asset value (NAV) meaning their values can go down as well as up. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager and should be looked at as short to medium term investments.

Pooled Funds and Collective Investment Schemes

31. The Council will use pooled funds, for example pooled bond, equity and property funds that offer enhanced returns over the longer term but are potentially more volatile over the shorter term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Council's investment objectives will be monitored regularly.

UK Small & Medium Sized Enterprises via the Funding Circle

32. The Council has in the past made loans for periods of up to three years to small and medium sized enterprises (SME) in the UK that have been independently assessed as being of suitable credit quality. This will be done via the Funding Circle peer-to-peer lending platform. The Funding Circle

have now ceased allowing further retail investments and as such the Council can no longer re-invest maturities in the Fund. These investments are now winding down but will remain in the investment Strategy until all the outstanding loans have been repaid.

Non-Treasury Investments

33. In addition to traditional treasury investments, the Council may also invest in property and make loans and investments for financial return and/or for service or policy purposes. Such investments will be subject to the Council's normal approval processes for revenue and capital expenditure and controls around their use are included in the Council's Capital & Investment Strategy and therefore do not comply with this Treasury Management Strategy.

Liquidity Management

34. Liquidity is defined by the CIPFA Treasury Code of Practice as "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable the Council at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives"

35. The proportion of the in-house portfolio that may be held in short-term and long-term investments will vary at any one time dependant on the cash flow position of the Council. The Council uses a manual cash book and spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

36. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

37. The amount of investments (both managed in house and externally) that may be held in long-term investments will be, measured on a rolling basis, at any point in time:

    - No more than £3 million of outstanding investments are to be over 3 years until maturity, and
    - No more than £3 million of outstanding investments are to be over 1 year until maturity.

38. The maximum term of any one investment is 3 years with the exception of those loans invested via the Funding Circle (see paragraph 32).

Planned Investment Strategy for 2023/24

39. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The cash flow forecast will be used to divide surplus funds into three categories:
    - Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
    - Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
    - Long-term – cash not required to meet cash flows and therefore liquidity is of lesser concern and a greater yield can be achieved.

40. Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

41. Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks

and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks; this may be achieved by the use of suitable medium-term money market funds. Deposits with lower credit quality names will be made for shorter periods only, while deposits with higher quality names can be made for longer durations.

42. Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds will be used to diversify the portfolio. The Council will consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments.

Forward deals up to one year

43. Forward deals may be entered into with banks and building societies that meet the appropriate credit rating criteria for specified investments where the total period of the investment (i.e. negotiated deal period plus period of deposit) is less than one year.

Markets in Financial Instruments Directive (MiFID)

44. The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

Annex A

Credit ratings and definitions

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default.

Table A: Comparison of long-term credit ratings		
Moody's	**S&P**	**Fitch**
Investment grade		
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Speculative grade		
Ba1	BB+	BB+
Ba2	BB	BB
Ba3 and below	BB- and below	BB- and below

<u>(Negative) Rating Watch – Fitch Ratings</u>
Rating Watches indicate that there is a heightened probability of a rating change and the likely direction of such a change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a

potential downgrade, or “Evolving”, if ratings may be raised, lowered or affirmed. However, ratings that are not on Rating Watch can be raised or lowered without being placed on Rating Watch first, if circumstances warrant such an action.

<u>Review for possible downgrade – Moody’s (Standard & Poor’s is very similar)</u>
Moody’s uses the ‘Watchlist’ to indicate that a rating is under review for possible change in the short-term. A rating can be placed on review for possible upgrade (UPG), on review for possible downgrade (DNG), or more rarely with direction uncertain (UNC). A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed.

<u>(Negative) Rating Outlook – Fitch Ratings (Moody’s and Standard & Poor’s are similar)</u>
Rating Outlooks indicate the direction a rating is likely to move over a one- to two-year period. They reflect financial or other trends that have not yet reached the level that would trigger a rating action, but which may do so if such trends continue. The majority of Outlooks are generally Stable, which is consistent with the historical migration experience of ratings over a one- to two-year period. Positive or Negative rating Outlooks do not imply that a rating change is inevitable and, similarly, ratings with Stable Outlooks can be raised or lowered without a prior revision to the Outlook, if circumstances warrant such an action. Occasionally, where the fundamental trend has strong, conflicting elements of both positive and negative, the Rating Outlook may be described as Evolving.

Report title	**CAPITAL & INVESTMENT STRATEGY 2024/25 to 2027/28**
Report author	Paul French – Corporate Head of Finance
Department	Financial Services
Exempt?	Yes (Capital Programme Appendix B only)
Exemption type	(3) Financial or business affairs (commercially sensitive)
Reasons for exemption	Capital Programme contains budgets related to future tendering exercises

Purpose of report:

To recommend to full Council

Synopsis of report:

To recommend a draft Capital & Investment Strategy and Capital Programme for Full Council approval in February 2024.

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 2024/25 to be considered by Full Council in February 2024.

Changes to the existing Strategy include major updates to the Risk Management and Biodiversity sections to take account of the recently approved risk management framework and climate change updates.

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

Recommend to full Council that:

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

ii) **In light of the requirements in the Levelling Up and Regeneration Act 2023, the Council agrees to place a moratorium on any new debt-funded asset investment.**

iii) **Subject to external auditor agreement, the Council sets its "low value" limit for IFRS16 reporting purposes at £10,000.**

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. This Framework is based on principles rather than being a prescriptive rules-based system and places a degree of reliance on local authorities to comply with the intent and spirit of the Framework and the principles of prudence, affordability, proportionality and sustainability. The Framework comprises underlying legislation (s1 & 12 Local Government Act 2003), which local authorities must **adhere to**, and four statutory codes (Prudential Code, Treasury Management Code, Guidance on Local Authority Investments and Guidance on Minimum Revenue Provision) which they must have **regard to.**

1.3 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 & Investment 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

1.4 This report should be read in conjunction with the Treasury Management Strategy - 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 Government's 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 & Investment 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. It also helps the Council to be clear on its priorities for bidding for external funding.

2.3 The Assistant Chief Executive (s151 Officer) 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 & Investment Strategy or Capital Programme or ask the Corporate Management Committee to reconsider areas of detail within them.

2.4 The Capital & Investment Strategy was last updated by full Council in February 2023. The strategy needs to be updated on an annual basis and an updated Capital and Investment Strategy for 2024/25–2027/28 is attached at Appendix A for approval with any changes highlighted for ease of reference.

2.5 The main changes to the Strategy include:

- Section 14 – Updates to the Environmental & Sustainability section to account for the latest work undertaken in this area

- Section 15 - Updates to the Risk Management Section to take account of the Risk Management Framework agreed by full Council in October 2023

Funding the Strategy

2.6 As part of the Council's governance arrangements the Capital & Investment 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 quarterly to both Corporate Management Committee and Overview and Scrutiny Select Committee

2.7 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 2024/25 to 2027/28 in light of this evolving financial position with many schemes being deferred or held as provisional within the Capital Programme.

2.8 In light of the measures contained within the Levelling Up and Regeneration Act 2023 (see below), and the existing pressures on the Council's revenue budget due to rising costs and levels of demand, the MTFS does not include borrowing costs for any major new borrowing for capital purposes. The unaffordability, given the projected budget gap, of further borrowing, severely constrains the Capital Programme moving forward, particularly in light of the scarcity of other capital resources and the limited ability for the Council to generate capital receipts through the sale of assets.

Levelling Up and Regeneration Act 2023

2.9 In November 2020, the Government made changes to the operation of the Public Works Loan Board (PWLB), which prevented local authorities from accessing PWLB borrowing if they were planning on undertaking investments primarily for yield and in July 2021 the government published a policy paper setting out its planned approach to the strengthening of the capital finance system. The latest part of this plan, came in the form of the Capital Risk Management section included in the Levelling Up and Regeneration Act 2023, which came into force at the end of October 2023.

2.10 The Capital Risk Management section expands the Government's statutory powers to directly tackle perceived excessive risk-taking within the local government capital system. This seeks to safeguard the Prudential Framework and its principle of local decision making and accountability, by providing the means to address directly instances of problematic practices rather than using systemic reform that affects all authorities. A local authority comes into scope of the new powers where a 'trigger point' is breached with respect to risk metrics, set out as in the Act.

2.11 The specific methods of calculation of these metrics will be set out in regulations, to ensure that the metrics can be amended in a timely way to respond to changes in local government risk, incorporate new/more appropriate data or otherwise be adapted as needed to remain optimally effective. While the exact method of determining these triggers and thresholds is yet to be confirmed, it is certain that the Council will meet one or more of them and will therefore be subject to some consideration by Government.

2.12 The Council is confident that it has robust financial risk measures in place and strong governance arrangements and constantly strives to adopt best practice in the management of its financial affairs. Nevertheless, it must consider what effect this new legislation and the new metrics may have and build this into its future financial plans.

2.13 The Council's last investment property purchase was undertaken in 2020 under its former Property Investment Strategy. The Council's current Asset Management Strategy, approved by Full Council in March 2023, includes its Acquisition and Disposal Policy (Appendix 5 of the

Strategy) which sets out how acquisitions will be limited in nature and are likely to be linked to schemes identified in the Corporate Business Plan, for purposes other than for direct commercial investment. It further includes the statement that ***Borrowing for purely income generation reasons has now ceased and the investment property portfolio has moved into the 'asset management' phase.***

2.14 In addition, the Public Works Loan Board (PWLB) lending terms now require councils to submit a high-level description of their capital spending and financing plans for the following three years including planned use of the PWLB alongside confirmation that they do not intend to buy investment assets primarily for yield at any point during that period. In light of this on-going tightening of the prudential framework, coupled with the spirit and context of the Levelling Up and Regeneration Act 2023, it is proposed that the Council further formalises its intent not to purchase additional investment property by placing a moratorium on new debt-funded asset investments, i.e. assets purchased primarily for yield.

2.15 This will not preclude assets being purchased as part of site assembly for a future regeneration scheme for example, where some revenue may be derived from the property in the interim period.

2.16 While debt levels are high, the Council provides for servicing of this debt and its repayment and maintains robust management of its commercial property portfolio. Income from these investments has supported local regeneration and allowed the Council to maintain services to the public, due to the net contribution these assets make to the Council's budget. However, it is incumbent on the Council to consider the value of its asset base on an on-going basis, as set out in its Asset Management Strategy and to consider divestment of assets when appropriate.

2.17 In addition to the above, in late December 2023 the Council received a non-statutory Best Value Notice from DLUHC. Part of this notice was a recommendation that the Council "*Outline what steps they plan to take to reduce and manage the overall debt of the Council*". The Capital & Investment Strategy is consistent with the ongoing dialogue with DLUHC and reflects our interaction with CIPFA (including their report).

3. Capital Programme

Capital Expenditure

3.1 The MTFS action plan stipulates that no new capital projects are to be included in the capital programme without the necessary resources to meet the full capital costs, and any associated revenue implications, being in place. Business cases should reflect all financial implications and risks and be reported alongside the request for inclusion in the Programme. If it is too early in the process to provide this level of detail, a provision may be made within the budget but will be subject to reporting of the full business case to the appropriate Committee before proceeding with the project.

3.2 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.

3.2 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.

3.3 Whilst the Capital Programme covers a ten-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.

3.4 The changes to the Programme since its approval in February 2023 stem from phasing adjustments between financial years due to delays and/or future resourcing issues and the inclusion of the following Business Critical new schemes approved for inclusion during the submission of growth bids as part of the MTFS report agreed by the Corporate Management Committee in December 2023:

Scheme	24/25 £	25/26 £	26/27 £	27/28 £	Impact on Capital Budget £
Replacement Finance system	375,000	275,000	20,000	20,000	190,000
Telephony development	20,000				(180,000)
	395,000	275,000	20,000	20,000	

3.5 Both of these projects were previously within the programme but have been adjusted as per the table above. Updated market intelligence regarding a replacement finance system has led to an increase in the expected capital costs which now include sums for project management resource in years 1 and 2 given the high importance of this system to ensuring good management of the Council's finances. Also now included is a modest sum for annual upgrades and additional modules.

3.6 Previously a provision had been included in the capital programme for £200,000 for telephony and call centre contract replacement. Work has been done to revisit this proposal and significantly reduce the expected costs in 2045/25 by providing a lower budget for existing hardware upgrades only and deferring any non-essential enhancements.

3.7 As well as scheme slippage, the following provisional schemes have been removed from the Programme:

Scheme	Value £	Reason for removal
Kings Lane Open Space bike track	30,000	Risks identified & ongoing costs
Addlestone youth cafe	160,000	Geek Retreat now in situ
Contribution towards Surrey wide travellers site	200,000	Scheme unlikely to progress
Restructuring & transformation provision	500,000	Scheme unlikely to progress
Addlestone One internet upgrade	100,000	Scheme unlikely to progress

3.8 The removal of these provisional schemes means that the scarce capital resources can be diverted to higher priority schemes in the Capital Programme that meet the Council's current priorities.

3.9 Taking these changes into account, the total Capital Programme costs over the next five years are estimated to be as follows:

	Revised 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28
	£	£	£	£	£
Housing Revenue Account	11,249,088	28,548,500	18,912,500	13,642,000	15,705,000
Housing Services	651,507	651,507	651,507	651,507	651,507
Community Services	811,697	1,625,000	731,200	520,000	297,800
Environment & Sustainability	2,392,732	777,700	2,000,000	2,099,500	1,048,800
Corporate and Business Services	11,470,222	3,412,500	4,210,000	1,490,000	7,210,000
	26,575,246	35,015,207	26,505,207	18,403,007	24,913,107

3.10 It should be noted that the draft Capital Programme **excludes** any consequences of the addition of leased assets resulting from the implementation of IFRS16 (see section 5 below), but **includes** assumptions on vehicle and ICT replacement at the end of their lives or contracts as follows:

- Vehicle assumptions: £5.4m over the life of the programme relates to vehicle replacement. Should Members wish to electrify the fleet in the future, this will add additional costs to the programme (based on current purchase costs) These are also subject to review as part of the emerging Council Fleet Strategy;
- ICT assumptions: £3.1m for IT system replacement which assumes retendering at end of current contracts. Contract extensions or minor upgrades should reduce this cost.

3.11 In total the Capital programme currently contains provisional/unapproved schemes to the value of £10.3m. This includes a balance of £4m from the £25m HRA rebuild programme for schemes that have not yet been approved in detail by the Housing Committee.

<u>Sources of finance</u>

3.12 The programme is funded in a number of ways. The proposed method for financing the Capital Programme is set out in the table below.

	Revised 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28
	£	£	£	£	£
Housing Revenue Account Reserves	2,098,712	7,985,000	9,307,500	3,562,500	5,170,000
Housing Major Repairs Reserve	7,784,000	10,956,000	9,355,000	9,612,000	10,535,000
General Fund Reserves	97,200	107,000	-	-	-
Earmarked General Fund Reserves	1,603,229	3,362,700	3,236,200	1,724,500	2,876,600
Other Grants & Contributions:	2,427,821	11,037,007	1,026,507	1,244,007	651,507
Capital Receipts	12,564,284	1,567,500	3,580,000	2,260,000	5,680,000
Borrowing	-	-	-	-	-
	26,575,246	35,015,207	26,505,207	18,403,007	24,913,107

It should be noted that the financing above matches the expenditure in table 3.9. These tables differ from those set out in the Treasury Management Strategy report shown elsewhere on this agenda which, for future reporting purposes, includes the consequences of the addition of existing and potential leased assets resulting from the implementation of IFRS16 (see section 5 below). The tables in this report focus purely on traditional capital expenditure to make it clear that no additional borrowing is anticipated to fund the programme.

3.13 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.

3.14 In the General Fund, capital receipts from the sale of assets fund much of the Programme. In addition, the Programme is funded by external grants, developer contributions from Section 106 agreements and the Community Infrastructure Levy and also from earmarked reserves for equipment replacement and property repairs and renewals. These two earmarked reserves fund a major part of the General Fund Capital Programme, but these reserves are topped up by annual contributions from our General Fund Revenue reserves and are therefore directly linked to the financial sustainability of the Council's revenue budget, as set out in the MTFS, as reported to this Committee in December.

3.15 The Council has in the past, borrowed to fund large scale regeneration schemes to fund its regeneration initiative. The original Capital Programme for 2024/25 included financing £5.3m of the Magna Square retention payments from borrowing, however, in line with the requirements of the Best Value Notice served on the Council by DLUHC, namely to reduce and manage the overall debt of the Council, it is now intended to fund this from capital receipts rather than increase the Council's borrowing requirement.

Capital receipts

3.16 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.

3.17 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	2023/24	2024/25	2025/26	2026/27	2027/28
	£	£	£	£	£
General Usable Receipts					
Receipts at 1 April 2023	8,590,469	2,858,100	8,530,815	5,271,030	3,331,245
Add new receipts in the year	6,831,915	6,720,215	320,215	320,215	320,215
Less Applied during the year	(12,564,284)	(1,047,500)	(3,580,000)	(2,260,000)	(5,680,000)
Anticipated year end balance	**2,858,100**	**8,530,815**	**5,271,030**	**3,331,245**	**(2,028,540)**
Comparison to £2m Minimum Balance	858,100	6,530,815	3,271,030	1,331,245	(4,028,540)
Set Aside for HRA Debt repayments					
Receipts at 1 April 2023	1,866,609	2,196,009	2,525,409	2,854,809	-
Add new receipts in the year	329,400	329,400	329,400	329,400	329,400
Less Applied during the year	0	0	0	(3,184,209)	0
Anticipated year end balance	**2,196,009**	**2,525,409**	**2,854,809**	**-**	**329,400**
Set Aside for 1-4-1 Replacements					
Receipts at 1 April 2023	2,442,860	3,108,260	2,818,260	3,048,260	3,278,260
Add new receipts in the year	665,400	230,000	230,000	230,000	230,000
Less Applied during the year	0	(520,000)	0	0	0
Anticipated year end balance	**3,108,260**	**2,818,260**	**3,048,260**	**3,278,260**	**3,508,260**

3.18 From the above table it can be seen that the Council runs out of usable capital receipts during 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 either replenish capital receipts or reduce borrowing levels depending on the requirements at the time. 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.

3.19 In the General Fund most of the capital receipts are generated from the sale of apartments in regeneration areas, however once they have gone, new sources of finance will need to be sought.

3.20 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. For this reason, Full Council approved a minimum level of capital receipts of £2m to be maintained for such emergencies. Should sales activity not be forthcoming over the next year, it will be necessary to further delay some future capital schemes or find alternative methods of funding them to avoid receipts falling below the £2m minimum balance in 2026/27.

3.21 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. £1m was however set aside from the underspend in the Council's revenue budget at the end of 2022/23, to provide funding for this purpose via a Service Transformation Reserve.

4 Non-treasury Investments

4.1 The Prudential Code, TM Code and DLUHC regulations include guidance on what are termed "non-treasury" investments. These are essentially investments that sit outside of the Treasury Strategy that are undertaken for service reasons or commercial gain.

Service investments

4.2 Service Investments are 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. Details of the Council's Service Investments as at 31 March 2023 are as follows:

Borrower	Year	Duration	Loan	Outstanding
			£	£
Virginia Water Scouts	2017/18	40 years	90,000	78,000
Addlestone Canoe Club	2020/21	15 years	150,000	139,285
			240,000	**217,285**

Both loans were given interest free (known as a soft loan) and are shown in the Council's accounts as long term debtors.

Commercial investments

4.3 Commercial Investment are investments undertaken primarily for financial reasons including commercial loans to companies and other organisations and holding property for a financial return (investment property).

4.4 The most significant commercial investments that the Council has undertaken to date are in relation to property acquisitions which are managed through its Asset Management Strategy, and development loans made to its wholly owned company, RBC Investments (Surrey) Ltd, which enabled it to buy some of the properties resulting from the Council's regeneration schemes. The capital value and net income of the commercial investments currently held by the Council as at 31 March 2023 was as follows:

Investment	Value £	Net income £	Yield %
Investment Properties*	539,580,800	26,208,000	4.9%
Development Loans to RBCI	38,163,649	1,645,463	4.3%
Total Investment	**577,744,449**	**27,853,463**	**4.8%**

* Net income excludes provision for bad debts and borrowing costs. Including these reduces the yield to 2.1%

Both Net income figures include part year figures relating to the Magna Square development. These figures will increase in a full year.

4.5 Non-Treasury investments are analysed periodically to ensure that the fair value/carrying value of each investment is appropriate as required under the relevant Accounting Standard (Service Investments – IFRS9, Commercial Investments – IAS40). The Investment Properties will be independently revalued as at 31 March 2024 as part of the Council's 2023/24 financial accounts process.

5 Leasing

5.1 Leasing obligations are similar to borrowing as they have an ongoing revenue budget commitment. Leasing will be considered following due diligence over the life of the asset, comparing the financial and non-financial benefits and risks compared to the Council owning such assets itself.

5.2 From 1 April 2024 the accounting standard which sets out the guidelines for accounting for leases changes from IAS 17 (International Accounting Standard) to IFRS 16: Leases (International Financial Reporting Standard). This means from this date the way the Council accounts for assets it leases will change.

5.3 The definition of a lease has been adapted for the public sector as being 'a contract, or part of a contract, that conveys the right to use an asset for a period of time.'

5.4 Under these changes all existing leases and any assets contained in contracts that are deemed "right of use assets" will be shown on the balance sheet except for:

- leases of 12 months or less
- the asset is of "low value"
- where a contract contains use of an asset but the supplier has the ability to substitute alternative assets throughout the period of the contract.

5.5 The Council's policy on capitalisation in accordance with its approved accounting policies and procedures, is that expenditure on land, buildings, vehicles, plant, machinery and intangibles over £10,000 will be capitalised. Expenditure under these limits is deemed to be a revenue cost. This was set to match the limit of £10,000 set in The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 for recognising capital receipts.

5.6 Under the new leasing rules the Council must set its own "low value" limit, however it must meet certain criteria and must not be too low that it excludes certain items such as vehicles. For this reason, officers are recommending that in order to be consistent, the

Council agrees to set its “low value” limit at £10,000 and a recommendation to this effect is included accordingly. This figure must be agreed by the Council’s external auditor.

5.7 In preparation for the introduction of the new standard, a data gathering exercise has been undertaken to record all the leases and potential “right of use assets” the Council has, including those at peppercorn/nil consideration (where the Council pays little or no rental payments at any point during the duration of the lease). The Council will have to evidence to its external auditors that it is prepared for these changes.

5.8 When any leased asset is recognised in the balance sheet a corresponding liability is then created, representing the obligation to make lease payments. When the Council makes a lease payment rather than it showing as an expense against the relevant cost centre, it is split between paying off this liability and interest payments. The asset is depreciated in the same way as similar assets of that class, usually over the life of the lease unless the asset useful life is lower.

Leases and Prudential Indicators

5.9 IFRS 16 treatments largely affect Prudential Indicators for estimates that are subject to monitoring, rather than those that provide limits within which the authority must operate. The impact of IFRS 16 implementation can therefore reasonably be reported after the fact as a variation on the original estimates. However, the Authorised Limit is a fixed limit and the Council will be in breach of its statutory powers if the Limit is exceeded.

5.10 The Prudential Code requires the Authorised Limit to be set with components for borrowing and for other long-term liabilities. The limits set for either of these two components can be exceeded, provided that the overall Authorised Limit is not broken. If this happens, the event must be reported to the next meeting of full Council.

5.11 The usual consequence of breaching the Authorised Limit is that the new borrowing or the new or modified credit arrangement that caused the breach would have been entered into unlawfully (sections 2 and 8 of the Local Government Act 2003 respectively). Changes can be made to the Limit at any time, but timeliness will then be constrained by the Council’s administrative process for securing full Council authorisation and the risk that members might not wish to give such authorisation. The complications will therefore be largely administrative and reputational.

5.12 To avoid this, certain assumptions and contingent amounts have been built into the calculation of the Prudential Indicators for 2024/25 and these are set out in the Treasury Management Strategy shown elsewhere on this agenda.

Leases and the Minimum Revenue Provision (MRP)

5.13 As capital expenditure, additions to right-of-use assets need to be included in capital financing arrangements from 1 April 2024. The Statutory Guidance on MRP has already been amended to extend the treatment previously expected for finance leases to all leases. The MRP charge for the year should be the element of the rent that goes to write down the lease liabilities. As this is generally the only element of the rent that has not already been charged to revenue, it is basically an instruction for the total charge to the General Fund Balance to equal the rents payable for the year. The authority’s MRP policy shown in the Treasury Management Strategy shown elsewhere on this agenda has been updated to reflect this new requirement.

6 Treasury Management Strategy (TMS)

6.1 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.

6.2 Where capital expenditure has been incurred without a resource to pay for it, this will increase the Council's Capital Financing Requirement (CFR) which is the Council's underlying need to borrow. The Council is required to make a prudent provision for the repayment of historic capital expenditure from its revenue budget. This is known as a Minimum Revenue Provision (MRP). CFR is calculated below:

Opening Capital Financing Requirement (CFR
+
Capital Expenditure in year
-
Grants, contributions, reserves & capital receipts
-
Statutory provision for repayment of debt (MRP)
=
Closing Capital Financing Requirement (CFR)

6.3 The Council's CFR at the end of March 2023 was £707,452,000

Prudential and Treasury Management Indicators

6.4 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.

6.5 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. Risk Implications

10.1 The Council's updated Risk Management framework was approved by Full Council in October 2023 and sets out the processes and procedures for the identification and evaluation of risks and opportunities and the cost-effective control of risks to ensure that they are reduced to an acceptable level and any impact on delivery of objectives is minimised.

10.2 Risks are assessed continually from both an operational and financial perspective. In carrying out due diligence, potential project risks are identified, and relevant mitigation measures documented prior to approval. All risks are then managed in line with the Council's Risk Management framework and must be reflected in Service Area Plans which feed into the Corporate Risk Register.

10.3 Without doubt, the biggest capital risks the Council is subject to are in relation to property both in terms of our investment properties as well as our operational properties. These include:

- The cost of maintaining the assets
- Potential future decarbonisation requirements
- Fluctuations in valuations
- Delayed or reduced capital receipt generation

The Asset Management Strategy identifies and plans for these risks in detail and a summary of risks is also set out in Section 15 of the Capital and Investment Strategy.

11. Timetable for Implementation

11.1 After consideration by the Corporate Management Committee, the Capital & Investment Strategy will be referred to full Council for approval. Once approved it will take effect from the 1 April 2024.

12. Conclusion

12.1 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.

12.2 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.

12.3 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.

12.4 The ten-year Capital Programme is an aspirational one and the assumption that the previous borrowing requirement anticipated for the Magna Square development (£5.3m) would still be allowable once the Levelling Up and Regeneration Act Capital Metrics have been finalised has been removed by the Best Value Notice's requirement to reduce the Council's borrowing levels. This means that the Capital Programme beyond 2025/26 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 in the medium term.

13. Background papers

- Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition
- The Prudential Code for finance in local authorities - 2021 Edition
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
- The Levelling Up and Regeneration Act 2023
- DLUHC Consultation on changes to statutory guidance and regulations: Minimum Revenue Provision

14. Appendices

- Appendix A – Updated Capital & Investment Strategy for 2024/25 to 2027/28)
- Appendix B (Exempt) – ten-year Capital Programme

Runnymede Borough Council

Capital and Investment Strategy

~~2023~~2024/2~~4~~5 – 2027~~6~~/2~~7~~8

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 The Council's policy on capitalisation in accordance with its approved accounting policies and procedures, is that expenditure on land, buildings, vehicles, plant, machinery and intangibles over £10,000 will be capitalised unless wholly funded from external sources. Expenditure under these limits is deemed to be a revenue cost.

1.4 The Council has no authority to capitalise revenue expenditure without the express approval of the Secretary of State for Levelling Up, Housing and Communities

1.5 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.

1.6 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.

1.7 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

1.8 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) and revenue budget and tax setting proposals. 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.

1.9 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.

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. 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 developed a 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 (AMS) 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 AMS 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) assessments of the level of maintenance required for each property are being 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 AMS highlights any such issues at an early stage to ensure mitigating measures can be taken.

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

- Has a fully developed Asset Management Strategy in place setting out the risks in detail
- Has created Investment Management Practices for non-treasury investments which includes our investment properties (appended to this 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

6.7 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 AMS. 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.

6.8 The AMS will identify underperforming assets, or those where an opportunity arises, for divestment or re-purposing, following review and decision by the relevant Committee. The future of the Capital Programme is heavily dependent on the production of new capital receipts; which is increasingly important where future borrowing may be restricted or where there is limited ability for the general fund to support capital spending either directly or through bearing the cost of carrying debt.

6.9 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.

7.4 No new capital projects are to be included in the capital programme without the necessary resources to meet the full capital costs, and any associated revenue implications, being in place. Business cases should reflect all financial implications and risks and be reported alongside the request for inclusion in the Programme. If it is too early in the process to provide this level of detail, a provision may be made within the budget but will be subject to reporting of the full business case to the appropriate Committee before proceeding with the project.

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:

8.2

- **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** ~~-~~ — In certain circumstances, t~~T~~he 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.~~ The ability to borrow may also be subject to certain restrictions stemming from the capital metrics introduced as part of the Levelling Up and Regeneration Act 2023.

8.3 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~~ is now particularly relevant ~~should the Council's access to borrowing be restricted (for example under the~~ following the introduction of the Levelling Up and Regeneration ~~Bill, once enacted)~~ Act 2023, as it may 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, prudent and proportionate. 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. 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).

~~9.5 The Council will only borrow:~~

~~9.6~~

~~9.7 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 ~~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.

9.7 The Council's last investment property purchase was undertaken in 2020 under its former Property Investment Strategy. The Council's current AMS, approved by Full Council in March 2023, includes its Acquisition and Disposal Policy (Appendix 5 of the Strategy) which sets out how acquisitions will be limited in nature and are likely to be linked to schemes identified in the Corporate Business Plan, for purposes other than for direct commercial investment. It further includes the statement that Borrowing for purely income generation reasons has now ceased and the investment property portfolio has moved into the 'asset management' phase.

9.8 In light of the on-going tightening of the prudential framework, coupled with the spirit and context of the Levelling Up and Regeneration Act 2023, it is proposed that the Council further formalises its intent not to purchase additional investment property by placing a moratorium on new debt-funded asset investments i.e. assets purchased primarily for yield.

Prioritisation, governance and agreement of capital project proposals

10.1 In common with other local authorities Runnymede is facing a challenging financial climate and it is therefore essential that systems are in place to ensure that scarce resources are allocated in the most effective possible way and therefore expenditure needs to be prioritised.

10.2 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 and subsequently full Council if appropriate, 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 investments

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

- **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 Commercial activities that involve capital expenditure and the incurring of other long-term debt and liabilities are no longer permissible without risking the Council's future ability to access PWLB funds. Existing debt-funded commercial activities will be reviewed as guidance/regulation develops. This excludes investment of short-term cash surpluses as part of day-to-day treasury management activity and investments whose primary purpose is to achieve a service objective.

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.

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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 to inform decisions on how we retain, review, and where appropriate regear our property asset base ensuring we achieve value for money.

Environmental and Sustainability

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 (adopted in October 2022) and supporting Action Plan (due for adoption by the end of March 2024) 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 use our procurement strategy 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~~efficiency of buildings throughout the Council's asset portfolio including 3,000 homes owned by the Council, and exploring options and costs associated with moving the Council's energy supplies to greener alternatives when existing arrangements come to an end.
- 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.
- Retaining sufficient flexibility to ~~E~~embrace~~ing~~ hydrogen and other ~~based~~new 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 and Sustainable Procurement Policy ~~plays a large part~~both have a significant role to play in ensuring that 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.

14.5 The Sustainable Procurement Policy sets out how environmental considerations will be built into the procurement and delivery of goods, works and services through its specifications, tender questions, evaluation criteria, key performance indicators and clauses of contracts.

Risk management

15.1 The Council's overarching risk appetite statement is as follows "Risk Management is a continuously evolving process, whereby the Council constantly seeks to refine and improve process, in order to support the delivery of its objectives and take a proportionate approach to risk. Identifying its risk appetite enables the Council to take a balanced approach in respect of risk by understanding the risk levels it may tolerate, and therefore target its scarce resources at the management of risks that cannot be tolerated. Effective risk management supports informed decision-making through the determination of the nature and extent of the principal risk exposure of the Council and how much risk it is capable of absorbing to achieve its objectives. It is often not possible to manage all risk to the most desirable level, but the setting of risk appetites means that risks can be managed to a tolerable level".

15.2 ~~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~~3 The Council has in the past purchased investment properties to help aid regeneration schemes within the borough. The Council recognises that the investment in 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 in the Asset Management Strategy.

15.4 The Council approved the Risk Management Framework 2023 – 2026 in October 2023 which formalises risk management across the organisation. Risks appetite statements have been approved by Standards and Audit Committee and Full Council for 2024/25 and will be reviewed annually as part of budget setting. In addition to having an overarching risk appetite statement, the Council has developed statements to describe its attitude to accepting risk in each of its principal risk categories; recognising that risk appetite is not a single, fixed concept but that there will be a range of appetites for different risks and that these appetites may well vary over time.

15.5 Risk appetite set for 2024/25 for relevant Risk Categories applicable to the Capital Strategy, is Cautious. Specific examples relevant to this Strategy are provided below:

Strategy Risk:	CAUTIOUS: Guiding principles or rules in place that allow considered risk taking in organisational actions and the pursuit of priorities. To illustrate: The Capital & Investment Strategy is refreshed every year and any amendments are taken in light of the Council's Corporate Business Plan, Medium Term Financial Strategy (MTFS), Asset Management Strategy (AMS) and Treasury Management Strategy

	(TMS), thereby ensuring a joined up approach to strategic risk across the Council. The AMS 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.
Governance Risk:	CAUTIOUS: Willing to consider actions where benefits outweigh risks. Processes, and oversight / monitoring arrangements enable cautious risk taking. To illustrate: RBC has strong governance arrangements, reporting and controls supporting decision making through CLT, SLT, Taskforces and Member Working Groups and Service Committees, Full Council, and Overview and Scrutiny, 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.
Financial Risks:	CAUTIOUS: Seek safe delivery options with little residual financial loss only if it could yield upside opportunities. To illustrate: our Capital Programme is regularly reviewed and reported to Members and officers on a regular basis, highlighting any perceived shortfall in funding or potential financial risks. Any scheme likely to exceed its budget by 10% or £25,000 (whichever is lower) must be reported to Committee. Any potential reduction in capital receipts will cause a review of the schemes contained within the programme to ensure they are still deliverable within the available resources and if not they will be deferred.
Property Risks:	CAUTIOUS: Requirement to adopt a range of agreed solutions for purchase, rental, disposal, construction, and refurbishment that ensures producing good value for money. To illustrate: the AMS provides the arrangements and requirements to support delivery. The impact if risks were to materialise is significant and therefore cautious is appropriate. As well as in the AMS, property risk mitigation is also set out in sections 6, 9 and Appendix 1 of the Capital & Investment Strategy. The Council also has two reserves specifically set aside for property repairs and income equalisation to mitigate fluctuations in income and capital expenditure requirements.
Project/ Programme Risks:	CAUTIOUS: The Council has an established project management methodology to support project delivery, deviation from the methodology is generally avoided unless necessary. Decision making authority generally held by senior management. Plans aligned with strategic priorities, functional standards. To illustrate: our project management methodology requires establishment of a Project Board and defined roles and responsibilities. The Project Sponsor is typically a Senior Officer. We have established project reporting and monitoring to measure progress and provide early warning when issues need to be addressed to reduce the likelihood of a project going off course. Business cases are aligned to the Corporate Business Plan and Corporate Strategies to demonstrate how the project will deliver on priorities.

15.6 Risk implications of capital schemes 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.

15.7 ~~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~~ Each project on the capital programme is subjected to a rigorous business appraisal process The Council operates a whole life costing methodology, "the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset." In practical terms this means that any appraisal will need to consider not just the initial outlay but all costs/income associated with the project that are likely to occur in future years, including possible replacement. This is vital to ensure that the Council is not committing itself to future liabilities that are unsustainable.

15.8 The Council's project management methodology sets out the requirement to identify project risks that could impact on delivery of the project In carrying out due diligence, potential project risks are identified, and relevant mitigation measures documented prior to approval. All risks are then managed in line with the Council's Risk Management framework These risks are not just financial but any risk that could impact on the time for delivery, staffing resources required, quality parameters and project scope. Significant project risks are escalated to the relevant Corporate Head of Service and added to the risk management system for monitoring and reporting.

15.~~6~~9 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 P~~p~~ublic 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 prescribe 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 9 - Capital finance
- 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~~ are~~be~~ reported to the Assets and Regeneration Officer Group on a ~~quarterly~~monthly basis

IMP2 Performance measurement

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:

Revenue and Tenancy Management Performance

Reference	Description	Metric
KPI 001	Net Investment Property Income	Variance from target income showing income and expenditure variations as well as net total
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

Annual Indicators - Capital & Treasury Performance

Reference	Description	Metric
KPI 006	Capital Values	Difference in Capital Values, annually.
KPI 007	Capital Appreciation/Reduction	Difference in Capital Valuations since purchase/construction
KPI 008	Loan to Value ratio	Amount of debt compared to the total asset value
KPI 009	Interest cover ratio	The total net income from property investments compared to the total interest on associated borrowings
KPI 010	Debt cover ratio	The total net income from property investments compared to the total annual MRP and interest on associated borrowings
KPI 011	Average return on investments	Rental income divided by Capital Value

It is anticipated that these measures will be further developed in 2024-25 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.

Where feasible and necessary, the Council ensure 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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Agenda Item 13

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