Appendix I1

Capital Strategy 2024-28

1. Introduction

1.1. The 2021 edition of the Prudential Code affirmed the requirement for Local Authorities to prepare an annual Capital Strategy 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

1.2. The aim of the capital strategy is to outline the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The capital strategy is reported separately from the Treasury Management Strategy Statement with non-treasury investments being reported through the former.

1.3. The strategy sets out in detail the recommended capital programme for the next four years for approval by Full Council. The strategy sets out the medium term context in which capital expenditure, investment and resourcing decisions are made to contribute towards the achievement of key objectives and priorities.

1.4. Further work will be undertaken in future years to stretch the horizon of the capital programme review process to provide a more developed view of capital expenditure requirements beyond four years in line with other key strategies such as the Asset Strategy and Housing Revenue Account Business Plan.

2. Influences on Capital Strategy

Internal Influences

2.1. Capital investment is guided and prioritized by the Council’s key objectives as set out in its Corporate Plan ‘Ambitious for Sutton’. These plans are underpinned by the Council’s shared values and will ensure that Sutton continues to enhance its reputation as a great place to live, work and raise a family.

2.2. These corporate aims and objectives are taken into consideration when determining appropriate capital investment and asset disposal programmes. Six key priorities set out in corporate plan are:

- Action on climate change
- An inclusive place for everyone
- Qualify and affordable housing

- Strong and fair economic growth
- Campaign for qualify local services
- An efficient and well run Council

2.3. More detail on each of the priorities above can be found in the full corporate plan document.

2.4. Other key influences on capital expenditure plans are

- The Sutton Local Plan
- Economic Development Plan
- Asset Strategy
- Local pressures such as school places
- Local initiatives such as the Digital Strategy
- CIPFA Prudential Code

2.5. This strategy aims to fulfill all the requirements of the 2021 Revised Prudential Code and has been designed to require that all plans and risks set out in the strategy are proportionate to the finances of the Council.

External Influences

2.6. There are a range of external influences which also feed into the capital planning process shaping capital expenditure priorities and influencing the level of capital resources available to fund the programme.

2.7. **London Plan & Sutton Local Plan** -The Sutton Local Plan sets out the Council's strategic priorities to 2031. It identifies Sutton Town Centre as the focus for growth, allocating sites for 3,400 new homes and additional commercial floorspace. Two of Sutton Town Centre's housing estates are designated for regeneration and are budgeted for in the HRA Capital programme and a further five are identified as possible redevelopment sites subject to feasibility. The other strategic priorities include the delivery of the London Cancer Hub and a tram extension (Sutton Link) from the existing network to Sutton and then to the London Cancer Hub. The Local Plan also promotes the renewal of the Hackbridge and Beddington areas, focused around delivery of the Wandle Valley Regional Park and ensuring the vitality of the Borough's smaller town centres. All this is programmed with an appropriate level of new infrastructure, such as schools, health centres and open space. Many of the initiatives, such as the growth in Sutton Town Centre, the London Cancer Hub, St Nicholas Centre/Civic Centre programme and Sutton Link, are replicated in the forthcoming London Plan.

2.8. **Economic Climate** - The current levels of inflation and some challenges in the supply chain may impact the delivery of the capital programme both from a cost and skill perspective.

2.9. **Local Economy** - the level of resources available to fund the capital programme are affected by the local economy. Payments through the Community

Infrastructure Levy (CIL) and S106 are directly linked to development together with values achieved for capital receipts from the sale of Council owned vacant land or buildings. The level of Right to Buy receipts are affected by the local housing market and Government housing policy.

2.10. **Austerity** -The Council's capital investment ambitions are made against a backdrop of a decade of austerity. It is therefore vital that the Council's capital strategy ensures that assets are utilised in the most appropriate way to deliver corporate objectives, meet statutory requirements and sustain core infrastructure but also support the delivery of savings or income generation in the revenue budget.

2.11. **External Funding Arrangements** - The Council currently receives funding from external agencies such as TFL and the GLA which support the capital programme. The priorities of these funding agencies contribute towards shaping the programme and as such affect the level of resources available to the programme as a whole.

2.12. **Shared Services** - the Council has a number of established partnerships in place for the delivery of shared services with other local authorities. The most relevant in terms of capital expenditure programmes include the shared IT services and environment. Currently the environmental services with South London Waste Partnership (SLWP) is being recommissioned with further details in 5.12.

2.13. **Commercial Activity / Ambition** - The Council is involved in a number of commercial ventures including commercial property investment through the Council's Investment Property Portfolio, working in partnership with the Institute of Cancer Research (ICR) to deliver ambitions for the London Cancer Hub and providing financial support through loans to two wholly owned subsidiaries of the Council, Sutton Decentralised Energy Network (SDEN) and Sutton Living Limited.

3. Governance

3.1. The Strategy & Resources Committee has oversight of the capital programme with the capital budget, in year monitoring and outturn position all being considered during the year. The Strategy and Resources Committee reviews and approves the capital programme before it is finally approved by Full Council. The HEB Committee considers and approves the HRA Business Plan of which capital expenditure plans are a key part before final approval by Full Council.

3.2. Council approval of the programme gives an allocation to budget managers in the capital programme. Separate approval is required for any significant changes to the profiling or nature of that spend in year in line with the Council's financial regulations.

3.3. Once approved the programme is managed by officers and reported to the Strategy and Resources Committee on a quarterly basis. Key issues including under or over spends projected for schemes together with changes in the profiling of spending over the next four year budget period are captured in the quarterly reports. In all cases the impact of scheme outcomes including timings are assessed and in the case of projected scheme overspends options to reduce the additional expenditure are considered including re-engineering or scaling back projects or trying to secure third party external funding to reduce the pressure on scheme budgets.

3.4. In all events the Council will continually look to ensure that quarterly projections are as accurate as possible and a rigorous process is applied to ensure that budget managers are made accountable and the appropriate approvals are obtained (as referenced to the financial regulations) for any changes to the Council agreed four year programme.

4. Capital Budget Setting & Capital Prioritisation

4.1. Each year the Council reviews its capital expenditure plans and priorities for the next four years in order to agree a capital programme. This is undertaken alongside the revenue budget setting process in order that the impact of both is considered together.

4.2. As part of the annual capital budget setting process service areas are required to complete a capital bid request form with details of the capital expenditure requirements. These forms are required to be completed for all new schemes, for existing schemes which are uncommitted (i.e. have not incurred expenditure and are not contractually committed) and for all rolling programmes of expenditure including growth to existing rolling programmes.

4.3. Submitted bids are reviewed against the following criteria to inform decisions on rejection or acceptance to the capital programme:

- The scheme is required to meet statutory requirements
- The scheme is essential for the delivery of the Council's Corporate Plan objectives
- The scheme is required to sustain core infrastructure
- There is a reputational risk attached to not undertaking the proposed expenditure
- The scheme has the ability to lever in match funding to partially fund the scheme
- The capital expenditure on the proposed scheme achieves cost avoidance in the Council's revenue budget

4.4. Officers submitting the bid are asked to state which of the six criteria the capital expenditure satisfies and finance officers review the criteria highlighted. A bid can satisfy more than one criteria.

4.5. Bids submitted that are over £500,000 are included in the list of recommended schemes for approval if they meet the above criteria however their implementation is subject to a full business case being developed and presented to the respective service area committee for approval.

4.6. This review and prioritization process supports the Council in making decisions about which schemes to progress given the limited capital resources of Local Authorities.

4.7. Member engagement via financial update reports and the budget report to the Strategy & Resources Committee helps ensure the capital programmes aligns with the overall strategic direction of the Council set out in Ambitious for Sutton.

4.8. A report on the overall framework for member governance of the capital programme was considered by the Audit and Governance Committee on the 20th January 2022.

5. Four Year Capital Programme - 2024/25 to 2027/28

5.1. The proposed capital programme for 2024/25 to 2027/28 is set out in detail in Appendix I2. This includes details of the General Fund and Housing Revenue Account schemes. Total capital investment in the Borough over the period 2024/25 to 2027/28 is £343.752m as shown in the table below. *

Directorate	Total 2024-25	Total 2025-26	Total 2026-27	Total 2027-28	Grand Total 2024-28
Development Growth and Regeneration	12,206,816	15,572,992	0	0	27,779,808
Environment Housing and Neighbourhoods	39,991,393	6,147,485	4,227,484	2,896,118	53,262,480
Health and Wellbeing	650,000	500,000	450,000	0	1,600,000
HRA	56,052,487	69,690,679	58,666,818	52,202,374	236,612,358
People's Services	9,302,502	3,438,098	2,254,235	212,543	15,207,378
Resources	3,583,824	2,002,000	1,852,000	1,852,000	9,289,824
Grand Total	**121,787,023**	**97,351,254**	**67,450,537**	**57,163,035**	**343,751,849**

General Fund Capital Programme 2024/25

5.2. The Capital Programme sets out planned capital expenditure within the General Fund totalling £107.139m over the next four years as shown in the table below. This includes expenditure on one-off schemes of £76.895m and rolling programmes of £30.244m.

Service	Total 2024-25	Total 2025-26	Total 2026-27	Total 2027-28	Grand Total 2024-28
Corporate Buildings	1,976,304	952,000	802,000	802,000	4,532,304
Digital and ICT	500,000	500,000	500,000	0	1,500,000
Environment Capital Programme	20,096,433	0	0	0	20,096,433

Service	Total 2024-25	Total 2025-26	Total 2026-27	Total 2027-28	Grand Total 2024-28
Flood Prevention Capital Programme	3,068,740	100,000	0	0	3,168,740
Highways & Transportation Capital Programme	6,181,778	3,662,366	2,346,366	1,025,000	13,215,510
Housing GF	5,651,858	500,000	0	0	6,151,858
ICT Capital Programme	907,520	350,000	350,000	850,000	2,457,520
Leisure Capital Programme	650,000	500,000	450,000	0	1,600,000
Local Committee & Public Realm	205,173	200,000	200,000	200,000	805,173
Parking	798,508	0	0	0	798,508
Parks & Open Spaces Capital Programme	232,273	63,334	63,333	63,333	422,273
Regeneration	12,206,816	15,572,992	0	0	27,779,808
Regulatory Services Capital Programme	3,865,990	1,821,785	1,817,785	1,807,785	9,313,345
Safer Communities	90,640	0	0	0	90,640
Schools	7,587,910	3,374,098	2,208,235	194,543	13,364,786
Social Care - Children's	1,714,592	64,000	46,000	18,000	1,842,592
Grand Total	**65,734,536**	**27,660,575**	**8,783,719**	**4,960,661**	**107,139,491**

Contractually Committed Schemes

5.3. All existing capital schemes that are underway or contractually committed and are due to continue into 2024/25 to 2027/28 are excluded from the capital programme bidding process and form a first call on available capital resources. These schemes are included in the proposed capital programme and are included within the table above.

Rolling Programmes

5.4. Rolling programmes of expenditure ensure that assets are replaced or maintained in an appropriate and timely fashion. This represents a significant underlying, ongoing capital expenditure pressure for the Council to continue business as usual. Each year the cost of rolling programmes is approximately £8m.

5.5. Key rolling programmes for the Council include highway asset maintenance, pavement improvements and resurfacing, street lighting works, public realm and expenditure on corporate buildings. As part of the annual capital programme review services are required to submit capital bids for all rolling programmes including the continuation of programmes into the fourth year of the budget (currently 2027/28) and any growth over and above normal levels of provision over the four year budgeting period. These programmes are then assessed against the criteria set out in paragraph 20 along with any new capital schemes to ascertain whether these schemes are targeted at key priority areas and whether planned expenditure is at appropriate levels.

5.6. As part of the 2024/28 review, bids were submitted to continue rolling programmes over the next four years.

5.7. **Expenditure on Corporate and Operational Buildings** -The capital programme includes a rolling programme of Expenditure to Corporate and Operational Buildings (ECOB). Planned spend on the programme is £1.9m for 2024/25, including 2023/24 slip of £0.6m. An element of the works undertaken under this programme are planned but some are responsive in nature. A prioritisation process is used by the property service to determine which works are carried out and in which priority order.

5.8. **Digital and IT expenditure** - This programme is a rolling programme of expenditure to maintain both the Council's IT infrastructure and digital assets. Planned spend this year involves transitioning from an on-site data center to cloud-based services, updating our wide area network, replacing our on-premise telephony system, renewing end-of-life Chrome devices, enhancing the Wifi infrastructure across our sites, and facilitating the digital transformation of services by refining and expanding our online transaction capabilities.

5.9. **Public Realm** - The programme includes a rolling programme of local public realm improvement expenditure of £200k per annum over the 4 year programme. These resources are governed by local committees to ensure funds are directed towards local priorities in each area. These resources will be used by local committees alongside other resources such as Neighbourhood CIL, to deliver high priority public realm improvements.

New Schemes

5.10. A number of new schemes were put forward for consideration as part of the 2024/28 capital programme review. Following officer and member review and challenge, new schemes totalling £9.161m have been included within the proposed four year capital programme. This includes provision for:

- Goat Bridge weir river restoration
- Refurbishment of Therapia Lane depot and provision of new access from Coomber Way
- Waste Services Changes
- Leisure Centres condition survey work
- Accommodation - NRPF Families
- Children's Services - Kickstart - 15A Belmont Road

5.11. The Waste Collection and Disposal service is being recommissioned with a new contract due to come into operation in 2025/26. This will replace the current shared Waste Collection contract operated by the South London Waste Partnership. The new contract will be for Sutton only and consequently a new fleet of waste and street cleansing vehicles will be required. The 2024/25 capital programme includes provision for the costs of replacing the fleet and upgrading the existing depot, as well as improving the digital aspects of the service. The revenue budget proposals include growth for the service that includes the revenue costs of borrowing to fund this capital expenditure.

5.12. This is considered affordable for the Council as the level of borrowing required across the four year programme is within the proposed Prudential Indicators and revenue provision has been made for the associated interest and Minimum Revenue Provision costs. The revenue costs of the capex for the new waste contract have been included in the revenue growth estimate for the contract costs.

5.13. Through the tender process a comparison was made between the Council funding the capital elements of the new service directly, and the bidders providing the capex and incorporating the costs within the total contract price. This showed that it was significantly better value for the Council to fund the capex directly due to the availability of low cost borrowing through the PWLB and the opportunity to avoid contractors adding a risk margin to the cost of borrowing.

5.14. Key areas of continued investment for regeneration schemes in Sutton, include: Future High Streets, Sutton Works, and the Town Centre Masterplan Delivery. A significant proportion of the funding for these schemes has been provided through alternative sources such as grant funding.

<u>Transport for London Schemes</u>

5.15. Transport for London (TfL) have not yet confirmed the Borough's full allocation for the 2024/25 financial year. At present, figures of £.5m have been included in the capital programme. These figures will be updated when confirmed in future reports to this committee.

<u>Invest to Save Schemes</u>

5.16. All capital schemes that have the potential to either increase income or release revenue savings are considered as potential “Invest to Save” schemes. Under these arrangements, schemes are assessed over the life of the asset that is being created or maintained or enhanced through the production of a business case. Sufficient additional income or savings must be generated to cover any related capital financing costs associated with Prudential borrowing. Typically this will be interest costs and minimum revenue provision (MRP) on an annuity basis. On completion of the scheme, the service budget is reduced by the level of capital financing cost plus any savings which were proposed as part of delivering the scheme.

5.17. As part of the business case the full revenue impact of the proposed scheme is assessed including additional costs or income from the capital expenditure both in the short and longer term. Any cost avoidance projected as part of the business case is used to support the proposals but cannot be taken into account when assessing whether there is sufficient additional income or savings to cover any capital financing costs.

5.18. There are three ongoing town centre regeneration schemes: Future High Streets Fund, the St Nicholas Centre, and Sutton Works. All regeneration schemes are subject to the production of a viable business case. It is assumed within the capital programme that the capital cost to the Council of all of these schemes is funded by borrowing and that these are “Invest to Save” schemes whereby increased income or a future land receipt will cover its cost. However the Future High Street programme is part funded by a Department for Levelling Up, Housing Communities (DLUHC) grant of £11.3m of which we have £7.2m remaining from 2024/25 to 2027/28.

5.19. Additional schemes agreed as part of this year’s invest to save capital programme are:

- Accommodation - NRPF Families
- Children's Services - Kickstart - 15A Belmont Road

6. Capital Resources

6.1. Capital resources available to fund the capital programme are reviewed annually as part of the wider capital programme review process. This includes a review of projected capital receipts from the disposal of Council assets, available resources from Government or third party grants, S106, Community Infrastructure Levy (CIL), Right to Buy receipts and sums set aside in reserves.

6.2. Assumptions within the Asset Management Plan feed into this review in terms of asset use and the planned disposal of surplus assets. HRA assumptions within its Business Plan are reviewed as part of this process. This includes estimating the number of Right to Buy sales expected and the allocation permitted to be retained to fund qualifying schemes in the Capital Programme.

6.3. Decisions regarding the level of borrowing required under current Prudential Borrowing guidelines are made to fund new capital expenditure. This includes considering the best mix of capital receipts and borrowed funding to be applied to the capital programme to bring the most benefit to the Council’s revenue budget. Due to the criteria used to prioritise schemes that end up in the capital programme, a significant proportion of borrowed funds for capital financing either generates savings or additional income to pay for the associated capital financing costs.

7. General Fund Capital Programme Resources

7.1. Resources available over the next four years to fund the capital programme have been projected and are shown in the table below. Beyond this period available resources are difficult to forecast.

Funding	Total 2024-25	Total 2025-26	Total 2026-27	Total 2027-28	Grand Total 2027-28
Capital Receipts	40,000,000	0	0	0	40,000,000
Changing Places Funding	145,300	0	0	0	145,300
Neighbourhood CIL	139,584	0	0	0	139,584
Strategic CIL	3,985,619	1,250,000	1,250,000	950,244	7,435,863
DCLG - Weekly Collection Support Scheme	100,000	0	0	0	100,000
DEFRA - Flood Grant	164,835	0	0	0	164,835
Direct Revenue Financing - IPP	220,000	0	0	0	220,000
Disabled Facilities Grant	3,826,788	1,807,785	1,807,785	1,807,785	9,250,143
DLUHC - Levelling Up Fund	2,118,297	10,591,484	0	0	12,709,781
Education Funding Agency - Basic Needs	1,909,731	954,098	527,048	0	3,390,877
Education Funding Agency - Devolved Grant	432,485	120,000	120,000	0	672,485
Education Funding Agency - Schools Maintenance	1,548,397	500,000	500,000	0	2,548,397
SEN Basic Needs Funding	4,091,840	1,700,000	961,187	0	6,753,027
Environment Agency	1,468,199	0	0	0	1,468,199
Future High Street Funding	3,256,405	3,947,664	0	0	7,204,069
Prudential Borrowing	0	6,055,700	3,917,699	2,351,029	12,324,428
GLA - Affordable Housing Programme	162,977	0	0	0	162,977
S106	145,144	0	0	0	145,144
Strategic Investment Pot	863,265	1,033,844	0	0	1,897,109
TfL - Corridors, Neighbourhoods & Supporting Measures	50,000	0	0	0	50,000
UK Shared Prosperity Fund	357,273	0	0	0	357,273
Grand Total	**64,986,139**	**27,960,575**	**9,083,719**	**5,109,058**	**107,139,491**

7.2. **Capital Receipts -** The potential capital receipts available to support the capital programme are under regular review. This aims to confirm whether planned receipts are still achievable. Given the difficulty around determining the receipts and the actual timing the decision has been made to remove any assumptions until the receipts are received. There may be a possible £50m capital receipts available, of which up to 20% (£10m) is earmarked for transformational services, therefore £40m may potentially be used to reduce the prudential borrowing throughout the 23-27 programme. Currently £40m has been adopted in the capital programme funding for these purposes. Appendix I3 presents an updated forecast for transformation spend anticipated to be funded under the existing Flexible Use of Capital Receipts Strategy.

7.3. **Borrowing -** Planned Prudential borrowing of £12.32m supports capital programme expenditure for 2024/25 to 2027/28. The revenue budget includes provisions for annual borrowing costs.

7.4. The total borrowing represents an optimal mixture of receipts and borrowed funds, where needs from these schemes will be part of the broader treasury management strategy. Past practices involve using cash balances as 'internal borrowing' for efficiency, but the risk of rising interest rates is considered. Officers will review and plan timing for switching from internal to external borrowing. Prioritized schemes in the capital program aim to generate savings or income, covering financing costs.

7.5. External borrowing involves seeking funds from financial institutions. The Council opted for bond finance as a low-risk, long-term flexible solution, aligning with the approved Treasury Strategy. A 30-year average life bond for up to £250m, with an upfront drawdown of £100m, was issued at a 1.73% interest rate on November 9, 2020, under officers' delegated powers. The Council isn't obligated to draw more than £100m, providing low-cost and low-risk capital finance, significantly cheaper than the PWLB equivalent rate of 2.58% on the same day.

7.6. **Minimum Revenue Provision** - Where capital expenditure has been funded through the use of borrowing, the Council is required to set aside an amount from revenue each year to provide for the eventual repayment of this debt. The Council is required to provide an annual policy statement on how the methodology has been implemented. This is set out in Annex 2 of the Treasury Management Strategy (Appendix J). There is no requirement for the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

7.7. **Right to Buy Receipts** - under Right to Buy arrangements the Council retains three shares of the capital receipt and the balance goes to the Government. The three shares relate to (1) general element (2) allowable debt and (3) net retained receipts. The Council receives the general element (old 25% retained receipt element), allowable debt element and the net retained receipt (for new homes under agreement with the DLUHC). The general element can be applied against any capital expenditure and the Council has previously taken the decision to apply this funding as a resource for the capital programme. The element that is retained for debt repayment can be used to repay debt or can also be used as a resource to apply against the capital programme. A forecast of £18.985m from the general element and allowable debt is set aside for use within the 2024-28 corporate programme. Following changes in government policy, the Council is now unable to use retained Right to Buy receipts to fund the acquisition of temporary accommodation properties from 1 April 2021. Following this change, Right to Buy receipts are now being used exclusively to fund the new build programmes.

7.8. **Community Infrastructure Levy & S106** - From 1 April 2014 the Council has charged the new Community Infrastructure Levy (CIL) on liable developments. The CIL is split into three parts:

- Admin portion (5% for administering the scheme)
- Neighbourhood portion (between 15 and 25% allocated locally to areas where new development has taken place)
- Borough portion (remaining 70 to 80% must be applied against infrastructure expenditure as listed in Regulation 123 list)

7.9. Strategic CIL is allocated to infrastructure projects within the Capital programme and allows us to reduce our overall level of borrowing and ensure CIL as intended funds a proportion of the infrastructure requirements of the Borough. Total Strategic CIL balance as at 11 Jan 2024 is £7.44m.

7.10. **Government Grants** - grant funding to be applied to the capital programme includes Transport for London (TFL) funding of £0.05m, Disabled Facilities Grant (DFG) of £9.25m, GLA Affordable Housing Traveller Sites £0.62m, Strategic Investment Pot London Cancer Hub £1.90m, DLUHC Future High Streets funding £7.20m. In each case the Council must apply these resources according to any specific grant conditions attached to the funding. A total of £44.97m in grant funding is being applied across the 2024/28 programme.

7.11. **Private developers** - S106 is the money private developers are required to continue to the council when they're delivering housing in the borough. They can be used to support the provision of services and infrastructure by the council. Currently, a sum of £145.5k has been allocated in the programme with a balance of £2.1m awaiting allocation.

7.12. **Revenue Funding** -The Council can use revenue resources directly to fund capital schemes and this has been used in the past. However given the pressure on revenue budgets this practice is now generally restricted to the use of earmarked revenue reserves which have been set up to support capital.

8. Housing Revenue Account (HRA)

8.1. The capital programme within the HRA is shown in the table below:

Housing Revenue Account	**Total 2024-25**	**Total 2025-26**	**Total 2026-27**	**Total 2027-28**	**Grand Total 2024-28**
HRA Dwellings	18,633,698	26,489,571	12,529,590	19,343,169	76,996,028
HRA Estate Regeneration	14,990,122	19,250,674	22,395,957	17,689,205	74,325,958
HRA Housing New Build	22,428,667	23,950,434	23,741,271	15,170,000	85,290,372
Grand Total	**56,052,487**	**69,690,679**	**58,666,818**	**52,202,374**	**236,612,358**

8.2. The Council's 30 year HRA Business Plan sets out plans for maintaining and investing in its housing stock of 6,000 rented and 1,500 leaseholder properties. Each year the 30 year HRA Business Plan is reviewed to take account of any changes to factors including reflecting changes to housing policy, economic assumptions such as building cost inflation and interest rates and changes to local conditions such as stock condition and levels of Right to Buy sales.

8.3. Each year an exercise is undertaken to review building stock conditions to ascertain levels of stock investment required over the next four years (in detail) but also over the longer term. This information is then used to determine a suitable programme of major works to Council properties, balancing the need to hold a sufficient level of revenue reserves and ensure that a sufficient level of revenue is set aside to support the partial repayment of the £141m HRA subsidy loan which is due to mature in 2041/42.

8.4. The proposed HRA Programme of capital expenditure over the next four years 2024/25 to 2027/28 is £236.612m. This consists of £76.996m on major works to Council housing stock, £85.290m on new build programmes, £74.325m on Estate Regeneration and NIL on property acquisitions. This is to be funded by a range of different sources:

Housing Revenue Account	**Total 2024-25**	**Total 2025-26**	**Total 2026-27**	**Total 2027-28**	**Grand Total 2024-28**
GLA - Phase 2 Housing Grant	4,183,429	8,122,200	6,993,500	8,565,000	27,864,129
HRA Borrowing	33,203,360	26,802,659	29,874,728	15,930,205	105,810,952
HRA Shared Ownership	0	4,660,249	0	2,296,000	6,956,249
Leaseholders Contributions	276,000	287,000	295,000	295,000	1,153,000
Major Repairs Reserve	18,357,698	26,202,571	12,234,590	19,048,169	75,843,028
Right To Buy - Housing Revenue Account	32,000	3,616,000	9,269,000	6,068,000	18,985,000
Grand Total	**56,052,487**	**69,690,679**	**58,666,818**	**52,202,374**	**236,612,358**

8.5. **Major Works to Council Housing Stock** - Following the end of Decent Homes grant funding, ongoing works to Council Properties are being funded through the Major Repairs Reserve funding and revenue contributions. The Major Repairs Reserve is increased each year by the level of depreciation charged on existing assets. An outline housing capital programme of stock repairs and improvements for 2024/25 to 2027/28 is shown above for the first four years on the basis of the Housing Revenue Account Business Plan. Over the four year period planned works are financed by Major Repairs Reserve (MRR) of £75.843m and leaseholder contributions of £1.153m. Appendix I3 sets out the proposed programme of capital expenditure in detail for Member approval.

8.6. **New Build Programme** - Work is fully completed at all of the phase 1 New Build sites of: Fellowes Road, Ludlow Lodge and Richmond Green. The four year HRA business plan includes planned works as part of phase 2 of New Build development which is benefiting from a grant from the Affordable Homes for Londoners GLA grant. Phase 2 schemes attracting grants include a development of 23 affordable units at the Alexandra Gardens site which is being carried out by Sutton Living and 28 units from garage sites. It will also include sites at Gower House and 30-32 Beddington Lane that will attract Right to Buy funding and require budgeted HRA Borrowing. As part of the Phase 3 schemes an additional budget has been included for the proposed Chalk Park Site Redevelopment that has now received planning permission for a major redevelopment. The current programme includes a budget of £47.46m but the full cost of the scheme is £69.307m and these costs will be included in future capital programmes for 2027-29. An anticipated 29 units is expected to be delivered within the Northern Gateway scheme in line with the HRA Business plan.

8.7. **Property Acquisitions** - In the previous HRA business plan, there was provision within HRA budgets for property acquisitions for temporary accommodation, partly funded from Right to Buy receipts. This released cost avoidance savings for the General Fund in its bed and breakfast accommodation revenue budgets and helped secure the viability of the HRA in the longer term. Due to a change in government policy on the use of Right to Buy receipts this strategy is no longer viable. HEB Committee received a report on the proposal for these acquisitions to be sold to a Sutton Living Limited, this has not yet happened due to unfavorable market conditions. The Council continues to work with Sutton Living Living on the potential sale of the homes.

8.8. **Estate Regeneration** - With the approval of Committee and resident engagement and support, the capital programme for 2024-28 includes a revised budget of £34.538m for the Beechtree Place Site and £60.919m for the Elm Grove estate regeneration. The Elm Grove development is expected to generate capital receipts of £1.9m in 2026/27 from first tranche sales under a shared ownership scheme. The area renewal and ongoing regeneration of estates is a key objective for Sutton, creating better environment and delivering more affordable housing. Further implementation of schemes are being assessed to be included in the next capital programme cycle.

8.9. **Right to Buy (Right to Buy) Receipts** - Under the Right to Buy arrangements introduced for 2012/13 the Council signed up to an agreement with the Government for the use of net Right to Buy receipts for the provision of new housing. This agreement was modified for 2021/22 with the changes and the effect on the HRA outlined above. It is estimated that £62.317m of net Right to Buy receipts will have been retained through that agreement by the end of 2027/28.

8.10. A total of £18.985m net retained Right to Buy receipts are being applied to the HRA capital programme over the next four year period and this will be applied to the new build programme.

9. Education Programme

9.1. The main elements of the education capital programme are the school expansion and build programme, works to maintain school buildings and devolved formula capital to schools. The details of the £13.36m outline programme for 2024/28 are shown in the table below.

Project	**Total 2024-25**	**Total 2025-26**	**Total 2026-27**	**Total 2027-28**	**Grand Total 2024-28**
Early Years Capital Grant	3,628	0	0	0	3,628
Primary Expansions	200,000	200,000	200,000	194,543	794,543
Schools Capital Grant - Devolved Formula Capital	432,485	120,000	120,000	0	672,485
Schools Capital Maintenance	1,548,397	500,000	500,000	0	2,548,397
Secondary Expansions	1,281,145	854,098	427,048	0	2,562,291
SEN Expansion	4,122,255	1,700,000	961,187	0	6,783,442
Grand Total	**7,587,910**	**3,374,098**	**2,208,235**	**194,543**	**13,364,786**

*Note the split between types of school is notional and the actual split between type of school will be based on need

9.2. Expenditure on schools' expansion is in response to pupil place planning needs across the borough. The organisation is strategically utilising the grants received from Department of Education, S106 and CIL to uphold maintenance of schools, enhancing the infrastructure of buildings to create a more inclusive environment for students with SEN of physical impairments.

10. Asset Management Plan

10.1. The Corporate Asset Management Strategy 2020/25 was approved by the Strategy & Resources Committee on 12 October 2020.

10.2. The Asset Management Strategy for the London Borough of Sutton builds on the success of the previous strategy and will guide the Council's strategic property decisions and their interaction with corporate and individual service strategies.

10.3. The Council owns a diverse range of land and property assets that make an important and positive contribution to our Borough. The strategy addresses the ambition and key initiatives the Council will adopt for the use and management of property and the role that it can play in delivering its corporate objectives. This will be reviewed annually, but will be sufficiently flexible in its approach to cater for the transformation work being currently undertaken by the Council.

10.4. The Council sees property as a key enabler in the drive for change and delivery of public services. Strategic asset management of land and buildings is the activity that ensures property is optimally structured to best align with the Council's ambitions and objectives.

10.5. The Council will take a long term view and a strategic approach to working with partners and assets to deliver innovative solutions. Working with all sectors, whether public, private, academic, voluntary or community based we will continue to deliver quality services to communities using property in the right way to benefit our residents and the community.

11. Investment for Service and Commercial Property

11.1. The Prudential Code 2021 introduces new definitions for investments under 2 main headings: Treasury management investments and non-financial or non treasury management. Treasury management represents the placement of cash in relation to the s12 Local Government Act 2003 Act investment powers, i.e., they are the residual cash left in an authority's bank account resulting from the authority's day to day activities. The management of these activities are not reported in this capital strategy but rather in the Councils Treasury management strategy

11.2. Non-treasury management consists of commercial investments and service investments undertaken by local authorities:

- **Commercial property investments** - whereby the objective is primarily to generate capital or revenue resources. The resources generated would then help facilitate local authority services. This category is further classified under Commercial property investments and financial investments.
- **Service type investments** - whereby 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 enable care facilities among others.

Approach to Commercial and Service Investments

11.3. The Council in order to deliver important local infrastructure, regeneration, new housing or to enhance the local economy in line with its strategic objectives will undertake commercial and service investments directly or in partnership with third party organisations.

11.4. In the pursuit of these objectives the Council will ensure that investment decisions are supported by full business cases that clearly set out the rationale for the investment under the following headings: Strategic, Economic, Commercial, Financial, and Management. This will include assessing impact on debt and debt repayment, cost of borrowing, minimum revenue provisions and the time value of money.

Governance

11.5. Investment decisions above £500,000 or where the Strategic Director of Resources considers that the project will have a significant impact on revenue performance will have to be supported by business cases showing rationale as indicated in 12.4 above. The business case will require approval from the relevant service committee. Subsequent significant changes in assumptions and specification will also need approval from the relevant service committee.

11.6. In-year monitoring of delivery will be undertaken by the Capital Board alongside the Corporate Management Team at officer level as part of the annual monitoring and review of financial performance. The Capital Board consists of senior officers from project delivery and support service areas such as finance and procurement while CMT is composed of the senior officers of the executive team. This monitoring informs the quarterly financial update reporting to the Strategy & Resources Committee.

11.7. The financial update reports cover budget monitoring and delivery updates, as well as financial performance and updates on risks, for both capital and revenue expenditure including investments. The report is presented to the Strategy and Resources Committee.

Affordability

11.8. The affordability of the commercial and service investments will be assessed by comparing net income from these activities including financial investments to the total net revenue stream of the Council. Quarterly performance of actuals and revised estimates against these targets will be presented to the Corporate and Resources committee as part of the quarterly monitoring of financial performance.

11.9. The table below is the current estimates built from the budgets in the Medium Term Financial Plan.

Investment Affordability Indicator					
Financial Year	**2022/23 Actual %**	**2023/24 Estimate %**	**2024/25 Estimate %**	**2025/26 Estimate %**	**2026/27 Estimate %**
Ratio of net Income from commercial and service investment to net revenue stream	4.26	5.45	4.49	3.94	3.91

12. Commercial Property Investment - Investment Property Portfolio (IPP)

12.1. In February 2015, the Strategy and Resources Committee took the decision to set up an Investment Portfolio of properties to be managed commercially. This would include existing investment buildings but also set criteria for expanding that portfolio by undertaking commercial property acquisitions. The Strategy and Resources Committee then gave approval to principles for the Investment Property Portfolio (IPP) in September 2015. In October 2018, the Strategy and Resources Committee agreed to adopt a revised policy for governance and portfolio management.

12.2. The twin aims of the strategy for the Investment Property Portfolio are to:

- Support the economic viability of the Borough; and
- Deliver a secure medium to long term investment return to help sustain the delivery of Council functions

12.3. In delivering the strategy the following priorities are to be used to guide the growth of the Investment Property Portfolio:

- Acquisitions that help attract and sustain economic activity and investment in the Borough
- Arrangements that help manage risks and contribute towards achieving a balanced portfolio including acquisitions in or out of the Borough.

12.4. The updated CIPFA Prudential Code issued in December 2021 introduces new guidelines that prohibits councils from taking out borrowing to purchase investment assets principally for financial yield. Borrowing to fund investment properties that facilitate regeneration in the Borough is still supported by the new guidelines.

Regeneration Property Acquisitions

12.5. The Asset Management Strategy report considered by the Committee in October 2020 highlighted a need for the Council to assemble land that enables regeneration of key development sites.

12.6. The policy framework sets out the objectives and strategic priorities and in particular where a need for a property acquisition solely for regeneration purposes may, in the short term, not generate an economic return. The principal aims are to:

- Support the economic viability of the Borough; and
- Deliver a secure medium to long-term investment return to help sustain the delivery of Council functions.

12.7. The Council's Investment and Regeneration Property Portfolio will continue to be managed in line with the current policies and governance arrangements and we will continue to monitor and benchmark performance against industry standards and adopted policies.

Risk Management for the Council from Property Acquisitions

12.8. Property investment has its own specific risks, the principal ones being property risks, financial risks and corporate risks. The arrangements set out in this policy are designed to help minimise these risks.

12.9. **Property Risks** – the property market is cyclical and is affected by the wider economic environment. There are also property risks that are specific to a building due to its location, condition and quality of tenants. Mitigation proposed in this policy for these risks include diversifying the portfolio (portfolio mix) to include investments that perform differently over the economic cycle. The evaluation criteria, diversity of location, due diligence tests, approval processes and accountability for implementation are also proposed to address property specific risks.

12.10. **Financial Risks** – the primary financial risks are borrowing levels, interest rates movement, ongoing ability to service debts, the general investment market conditions and its effect on rental income. Risk mitigation is achieved through the creation of a special reserve for the IPP and a funding strategy that allocates debt and all associated costs to the IPP so that the net revenue benefits to the Council is transparent and can be benchmarked.

12.11. **Corporate Risks** – effective operational delivery requires staff with the requisite expertise, effective arrangements for asset management and the recognition of the reputational risks that can come from inappropriate tenants, and from legal and environmental breaches. Risk mitigation measures include the Council adopting a statement on ethical investments to guide the acquisition of property and management of relationships with tenants. Operational delivery will be managed by officers and performance of the IPP will be reported regularly to the Strategy & Resources Committee.

Portfolio Mix

12.12. The current weighting of the classes of property in the IPP, by capital value, is (September 2023) Offices 37.97%, Industrial 27.33%, Leisure 18.97% and Retail 15.43% with most of the Council's property located within the Borough and a few just across the Borough boundaries with neighbouring authorities and one out of the Borough (Oxfam) where the sale is expected to be completed later in the year.

12.13. Over the life of the strategy, a balanced and diversified portfolio will be achieved by:

- Selling low value assets and reinvesting capital receipts in directly managed property with good rental growth potential
- Achieve a balanced portfolio where no single class of property is larger than 60% and none smaller than 10%.

Governance

12.14. Strategy and Resources Committee has set the policy arrangements for the IPP and receive an annual report on performance of the portfolio.

12.15. Operational management including acquisitions is delegated to officers, acting within their delegated powers as set out below.

- That the Chief Executive is granted delegated powers to authorize acquisitions up to £5m
- That the urgency procedure is used for acquisitions over £5m

12.16. An officer board (chaired by the Strategic Director of Resources and Section 151 officer) is in place to ensure that there is the appropriate monitoring of the performance of the IPP and any potential acquisitions and/or disposals are reviewed prior to recommending them to the relevant decision maker. The officer board is currently constituted as the Asset Strategy Delivery Board and its members include:

- Assistant Director, Assets
- Assistant Director, Housing, Planning and Regeneration
- Assistant Director, Law and Governance

12.17. Disposal of assets in the IPP is to be undertaken in accordance with the Council's Standing Orders for asset disposals. The officer board will make recommendations to the appropriate officer where, due to disposal value, it is within officer delegated powers, and to the Strategy & Resources Committee where outside officer delegated powers.

IPP Activity

12.18. The adopted strategy to acquire investment property led to acquisitions totalling over £80m by the end of 2019/20 FY. At March 2022 the Investment Property Portfolio capital value was £136.8m, producing gross income of £7.1m and net income of £3.7m An earmarked IPP reserve fund had been built up to £4.084m as at the end of March 2023.

12.19. Five key indicators are used to monitor performance of the portfolio. Performance against these indicators was last reported to the Strategy and Resources Committee on *7 November 2022* as follows:

12.20. Total Return - – the annual increase in net capital value (expressed as a percentage) plus net income growth (expressed as a percentage of the capital value) measured against the whole portfolio and by property type;

Return tables

Total Portfolio

Year	**Asset Value (£000's)**	**Net Asset Value Growth (%)**	**Net Income Growth (%)**	**Total Return LBS (%)**	**UK All Property Total Return (published index*)**
2016/17	£75,739	1.72%	3.54%	5.26%	3.5% (Dec 2016)
2017/18	£93,935	4.14%	3.50%	7.64%	11.3% (Dec 2017)
2018/19	£95,259	2.00%	3.22%	5.22%	5.1% (April 2019)
2019/20	£124,424	-3.98%	2.62%	-1.36%	0.1% (April 2020)
2020/21	£122,790	-1.31%	2.48%	1.16%	2.5 % (April 2021)
2021/22	£142,843	16.33%	2.66%	18.99%	24% (April 2022)
2022/23	£136,768	-4.25%	2.59%	-1.67%	-15.5% (April 2023)

* Investment Property Databank Index to 2020/21 then MSCI Index 2021/22

By Property Type

Property Type	Asset Value (AV) (£000's)	AV as (%) of Total Portfolio	Net Asset Value Growth (%)	Net Income Return (%)*	Total Return (%)	UK Total Return MSCI/Gerald Eve April 2023
Offices	£51,927	37.97%	-11.68%	1.32%	-10.36%	-15% (South-East offices)
Leisure	£25,946	18.97%	0.76%	3.00%	3.76%	-4% (Nationally)
Industrial	£37,380	27.33%	0.43%	4.29%	4.72%	-22% (All industrial)
Retail	£21,515	15.43%	2.07%	2.61%	4.68%	-7.5% (London High Street)

*Net income return is the income available after deducting costs.

Effective Return - Income receivable less costs, expressed as a percentage of capital value

Year	Asset Value (£'000s)	Net Income (Less interest, minimum revenue provision and management)	Effective return (%)
2016/17	£75,739	£2,652	3.50%
2017/18	£93,935	£3,141	3.36%
2018/19	£95,259	£3,012	3.16%
2019/20	£124,424	£3,397	2.73%
2020/21	£122,790	£3,082	2.51%
2021/22	£142,843	£3,268	2.29%

2022/23	£136,768	£3,696	2.70%

12.21. This slightly increased effective return compared with 2021/22 reflects the increased rents it was possible to secure over the year, despite a drop in capital values driven by investment yield changes. Net income has increased by £428,000.

Growth in Asset Value and Gross Income - Percentage increase per year

Year	**Asset Value (£000's)**	**Asset Growth (%)**	**Gross income (£000's)**	**Income Growth (%)**
2016/17	£75,739	77.52%	£4,375	61.42%
2017/18	£93,395	23.31%	£5,402	23.48%
2018/19	£95,259	2.00%	£5,280	-2.24%
2019/20	£124,424	30.62%	£7,175	35.89%
2020/21	£122,790	-1.31%	£6,478	-9.7%
2021/22	£142,843	16.33%	£6,658	2.78%
2022/23	£136,767	-4.25%	£7,063	6.09%

Vacancy Rate - Expressed as a percentage of vacant space and potential rent loss compared with total lettable space and overall rent.

Year	**No. of Properties**	**No. Vacant**	**Vacant Lettable Space**	**Vacancy Rate** (% lettable space)	**Rent Loss** (If vacant for whole year)	**Vacancy Rate** (% of total rent)
April 2017	111	2	2,384 m^2	0.26%	£195,003	3.34%

Year	**No. of Properties**	**No. Vacant**	**Vacant Lettable Space**	**Vacancy Rate** (% lettable space)	**Rent Loss** (If vacant for whole year)	**Vacancy Rate** (% of total rent)
April 2018	111	5	2,036m^2	0.22%	£109,000	1.85%
April 2019	111	5	1,725m^2	0.19%	£144,000	2.48%
April 2020	122	8	3,399m^2	0.37%	£296,800	3.92%
April 2021	121	11	4,134m2	0.45%	£389,502	5.15%
April 2022	119	4	1,544m2	0.17%	£90,502	1.20%
April 2023	120	2	1,861m2	0.21%	£32,250	0.46%

13. Service Investment Activity

Opportunity Sutton

13.1. In July 2013, the Strategy and Resources Committee established Opportunity Sutton Limited (OSL) with Sutton Decentralised Energy Network (SDEN) as its initial subsidiary, allowing for potential additional subsidiaries. Simultaneously, the Committee proposed a new Council subcommittee, the Shareholders Board, for decision-making and oversight on behalf of the Council as the sole shareholder, and for broader governance arrangements. Full Council approved the Shareholders Board in June 2015. In 2022/23, the Council decided to dissolve Opportunity Sutton Limited, keeping Sutton Decentralised Energy Network Limited and Sutton Living Limited as direct subsidiaries overseen by the Sutton Shareholdings Board.

Sutton Decentralised Energy Network

13.2. SDEN is a wholly owned company of the Council. SDEN is a sustainable energy supplier that aims to provide low carbon energy to homes and businesses in

Sutton. The company will utilize waste heat from the Beddington Energy Recovery Facility (ERF) and existing landfill gas engines.

13.3. The Council has provided SDEN with loan financing for the development of the capital costs for the heat network but also a repayable short term overdraft facility to cover immediate operating costs whilst the company builds its customer base. The loans to the company are now set at a 2% interest rate for a 3 year period following a decision by the Strategy & Resources Committee in November 2021.

13.4. The most recent SDEN business plan identifies that it is not expected to have enough cash to repay the loan until 2063-64. Work is ongoing on further opportunities to increase the profitability of the Company and these will be presented to the Shareholder in the coming year.

Sutton Living Limited

13.5. In July 2014 the Council's Strategy and Resources Committee agreed to set up a wholly owned housing development company, Sutton Living with the intention of opening up the opportunity to influence the local housing market and make a contribution to meeting London's housing needs.

13.6. The specific objectives of the company are:

- To make Sutton Living Limited a successful development company by providing a range of new housing in the Borough on both Council land and private sites.
- To ensure that the Company's development programme remains viable and generates a profit, whilst addressing the different identified needs for new housing in the Borough.

13.7. The Council agreed loan terms for the company's first development site, at Wallington Public Hall but following a change in tenure, Sutton Living submitted a new business case and a new tenure specific funding was agreed. The initial loan terms of a mix of equity and debt financing was replaced with 100% loan financing because the initial funding structure was not delivering the best outcome. The loan is at a commercial loan rate with interest accruing and rolling up into the loan. The sales units at Wallington Public Hall were completed in 2022.

13.8. When the development is complete and the market rent units are sold, the loan and interest attributable to the market sales units will be repaid in full to the Council, on the sale of the units. The loan attributable to the market rented units will be refinanced into a longer term financing arrangement based on an RPI index linked lease. This will produce a good outcome for both the Council and Sutton Living as the lease repayment is linked to the rental income that the company will receive.

13.9. The Council is currently developing 23 affordable housing units through Sutton Living at Alexandra Gardens. This development will be funded from the HRA and the Affordable Homes for Londoners grant from the GLA.

13.10. A report to the Housing, Economy and Business Committee in December 2021 updated the strategy for housing acquisitions due to permitted use of Right to Buy receipts. Recently acquired houses in the HRA under temporary accommodation were reported to potentially benefit from transfer to SLL for the provision of affordable accommodation. Following the delay reported in October 2022 the Council is continuing discussions with SLL.

London Cancer Hub

13.11. The Council is working to create a world leading life science district in partnership with the Institute of Cancer Research, the Royal Marsden NHS Trust, Epsom and St Helier University Hospitals NHS Trust and other partners at London Cancer Hub. The Council purchased land from the Epsom & St Helier University Hospitals Trust for the development of commercial life sciences space, initially funded by short term borrowing whilst the longer term structure and commercial arrangements of the LCH were developed. The Council secured £8.38m of funding from the London Strategic Investment Pot (SIP) which has been used to deliver a new life science workspace facility, prepare the site for redevelopment, progress the leasehold sale and match fund Belmont transport improvements.

13.12. The council undertook a competitive bidding process in 2023 to secure a partner to help deliver the London Cancer Hub. In September 2023, the Strategy & Resources Committee approved the selection of Aviva working with Socius. The agreement with Aviva to sell the Council's land on a long leasehold completed in December 2023. Under the terms of the deal the Council received an upfront capital payment, and will receive further staged capital payments and a share of rental income once the new buildings are leased.

13.13. In January 2023 the Council secured a £14.1m grant through the Government's Levelling Up Fund for transport improvements in Belmont. Through the project, new rail infrastructure will be developed that will enable improved train frequency. In addition, there will be improvements delivered at Belmont Station to improve accessibility, and new walking and cycling routes to the station and the London Cancer Hub. This project supports local residents, and aids the development of the London Cancer Hub by improving public transport accessibility and active travel to the site.

St Nicholas Centre Development

13.14. The Council owns the St Nicholas Shopping Centre in Sutton Town Centre following the purchase of the leasehold in 2021. The Centre was purchased as a regeneration asset to enable the council to lead the regeneration of Sutton Town

Centre. Following a decision In November 2022 by Strategy and Resources Committee, the Council agreed to pursue an option of creating a comprehensive mixed use scheme on the St Nicholas Centre which would include a new Civic Centre complex and to release the current Civic Centre site, Gibson Road Multi Storey Car Park and the vacant Secombe Theatre for disposal. The Council's accommodation requirements have reduced considerably since the Covid-19 pandemic and a new civic complex on the High Street provides an opportunity to reduce running costs, join up service delivery through increased co-location with partners as well as contributing to the wider objective of revitalising the Town Centre and responding to the challenges the High Street faces.

13.15. The Council has commenced a procurement process to seek a development partner to take forward the comprehensive development scheme. The Council is currently at the dialogue stage of the procurement process and expects to select a development partner for approval by the Strategy and Resources Committee in Autumn 2024. The expectation is that the development partner will carry a significant proportion of the risk for the development and construction of the scheme. The Council will pay the development partner for the construction of the new Civic Hub. The cost of the construction, as well as the initial purchase cost of the Centre, will be mitigated through the sale of the land assets (including Denmark Road) made surplus as a result of the scheme delivery. The timing of the forecast capital costs and forecast capital receipts are uncertain at this stage and will be worked through with the Development Partner as part of the procurement process and presented to S&R Committee in the Autumn with the aim of incorporating into the capital programme in future. The upfront costs for procuring the development partner have been included in the capital programme and have been factored into the overall costs of the scheme with £1m included in the capital programme for 2023/24 - 2024/25. It is estimated that a further £200k p.a will be required until the new Civic Hub is complete to oversee the emerging scheme, manage the relationship and governance with the development partner and to employ an Employers Agent to certify that the Civic Hub is built to the Council's specifications. This will be added to the Capital Programme for 2025/26.

13.16. The St Nicholas Centre currently generates gross operating income of £2.8m per annum. In advance of the comprehensive development programme the capital programme includes the management and maintenance costs of the existing centre. Risks and mitigations include the following;

- Void units leading to loss of income and liability for costs. Letting agents are retained to market the property and bring forward on the best terms available.
- Lack of attraction to long term occupiers due to short term lettings only being available. This is unavoidable due to the nature of the asset and plans for regeneration but short term lettings are being sought wherever possible.

- Non-payment of rent or service charges. This is being monitored and debts pursued by the managing agents with regular reporting of progress.
- Maintenance costs exceeding forecast sums. This is being monitored by the managing agents with regular reporting of progress and outstanding items.
- Larger maintenance items and repair costs. A provision of £1m was set aside on purchase and has already covered various urgent items with some remaining for future use. With public access and multiple traders it will be necessary to continue to meet essential spend.
- Other operating costs such as void rates exceeding estimates. This is being kept under review especially with regard to the new 2023 Rating List and appeals will be made where appropriate.
- Car parking income diminishing due to free short-term parking being offered elsewhere. The charging rates have just been reviewed and performance of this part of the asset will be kept in focus.

14. Revenue Implications from Capital Schemes

14.1. Services are required to identify and record any potential revenue implications from capital schemes as part of the capital bidding process. These are then taken into consideration during the scheme prioritisation process and reflected in the medium term revenue budgets where necessary.

15. Capacity to Deliver Schemes

15.1. The capacity to deliver capital schemes is initially assessed through the capital programme bidding process. Services are required to highlight key risks for the scheme as part of their bid for capital funding including capacity to deliver on capital schemes. After scheme approval, project managers continue to work with finance colleagues through the in-year capital monitoring process where capacity issues and other risks are highlighted and followed up.

16. Capital Risk Management

16.1. There are a number of risks surrounding the capital programme, which inevitably increase at a time of economic uncertainty. These risks are reviewed and managed as part of the capital programme review process, in year capital monitoring and specific project and risk management arrangements for larger schemes.

16.2. Cost Overspends / Project Timescale Slippage -In the initial stages of development, major capital projects will have significant uncertainties. For example these may relate to the planning process, the views / interest of stakeholders who must be consulted, ground conditions, or the cost of refurbishing or demolishing existing buildings (e.g. the cost of asbestos removal). As such all major projects contain a defined contingency provision. The level of this contingency is set with reference to the type of project, its complexity and risk items identified on the risk register. Typically new build projects are allocated a lower contingency of an average 2.5 to 5% and refurbishment or alternation projects an average of 3.5 to 7% depending on contract value. Once a scheme begins spend and timescales for completion are monitored as part of the monthly capital programme monitoring processes.

16.3. Governance and Compliance - A review of governance arrangements for capital projects in 2021 agreed a set of recommendations that included:

- The introduction of common and proportionate standards and processes to strengthen effectiveness, consistency, transparency and accountability.
- The creation of a suite of project management documentation and tools
- The allocation of a dedicated PMO resource to ensure compliance with governance arrangements.
- The establishment of a capital projects board to provide a portfolio view of Council capital projects.

16.4. Capital Receipts -The Council has continued to ensure regular review in terms of its assumptions for the inclusion of new capital receipts into the programme, particularly given the difficulty around some of the sites. Each year planned capital receipts are reviewed by the property and finance teams in terms of values, timescales and any known risk factors that need to be taken into account.

16.5. Borrowing Costs -A provision for the revenue costs of future Prudential borrowing within the capital programme has been made within the revenue budget. This allocation has been derived using estimates for interest rates over the coming four year period. There is a risk that interest rates rise above these estimates affecting the cost of this borrowing. This risk will be managed through the Council's Treasury Management Strategy ensuring that the cost of borrowing to the Council is minimised.

16.6. Cost Price Inflation -There is increased uncertainty about the cost of projects due to potential changes in the cost of materials and labour arising from changes in the value of the pound relative to other currencies.

16.7. Right to Buy projections are incorrect and fewer net Right to Buy receipts are available to fund the capital programme (new build and acquisitions) - Prudent assumptions included within four year projections. These will be reviewed each year and plans adjusted accordingly. Receipts aren't applied as funding to projects until year-end.

16.8. School Place Expansion -The programme to expand the number of primary school places is now complete and further growth is not currently required.

16.9. Non Repayment of Loans by Third Parties -There are a number of parameters built into the arrangements for agreeing loan financing which provide some protection to the Council. In addition all loan financing is secured against assets through collateral warranties.

16.10. The Council undertakes regular monitoring of the financial position of its partially or wholly owned companies as a shareholder. Annual reporting is also required as part of the loan agreements and provides early warning of any potential issues to enable the Council to work with the company to find solutions to prevent a loan default or insolvency.

16.11. Reduction in Value of Commercial Property -The market value of properties is ascertained annually as part of the production of the statement of accounts. Commercial Property investments are intended to be holdings for the medium to longer term. Risk management mitigation as part of IPP arrangements includes active management of the portfolio including review of the performance of individual properties to feed into longer term disposal or refurbishment or reprovision decisions. The Council has an earmarked reserve in place to assist with any investment needed in properties.

17. Affordability of the Capital Programme

17.1. The affordability of the capital programme can be assessed from the Prudential Indicators of the Council for the next 4 years set out in the table below. The Council's gross loan requirement for the next 4 years remains under the operational boundary limit indicator for external borrowing. Provision has also been made in the revenue budget of the medium term financial plan for the revenue costs of the projected gross loan requirement via the minimum revenue provision and interest charges.

Prudential Indicators

STATUTORY PRUDENTIAL INDICATORS					
(To support the Council's capital financing borrowing requirement)	**2022/23 Actual**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Authorised limit for external debt:					
Debt	543,090	587,756	600,788	625,703	647,539
Other long-term liabilities	0	0	0	0	0
Total	**543,090**	**587,756**	**600,788**	**625,703**	**647,539**
Operational boundary for external debt:					
Borrowing	493,718	534,320	546,164	568,811	588,658

Other long-term liabilities	0	0	0	0	0
Total	**493,718**	**534,320**	**546,164**	**568,811**	**588,658**

Liability Benchmark

Liability Benchmarks	**2022/23 Actual**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Existing loan debt outstanding	407,626	407,626	407,626	407,626	407,626
Loans CFR	493,718	534,320	546,164	568,810	588,657
Net Loan Requirement	363,936	404,538	416,382	439,028	458,875
Gross loans requirement	398,936	439,538	451,382	474,028	493,875

18. IFRS 9

18.1. Each year under International Financial Reporting Standard (IFRS) 9 the Council will review all loan agreements in place to assess whether there are any impairments or potential defaults on the loans that it has made to third parties. This assessment will continue a review of all financing arrangements for wholly owned companies such as Sutton Decentralised Energy Network and Sutton Living. Any assessed future impairment on these loans will need to be recognised as a charge to revenue.

Appendices

- Appendix I2 - Detailed Capital Programme for 2024/25 to 2027/28
- Appendix I3 - Updated Flexible Use of Capital Receipts forecast

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