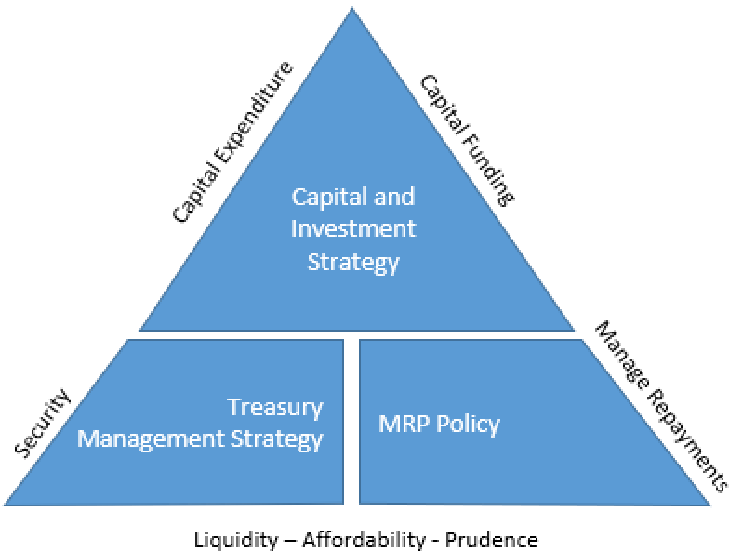
APPENDIX 1

Capital, Investment and Treasury Management Strategy 2024/25

1. **Introduction**

1.1 The Capital, Investment and Treasury Management Strategy (the strategy) provides an overview of the three main components of capital planning;

- **Capital expenditure and investments**: the Capital Programme; supporting the Council's priorities and the Investment Property Strategy; generating income and supporting economic growth and regeneration;
- **Financing our capital plans, and maintaining liquidity**: the Treasury Management Strategy; setting out how the capital programme will be financed and how cash investments will be managed; and
- **Repaying our debt in a prudent way**: the Minimum Revenue Provision (MRP) Policy; setting out how we use the revenue budget to repay debt.



This report sets out a high-level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.2 The strategy sets out a clear picture of the plans of the Council for financing capital expenditure, and investment plans within the financial constraints, risk appetite and regulatory framework that the Council operates.

1.3 The strategy can be broken down into separate key elements that set out the Council's approach to capital, investment and treasury management:

- **Capital Overview** - asset management, capital expenditure planning, risk management and long-term sustainability of capital expenditure plans (**Section 2**)
- **Investment Overview** – setting out investment plans focusing on the approach to service and commercially led investment (**Section 3**);
- **The Treasury Management Strategy Statement (TMSS)** – setting out how we borrow and invest to support our capital financing requirement (**Section 4**)
- **The Minimum Revenue Provision (MRP) Policy** – setting out how we repay capital borrowing (**Included as Appendix A**).

1.4 Decisions made this year on capital, investment and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

1.5 The strategy will:

- Set out how we ensure that capital expenditure contributes to the achievement of corporate priorities;
- Explain how the Capital Programme is financed and demonstrates that it is affordable and sustainable;
- Explains the Council's approach to investments; and;
- Set out and fulfil the Council's regulatory requirements in respect of Borrowing, Treasury Management and Investment.

2 Capital Overview

Capital Expenditure and Financing:

2.1 The Council's intention in relation to capital investment is to ensure it can make a real and demonstrable impact on the economy and infrastructure of Tandridge by:

- **Investing in the District**, by attracting and securing significant amounts of external investment to supplement Council resources and deliver an enhanced district-wide infrastructure offer, and;
- **Prioritising regeneration investment** to develop the local economy, infrastructure and housing and to support job creation and promote local employment within the District.

2.2 The Council's capital expenditure and financing plans over the medium-term include an overview of the governance arrangements for approval and monitoring of expenditure and, in relation to commercial investment activities, sets out the due diligence process and the Council's risk appetite in respect of these, including proportionality in respect of overall resources.

2.3 The section includes a projection of the Council's capital financing requirement and how this will be funded and repaid. It links to the Council's borrowing plans and sets out the Council's statutory duty to make an annual revenue provision for the repayment of debt, detailed in the MRP Policy.

Capital Expenditure

2.4 Capital expenditure refers to Local Authority spending on assets such as infrastructure, property or vehicles that will be used for more than one year. In Local Government this includes spending on assets owned by other bodies and loans and grants to other bodies, enabling them to buy assets.

2.5 In the 2024/25 Budget and 3-year Capital Programme to 2026/27, the Council has a total capital expenditure requirement of £74.8m (2024/25 - 2026/27) as summarised in Table 1.

Table 1 - Estimates of Capital Expenditure

	2022/23 Actual £m	**2023/24 Estimate £m**	**2024/25 Budget £m**	**2025/26 Budget £m**	**2026/27 Budget £m**	**Total 2024/25 to 2026/27 £m**
General Fund services	4.8	3.2	4.7	1.8	1.4	7.9
Community Infrastructure Levy (CIL) Funded	0.0	0.5	1.6	1.2	2.9	5.6
Council Housing (HRA)	11.5	16.1	19.1	26.2	16.0	61.3
TOTAL	**16.4**	**19.8**	**25.5**	**29.1**	**20.2**	**74.8**

2.6 Our medium-term approach to financial planning means we can commit to a Capital Programme of c£75m over the next 3 years. The revenue implications of this proposed programme are integrated and factored into the financial planning over the Medium-Term Financial Strategy (MTFS) period.

2.7 In developing the capital expenditure estimates, we have ensured that borrowing costs remain in line with the revenue budget envelopes set out in the 2024/25 Budget and MTFS.

2.8 The main General Fund capital projects include the regeneration of Croydon Road streetscape (£2.3m), Disabled Facilities Grant (£1.1m), delivery of the Council's Open Spaces Strategy from the UK Shared Prosperity Fund (£0.8m), IT Hardware and Infrastructure Projects (£0.6m), Garden waste, recycling, food waste and refuse bins (£0.4m), public conveniences (£0.3m), Children's Playground improvements (£0.3m) and Parks, Pavilions and Open spaces (£0.2m). The Council also plans a further £0.2m of capital expenditure on the refurbishment of Quadrant House as part of the Council's economic development plans.

2.9 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that Council Housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.

2.10 The Council has specific arrangements for the management of capital expenditure to ensure they are aligned with the Council's priorities. The principles for governance of the capital programme are detailed in Appendix B. The separate approval process for the acquisition of investments in property is contained within the Investment Property Strategy (Appendix C).

2.11 Fundamentally, they are approved on the principles of value for money, affordability and deliverability. Projects need to demonstrate value for money and that they are capable of being delivered within expected timescales.

Capital Funding

2.12 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing). The planned financing of the above expenditure is as follows:

Table 2 - Capital Financing

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	Total 2024/25 to 2026/27 £m
General Fund						
Grants & contributions	3.0	0.8	3.1	0.8	0.4	4.3
CIL	0.0	0.5	1.6	1.2	2.9	5.6
Internal resources	0.8	0.4	0	0	0	0
Borrowing	1.0	2.0	1.7	1.0	1.0	3.6
Total General Fund and CIL	**4.9**	**3.7**	**6.3**	**2.9**	**4.2**	**13.5**
HRA						
Grants & contributions	0.0	3.2	3.6	4.9	0.9	9.5
Internal resources	11.2	8.3	7.9	7.9	7.9	23.7
Borrowing	0.4	4.7	7.6	13.3	7.2	28.1
Total HRA	**11.5**	**16.1**	**19.1**	**26.2**	**16.0**	**61.3**
TOTAL	**16.4**	**19.8**	**25.5**	**29.1**	**20.2**	**74.8**

2.13 Borrowing is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). No MRP is charged in respect of assets held within the Housing Revenue Account – this is a feature of the HRA accounting rather than a choice by the Council.

2.14 Alternatively, proceeds from selling capital assets (known as capital receipts) may currently be used to replace debt finance. No use of receipts is currently assumed to repay existing debt.

2.15 Planned MRP is set out in the following table:

Table 3 - Repayment of Debt through Minimum Revenue Provision

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Minimum Revenue Provision	1.2	1.2	1.1	1.3	1.5

2.16 The Council's cumulative underlying requirement for debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure on service delivery and on investments and reduces with MRP and capital receipts used to replace debt.

2.17 The CFR is expected to increase by £11.7m during 2024/25. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4 - Prudential Indicator: Estimates of Capital Financing Requirement

	31/03/2023 Actual £m	31/03/2024 Estimate £m	31/03/2025 Estimate £m	31/03/2026 Estimate £m	31/03/2027 Estimate £m
General Fund services	25.9	26.8	27.5	27.3	27.0
Council housing (HRA)	61.7	66.4	74.0	87.3	94.5
Commercial activities/non-financial investments*	21.0	20.8	20.6	20.4	20.2
TOTAL CFR	**108.5**	**114.0**	**122.1**	**135.0**	**141.7**

** Commercial activities/non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.*

2.18 Our capital plans lead to an increase in the estimated CFR of £27.7m over the three-year period. The General Fund and Commercial CFR falls by £0.4m with the HRA CFR increasing by £28.1m. The revenue implications of this are set out below and the TMSS (Appendix D, section 6).

2.19 **Asset management and disposals:** The Council does not currently have a land disposal programme for the General Fund, although it is in the process of reviewing all of its assets to determine whether they should be retained, and, if so, for the optimum use. The current policy is to use any surplus land and property which is identified for housing purposes where feasible. If it is not feasible then general fund capital receipts will be realised. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayment of capital grants, loans and investment also generate capital receipts. The Council is also permitted to spend capital receipts "flexibly" on service transformation projects . In 2023/24, the Council plans to use £0.5m of capital receipts flexibly for planning and finance transformation purposes. There are plans to utilise receipts further in 2024/25 and 2025/26.

2.20 The Council plans to receive £2.1m of capital receipts in 2024/25. Expectations for future years are set out in the table below:

Table 5 - Capital Receipts Receivable

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
HRA Disposals	0.6	1.8	1.8	1.8	1.8
GF Disposals*	1.4	0	0	0	0
Loans repaid	0.3	0.3	0.3	0	0
TOTAL	**2.3**	**2.1**	**2.1**	**1.8**	**1.8**

Revenue Budget Implications

2.21 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. This is referred to as net financing costs.

2.22 Current projections show that the net financing cost will be contained within budget projections over the MTFS, rising from £0.2m net in 2024/25 to £0.6m net in 2026/27. The net costs of financing our capital plans are set out in the table below.

Table 6 – Net Finance Cost Budget

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
MRP	1.2	1.2	1.1	1.3	1.5
Interest Payable (GF)	1.1	1.2	1.3	1.4	1.4
Investment Income and property income	(2.2)	(2.3)	(2.3)	(2.3)	(2.3)
Net Finance Cost	**0.1**	**0.2**	**0.2**	**0.4**	**0.6**

2.23 The proportion of net finance cost to net revenue budget is a key indicator of direction of travel relative to medium term revenue resources and provides insight into the affordability of finance costs (see TMSS Appendix D, Annex 1, Table 2).

Financial Sustainability

2.24 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred over the MTFS will extend for up to 50 years into the future. The Section 151 Officer is satisfied that the proposed Capital Programme is prudent, affordable and sustainable because it remains proportional to the Council's overall revenue budget.

3 Investment Overview

3.1 In addition to service-led capital expenditure, the Council has invested its money for a further two broad purposes:

- To support local public services by setting up, lending to or buying shares in other organisations (service investments) such as to its Leisure Service Provider and in its Property subsidiary, Gryllus Property Ltd, to generate revenue income;
- As a result of surplus cash from its day-to day activities, for example when income is received in advance of expenditure (known as treasury management investments)

This investment strategy meets the requirements of the statutory guidance issued by the Government in January 2018. The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Council interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Council's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code.

Service and Property Investments: Loans

3.2 **Overview:** The Council invests money in its subsidiary, Gryllus Property Limited and other organisations to support local public services and stimulate local economic growth, for example Freedom Leisure.

3.3 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk and ensure that total exposure to service loans remains prudent, decisions on service loans are made in the context of their value, the stability of the counterparty and an assessment of the risk of default. The current value of service loans is set out as follows:

Table 7 - Loans

Category of borrower	31.3.2023 actual		
	Balance owing	Loss allowance	Net figure in accounts
Subsidiaries	15.1	0	15.1
Suppliers	0.6	0.1	0.5
TOTAL	**15.7**	**0.1**	**15.6**

3.4 The strategy does not propose an approved limit for these investments since any increase should be subject to further Member approval.

3.5 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 are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum advanced and has appropriate credit control arrangements in place to recover overdue repayments. In the case of our service loans, these allowances are £0.1m.

3.6 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by reference to their financial position, past experience and other factors. We wholly own our subsidiaries for service purposes and so their financial position is subject to the same rigour and control as that of the Council.

Service and Property Investments: Shares

3.7 **Security**: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. To limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 8 – Shares held for service purposes

Category of company	31.3.2023 actual		
	Amounts invested £m	Gains or losses £m	Value in accounts £m
Subsidiaries	5.3	0	5.3
TOTAL	**5.3**	**0**	**5.3**

3.8 The strategy does not propose an approved limit for these investments since any increase should be subject to further Member approval.

3.9 **Risk Assessment:** The investment in shares totalling £5.3m is within the Council's subsidiary Gryllus Property Limited. The Authority assesses the risk of loss before entering into and whilst holding shares by assessing the current and future return achievable and the level of security provided by the assets of the company, and the level of control which the Council can exert over the strategy of the company. The Council has created an Income Equalisation Reserve, with a current balance of c£0.4m to finance any diminution in value and income volatility. The Income Equalisations Reserves will help mitigate the risk of any loss of income from the Council's investments allowing time to formulate plans to address any longer-term reductions in income.

3.10 **Liquidity:** The funding of long-term investments in the Council's subsidiary are financed by fixed long term borrowing, so that there is no short or medium-term risk to the liquidity of the Council, which would require the Council to be forced to liquidate its assets in the company.

3.11 **Non-specified Investments:** Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

3.12 **Governance:** Decisions on service investments are agreed by Management Team, led by the Chief Executive in consultation with the Director of Resources and must meet the criteria and limits laid down in the Investment Property Strategy. Loans and shares are capital expenditure and their purchase will therefore also be approved by Members as part of the capital programme.

Property Investments

3.13 **Overview:** The Council holds investments in local commercial property; office space and leisure, with the intention of supporting Tandridge's economy and generating a surplus that will be spent on local public services. The table below shows the value of our investments by main category, including those under construction where the ultimate use is to be determined.

Table 9 – General Fund Property held for socio economic and/or development purposes

Property Type	**Actual**	**31/03/2023 Actual**	
	Purchase cost £m	**Gains or (losses) £m**	**Value in accounts £m**
Offices	20.0	(3.8)	16.2
Leisure	0.9	0.1	1.0
TOTAL	**20.9**	**(3.7)**	**17.2**

3.14 **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

3.15 A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. The Council holds these properties for socio economic and/or development purposes, short-term fluctuation in investment values can be expected. Should the 2023/24 year-end Accounts preparation and audit process value these properties below their purchase cost, we will take mitigating actions to protect the capital invested, such as exploring alternate uses where appropriate, in consultation with Committee.

Proportionality

3.16 The Council's revenue budget includes an element of profit generating investment activity to support services. The table below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the MTFS. Investment activity is forecast to remain at approximately 6% of the Council's net revenue stream over the medium-term. Should we fail to achieve the expected net profit, the Council would manage the impact on budget through use of the income equalisation reserve in the current financial year and a re-assessment of efficiency plans for the remainder of the medium-term.

Table 10: Proportionality of Investments

	2022/23 Actual £m	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
Net Revenue Stream (£m)	11.4	11.9	12.8	12.8	12.4
Investment rental income (£m)	0.7	0.8	0.8	0.8	0.8
Proportion (%)	6%	7%	6%	6%	6%

Investment Indicators

3.17 The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

3.18 **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This would include amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans. No such commitments exist.

Table 11: Total investment exposure

Total investment exposure	31/03/2023 Actual £m	31/03/2024 Estimate £m	31/03/2025 Estimate £m
Treasury management investments	16.8	22.0	12.1
Service investments: loans	15.7	15.4	15.1
Service investments: shares	1.0	1.0	1.0
Commercial investments: Property	17.2	17.2	17.2
TOTAL INVESTMENTS	68.3	60.8	50.6

3.19 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Councils, including TDC, do not generally associate borrowing with individual assets, since we borrow as required to fund the whole portfolio of capital spend. However, the following investments could be described as being funded from capital sources, including borrowing and receipts. The remainder of the Council's investments are funded by Usable Reserves and income received in advance of expenditure.

Table 12: Investments funded by borrowing

Investments funded by borrowing	31/03/2023 Actual £m	31/03/2024 Estimate £m	31/03/2025 Estimate £m
Service investments: loans	15.7	15.4	15.1
Service investments: shares	1.0	1.0	1.0
Commercial investments: Property	17.2	17.2	17.2
TOTAL FUNDED BY BORROWING	33.9	33.6	33.3

3.20 **Rate of return received:** This indicator shows the investment income received as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investments net rate of return	**2022/23 Actual £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2023/24 Estimate %**
Treasury management investments	1.0	1.0	1.0	5%
Service investments: loans	1.0	1.0	0.9	6%
Service investments: shares	0	0	0	0
Commercial investments: Property	0.5	0.7	0.7	4%
ALL INVESTMENTS	2.5	2.7	2.6	

4. Treasury Management Strategy Statement 2024/25

4.1 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity. This involves both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

4.2 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

4.3 The Council's Treasury Management Strategy Statement and associated annexes can be found at Appendix D.