Capital and Investment Strategy 2021/22

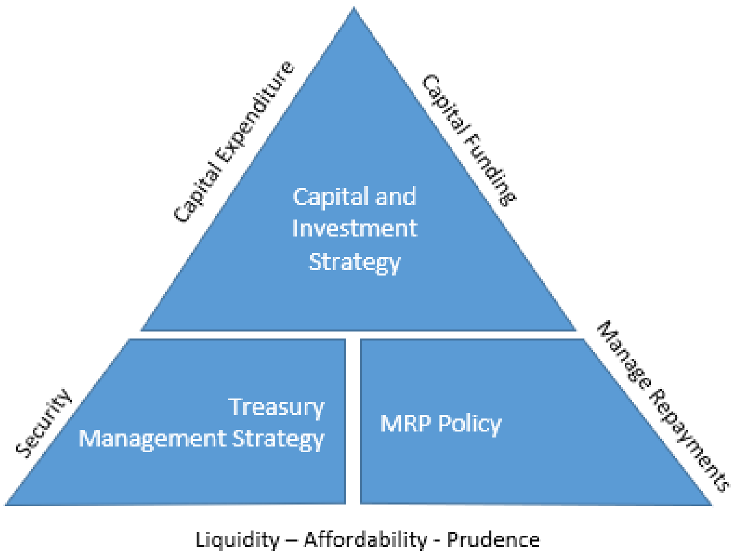
Introduction

1. The Capital and Investment Strategy provides an overview of the two main components of capital planning;
   - the Capital Programme; supporting Corporate and Directorate priorities; and
   - the Capital Investment Programme; generating income and supporting economic growth.

   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.

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

3. The overall Capital and Investment Strategy can be broken down into separate key elements that set out the Council's approach to capital, investment and treasury management:
   a. Capital Overview - asset management, capital expenditure planning, risk management and long-term sustainability of capital expenditure plans
   b. Investment Overview – setting out investment plans focusing on the approach to service and commercially led investment;
   c. The Treasury Management Strategy Statement (TMSS) – setting out how we borrow and invest to support our capital financing requirement (Annex H)
   d. The Minimum Revenue Provision (MRP) Policy – setting out how we repay capital borrowing (Annex I)



4. This Annex covers the first two of these elements in detail. Our approach to Treasury Management is set out in Annex H and our policy on the repayment of debt is set out in the MRP Policy (Annex I):

5. 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.

6. Our strategy will:
   - Ensure that capital expenditure contributes to the achievement of the Organisation Strategy;
   - Set a Capital Programme which is affordable and sustainable;
   - Maximise the use of the Council's assets;
   - Provide a clear framework for decision making and prioritisation relating to capital expenditure; and
   - Establish a corporate approach to the review of asset utilisation.

   The strategy covers distinct, but inter-related elements of capital and investment activity as follows:

7. **Capital Expenditure and Financing:** The Council incurs two types of capital expenditure, (the service delivery Capital Programme and Capital Investment Programme). The strategy covers both aspects; setting out the Council's capital expenditure and financing plans over the medium-term. It provides 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.

8. 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 strategy and sets out the Council's policy to meet its statutory duty to make an annual revenue provision for the repayment of debt, detailed in the MRP Policy (Annex I).

9. **Prudential Indicators:** Local Authority borrowing is governed by CIPFA's Prudential Code, which requires Local Authorities to set indicators which ensure that the level of borrowing is affordable, prudent and sustainable. Key indicators relating to borrowing levels are monitored throughout the year by the Audit & Governance Committee and can be found in Annex H; in the Prudential Indicators section of the TMSS.

10. **Treasury Management Investments** provides an overview of the Council's approach to the management of investments and cash flows. Further details on this are contained in the TMSS (Annex H).

11. **Use of capital resources for revenue purposes** provides a summary of the Council's plans to utilise the Government's flexibilities to use capital receipts to finance the costs of its transformation plans. These are further detailed in the Council's Flexible Use of Capital Receipts policy (Annex F).

12. **Commercial and Economic Growth Investments** providing an overview of the capital assets that are held primarily for commercial purposes or to support economic growth in Surrey.

13. **Knowledge & Skills** summarises the knowledge and skills available to the Council to support it in its decision making in these areas.

Capital Expenditure and Financing

14. 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.

15. In 2021/22, the Council has a total capital expenditure requirement of £345m as summarised in Table 1. Of this, £185m will form the Capital Budget and £143m comprises the Capital Pipeline; schemes that represent the capital ambitions of the Council but are subsequent to further detailed business cases and Member approval. In addition, the Council is planning to spend £16m on its programme of existing economic growth and investment assets.

Table 1 - Estimates of Capital Expenditure

	2019/20 actual £m	2020/21 forecast £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	Total budget £m
Capital Programme - Budget	142	226	185	197	275	215	155	**1,026**
Capital Programme - Pipeline	0	0	143	234	190	156	157	**879**
Sub-total Capital Programme	142	226	328	430	465	370	312	**1,905**
Capital investment in existing assets	1	13	3	6	5	8	8	**29**
New growth and service led investments in Surrey	0	0	15	12	9	0	0	**36**
Sub-total Investment Strategy	1	13	17	18	14	8	8	**65**
TOTAL	**143**	**240**	**345**	**448**	**479**	**378**	**320**	**1,970**

16. Our medium-term approach to financial planning means we can deliver an ambitious Capital Programme of c£1.9bn over the next 5 years, if all Pipeline proposals are approved. The revenue implications of this proposed programme are integrated and factored into the financial planning over the Medium-Term Financial Strategy (MTFS) period.

17. In developing the capital expenditure estimates, we have ensured that borrowing costs remain in line with the revenue budget envelopes set out in the 2021/22 Budget and MTFS. This has been achieved through a combination of refining the borrowing requirement for Pipeline schemes and through identifying a number of schemes that will generate income sufficient to cover their borrowing costs.

18. Planned capital investment will ensure:
    - The development of a greener future. We are developing a number of capital propositions to deliver this, such as solar farms, electric charging points, low emission buses and vehicles;
    - A reconfirmed commitment to Surrey's future and that of its residents through significant investment in flood alleviation works. This will secure the homes of Surrey residents through a once in a generation opportunity to build flood defences to avoid the terrible impact we saw on people's lives in 2014; the scheme will also provide for new country parks and green space;
    - Significant investment in our Community – in our towns and high streets with £100m available over the next 5 years through the Your Fund Surrey scheme;
    - Significant investment in Farnham town centre and surrounding infrastructure;
    - We look after our vulnerable older adults through building Extra Care and Independent Living accommodation, where residents can live independently for longer and integrate into the community;
    - We create additional local Special Educational Needs & Disabilities places – a key part in containing costs within the revenue budget;
    - We ensure schools have the capacity to provide a rich education with Schools Basic Needs funding;
    - Significant investment in our road infrastructure; and
    - Acceleration of our Property Rationalisation Programme and Agile Corporate Estate Programme.

19. We want to invest in measures that help people lead more independent and fulfilling lives, harnessing the power and abilities that lie with families, communities and the latest digital technology. As a result, the Council leadership will focus on driving improvements rather than just focussing on balancing the budget.

Governance

20. Capital projects are subject to a rigorous governance process to ensure they are aligned with the Council's priorities:
    - **Growing a sustainable economy so everyone can benefit;**
    - **Tackling health inequality**;
    - **Enabling a greener future; and**
    - **Empowering communities**.

21. 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. Strategic Capital Groups (SCGs) for Infrastructure, Property and IT develop projects throughout the budget setting process which are scrutinised and approved by Capital Programme Panel; a group of officers from across the organisation, including the Council's Section 151 Officer/Deputy S151 and senior service representatives. Projects approved by Capital Programme Panel (CPP) are then included in the budget when approved by Cabinet and Council.

Capital Funding

22. 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, leasing and Private Finance Initiatives). The planned financing of the above expenditure is as follows:

Table 2 - Capital Financing

	2019/20 actual £m	2020/21 forecast £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	Total budget £m
Grants and Contributions	81	81	110	115	166	133	128	652
Revenue budgets	2	8	6	9	7	6	5	33
Capital receipts	7	22	75	0	0	0	0	75
Borrowing	53	129	153	324	306	239	187	1,210
TOTAL	**143**	**240**	**345**	**448**	**479**	**378**	**320**	**1,970**

- Additional borrowing of £152m for 2021/22 consists of £136m to fund the Capital Programme (detailed in the Capital Budget) and £16m to fund commercial investment expenditure (Table 1).
- This table shows the planned usage of capital receipts for capital expenditure, including the application of amounts received in previous years. It does not include the use of capital receipts for transformation. To ensure a prudent estimate of borrowing, our planned overall usage of receipts is less than estimated income (shown in Table 5). This will be reviewed throughout the MTFS period.

23. Capital receipts used for financing across the MTFS are based on receipts from assets already sold, and a prudent estimate of future receipts based on a planned disposal programme. This will be revisited regularly as the property estate rationalisation plans are finalised.

24. 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). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts to repay debt (as opposed to fund new expenditure) are as follows:

Table 3 - Repayment of Debt Finance

	2019/20 actual £m	2020/21 forecast £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m
MRP	19	22	26	30	38	46	53
Capital Receipts	0	0	0	0	0	0	0

25. The Council's cumulative outstanding amount of 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. The CFR is expected to increase by £157m during 2021/22. 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

As at 31st March	2019/20 actual £m	2020/21 forecast £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m
Capital Programme	804	889	1,047	1,324	1,578	1,751	1,878
Investment Programme	448	452	446	442	438	437	435
TOTAL CFR	**1,252**	**1,341**	**1,493**	**1,766**	**2,016**	**2,188**	**2,313**

26. Our capital plans lead to a significant increase in the estimated CFR over the five-year period. The revenue implications of this are set out in the TMSS (Annex H); in sections 34 to 37.

27. **Asset management:** To ensure that capital assets continue to be of long-term use, the Council has an Asset and Place Strategy. This sets out the Council's approach to the strategic management of its assets, how it will support service delivery and provide the Council with income and how it will be used to promote growth and place shaping within Surrey and deliver the Community.

28. **Asset disposals:** 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. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22.

29. In the Spending Review 2015, the Chancellor of the Exchequer announced that to support Local Authorities to deliver more efficient and sustainable services, the Government will allow Local Authorities to spend up to 100% of their capital receipts from the sale of non-housing assets on revenue costs incurred to generate ongoing revenue efficiency, to reduce costs and / or transform service delivery in a way that reduces costs or demand for services in future years. This flexibility relates to expenditure which is properly incurred for the financial years that begin on 1 April from 2016 to 2021.

30. Local Authorities are only able to use capital receipts in the years in which this flexibility is offered. In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice. The Flexible use of Capital Receipts Strategy is included in the 2021/22 Final Budget Report and Medium-Term Financial Strategy to 2025/26, which shows how the flexibilities are proposed to be utilised.

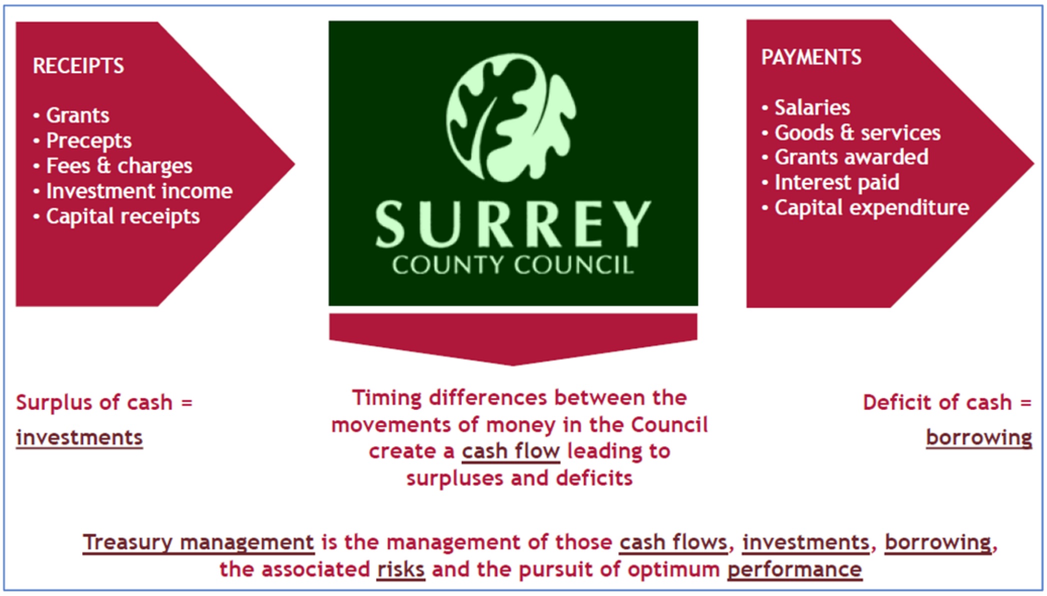
31. Repayments of capital grants, loans and investments also generate capital receipts, but none are currently assumed in the current MTFS period. The Council plans to receive £100m of capital receipts in 2020/21 and the coming financial years as follows.

Table 5 - Capital Receipts Receivable

	2019/20 actual £m	2020/21 forecast £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m
Asset sales	21	55	1	18	18	8	0

Treasury Management

32. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing. The diagram below illustrates the daily balancing act in the pursuit of optimum performance:



33. The Treasury Management Strategy in Annex H provides more detail in relation to the borrowing strategy and prudential indicators. Key areas are summarised below:

- **Borrowing strategy** – the key aim is to maximise internal borrowing and use short-term borrowing to manage cash flow shortfalls. To achieve this, we need to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher.

- **Budget setting** - for the purpose of setting the MTFS budget on borrowing and borrowing costs, average interest rates have been set at 0.5% for short term loans and 1.5% for long term loans (based on advice from our Treasury Management advisor Arlingclose).

- **External Borrowing and investments** - on 31 March 2020 the Council held £675m borrowing (£436m of long-term borrowing and £239m short-term borrowing) and £32m of cash investments. By 30th November 2020, this changed to £425m of long-term borrowing, £171m of short-term borrowing and £10m of investments.

- **Treasury Investment Strategy** - due to the continuation of the strategy to maximise internal borrowing and use short-term borrowing to manage cash flow shortfalls, investment levels are expected to remain low during 2021/22. The Council's policy on treasury investments is to prioritise security and liquidity over yield; to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested in low risk institutions (such as other Local Authorities). Longer term investments are placed more widely to balance the risk of loss against the risk of receiving returns below inflation. Further details on treasury investments are in the Treasury Management Strategy.

- **Risk management:** The effective management and control of risk are prime objectives of the Council's treasury management activities. The Treasury Management Strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

- **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and staff, who must act in line with the Treasury Management Strategy approved by Council. Regular reports on treasury management activity are presented to the Audit and Governance Committee. The Audit and Governance Committee is responsible for scrutinising treasury management decisions.

Revenue Budget Implications

34. 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 and is compared to the net revenue stream i.e. the amount funded from council tax, business rates and general government grants.

Table 6 - Proportion of net financing costs to net revenue stream

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
Ratio of Net Financing Costs to Net Revenue Stream	1.4%	1.4%	1.6%	2.2%	3.7%	4.9%	5.7%

35. The proportion of net finance cost to net revenue budget increases with increased borrowing over the MTFS period due to the expanded capital programme relative to the revenue budget. Increased borrowing costs are partially offset through schemes enabling delivery of revenue efficiencies, cost containment or income generation. Current projections show that borrowing

cost will be contained within the central income and expenditure budget for net finance cost. The full revenue implications are set out in the TMSS (Annex H); in sections 34 to 37.

36. **Sustainability:** 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 Executive Director of Resources (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. The programme also contains significant elements which are intended to contain future revenue spend, for example through demand management in Adult Social Care, and Special Educational Needs and Disabilities school placements, which reduce the net impact of capital financing costs on the revenue budget.

Investment Overview

37. In addition to service-led capital expenditure, the Council has invested its money for a further three broad purposes:
    - 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);
    - To support local public services by setting up, lending to or buying shares in other organisations **(service investments)**; and
    - To earn investment income (known as **commercial investments** where this is the main purpose).

38. The remainder of the Capital and Investment strategy focuses on the second and third of the above categories, the first being set out in the Treasury Management Strategy (Annex H). The Council complies with all the requirements of statutory guidance issued by the Government in January 2018.

39. The Investment Strategy feeds into and is interrelated to the Treasury Management Strategy and Minimum Revenue Provision (MRP) Policy (Annex H and I respectively)

Service Investments: Loans

40. **Overview:** The Council lends money to its subsidiaries and other organisations to support local public services and stimulate local economic growth. Subsidiaries of this nature include:

    a. Hendeca Group Ltd (formerly S.E. Business Services Ltd) – a Local Authority Trading Company (LATC) wholly owned by the Council for the provision of business services.
    b. Surrey Choices Ltd – a LATC, wholly owned by the Council to deliver day services and community support options for people with disabilities and older people.

41. **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 for service purposes in £ millions

Category of borrower	31.3.2020 actual		
	Balance owing £m	Loss allowance £m	Net figure in Accounts £m
Subsidiaries	3	-	3

42. 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 nil.

43. **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.

Commercial Investments: Property

44. **Overview:** The Council holds investments in local commercial property; office space, leisure and retail, with the intention of supporting Surrey'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 8 - Property held for investment purposes in £ millions

Property	Actual	31.3.2020 actual	
	Purchase cost £m	Gains or (losses) £m	Closing Value £m
Office	117	12	129
Retail	6	- 2	4
Leisure	1	-	1
TOTAL	**124**	**10**	**134**

45. **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.

46. 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 investment properties for long-term rental income, and short-term fluctuation in investment values can be expected. Our investment properties operate in a challenging commercial environment, with particular pressure on retail. Should the 2021/22 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.

Commercial Investment – Equity Investments and Loans

47. **Overview:** The Council fully owns Halsey Garton Ltd which has a portfolio of national investment properties used to generate a return to the Council. The financial return takes the form of interest on the outstanding loan and dividend payments. The value of our investment in Halsey Garton Ltd as at 31st March 2020 is set out below.

Table 9 - Equity and Loans to Halsey Garton Ltd in £ millions

Category of Investment	31.3.2020 actual		
	Balance outstanding £m	Loss allowance £m	Net figure in Accounts £m
Equity Shares	93	-	93
Loans	234	(1)	233

48. Accounting standards require the Council to set aside loss allowance for investments, reflecting an assessment of risk. The figures 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.

49. **Security:** The value of property owned by Halsey Garton Ltd at 31st March 2020 was assessed as being £61m lower than cost, representing an 19% reduction, largely due to pressures on the retail environment. This trend has continued over the last two financial years and as a result, our MRP policy has been updated. This will include a statement to regularly review the value of assets to the outstanding loan profile to determine whether principal repayment is required for prudent provision to repay the Capital Financing Requirement over asset life (more information is available in the MRP policy statement in Annex I). Halsey Garton is holding the assets for long-term rental income and short-term variations in fair value do not currently affect the value of the Council's investment.

50. Surrey County Council also holds shares of £0.5m in the UK Municipal Bonds Agency (UKMBA) whose aim is to reduce the long-term borrowing costs of Local Authorities who join together to issue local authority bonds. The Council does not currently have a bond-issue with UKMBA but is taking regular advice from its Treasury advisors, Arlingclose on the most appropriate source of finance for its long-term capital spending plans.

Risk Assessment and Liquidity

51. **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property or subsidiary investments through a thorough analysis of the market and economic

conditions using external advisors where necessary. Separately, the Council has a comprehensive risk management strategy to mitigate risks of over-spend or income shortfalls to the base budget position.

52. **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. The Council is not reliant on investments in property to maintain its liquidity and manages liquidity through other investments and borrowing. The Council has Reserves and Contingencies to maintain stability over a period of inadequate returns from its investment portfolio.

Loan Commitments and Financial Guarantees

53. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

54. We do not currently extend financial guarantees to other organisations, however if we chose to be part of a bond issue with UKMBA, we would be liable for defaults of other Local Authorities in proportion to our share of the total amount of the bond. It is highly unlikely that another Local Authority would default in this way and so the risk is theoretical rather than a practical reality.

Proportionality

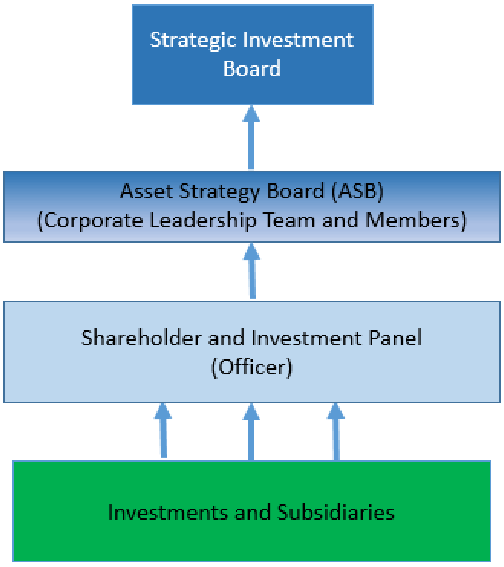
55. The Council's revenue budget includes an element of profit generating investment activity to support services. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the MTFS. Investment activity is forecast to remain at approximately 1.5% of the Council's gross spend over the medium-term. Should we fail to achieve the expected net profit, the Council would manage the impact on budget through use of Contingency in the current financial year and a re-assessment of efficiency plans for the remainder of the medium-term.

Table 10 - Proportionality of Investments

	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
Gross service expenditure (£m)	1,362.9	1,431.6	1,486.5	1,471.4	1,461.8	1,446.7	1,441.9
Investment income (£m)	23.8	20.4	21.4	21.4	21.4	21.4	21.4
Proportion	1.75%	1.42%	1.44%	1.45%	1.46%	1.48%	1.48%

Corporate Governance

56. Commercial investments are taken through a rigorous Officer and Member led process to ensure that decisions are taken with an adequate level of scrutiny. The diagram, below, shows the governance groups charged with delivering commercial investments:



Investment Indicators

57. 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.

58. **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes 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.

Table 11 - Total investment exposure in £millions

Total investment exposure	**31.03.2020 Actual £m**	**31.03.2021 Forecast £m**	**31.03.2022 Forecast £m**
Treasury management investments	32	60	60
Service investments: Loans	3	3	3
Commercial and Economic Growth investments: Property	134	147	163
Commercial investments: Loans	233	233	233
Commercial investments: Shares	93	93	93
TOTAL INVESTMENTS	**495**	**536**	**552**

59. **How investments are funded:** Government guidance states that our indicators should include an analysis of how investments are funded. Councils, including SCC, 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 in £millions

Investments funded by borrowing	31.03.2020 Actual £m	31.03.2021 Forecast £m	31.03.2022 Forecast £m
Commercial and Economic Growth investments: Property	134	147	163
Commercial investments: Loans	233	233	233
Commercial investments: Shares	93	93	93
TOTAL FUNDED FROM CAPITAL SOURCES	**460**	**473**	**489**

60. **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, 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.

Table 13 - Investment rate of return (net of all costs)

Investments net rate of return	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Forecast £m	2021/22 Forecast %
Service investments	0.6	0.4	0.4	13%
Commercial investments: Property	7.3	7.3	6.1	4%
Commercial investments: Shares and Loans	15.9	12.7	14.9	5%
ALL INVESTMENTS	**23.8**	**20.4**	**21.4**	**4%**

Knowledge and Skills

61. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council pays for officers to study towards relevant professional qualifications including CIPFA.

62. All officers involved in the treasury and investment management function have access to relevant technical guidance and training to enable them to acquire and maintain the appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them. The Council currently employs treasury management advisers and seeks external legal and property related advice and due diligence as required. The Council's investment Strategy is supported by guidance from our advisors, CBRE. The Council's Treasury Management and borrowing strategies are supported by guidance from our advisors, Arlingclose. Both are on hand to guide key decisions and provide proactive advice in response to emerging market trends.

63. Those charged with governance (Members of the Audit and Governance Committee and the Resources and Performance Overview Select Committee) recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The Section 151 Officer will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

64. The Orbis partnership enables the creation and development of specialist resources. Centres of Expertise have been established for key areas of finance, and central teams of pooled expertise have been created to provide robust services which are resilient to meet the changing service needs of partners.

65. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

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