



Basingstoke  
and Deane

## **CAPITAL STRATEGY AND INVESTMENT STRATEGY (Non-Treasury) FOR 2019/20**

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**Report to**                      **Audit and Accounts Committee**

**Ward(s):**                      All

**Key Decision:**              No

**Attachments:**              Cabinet Report – Draft Capital Strategy and Investment Strategy (Non-Treasury) for 2019/20

**Papers relied on:**        None

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**Recommendations to Audit and Accounts Committee:**

It is recommended that this committee notes and provides comments on the Draft Capital Strategy and Investment Strategy (Non-Treasury) for 2019/20.

## Main considerations

The purpose of this report is to present the Draft Capital Strategy and Investment Strategy (Non-Treasury) 2019/20 that will be considered by Cabinet on 5 February 2019 (see attached report) and to consult with the Committee on the proposed Strategy. The final strategy will be considered by the Council on 28 February 2019.

It should be noted that this is a new requirement of the revised Prudential Code of Practice and revised Government guidance on investments.

It should also be noted that this Committee is not responsible for determining the strategy. It has responsibility for the scrutiny and monitoring of investment activities.

**Date: 28 January 2019**  
**Decision taken by: Audit and Accounts Committee**

<b>Lead officer</b>	Executive Director of Finance and Resources – Graham Cadle
<b>Report author</b>	Dean Pletts – Accountancy Manager - Direct Line (01256) 845506 Ext. 2506 or email <a href="mailto:dean.pletts@basingstoke.gov.uk">dean.pletts@basingstoke.gov.uk</a>
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<b>Status</b>	Open
<b>Confidentiality</b>	It is considered that information contained within this report (and appendices) do not contain exempt information under the meaning of Schedule 12A of the Local Government Act 1972, as amended, and therefore can be made public.



Basingstoke  
and Deane

## **CAPITAL STRATEGY AND INVESTMENT STRATEGY (Non-Treasury) FOR 2019/20**

**Cllr Tate, Cabinet Member for Finance, Service Delivery and Improvement**

**Cllr Izett, Cabinet Member for Property and Development**

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<b>Report to</b>	<b>Cabinet</b>
<b>Ward(s):</b>	<b>All</b>
<b>Key Decision:</b>	<b>No</b>
<b>Appendix 1:</b>	<b>Capital Strategy 2019/20</b>
<b>Appendix 2:</b>	<b>Investment Strategy (Non-Treasury) 2019/20</b>
<b>Papers relied on:</b>	<b>None</b>

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### **Foreword – Cllr Tate, Cabinet Member for Finance, Service Delivery and Improvement**

This new document addresses the new statutory requirement to produce and integrate the council's existing Capital Strategy, the Treasury Management Activity and the non-treasury Investments in the form of property investment and invest to grow fund.

The details in the report align with council's previous decisions and are unchanged from them.

The strategy clearly shows how the council has utilised its various financial resources to support and stimulate the local area and to generate income to allow it to maintain and improve key services to residents.

## **Foreword – Cllr Izett, Cabinet Member for Property and Development**

This report responds to new government reporting requirements for councils on annual capital strategies, prudential indicators, and annual investment strategies for non-treasury investments such as property. Much of this work has already been undertaken by this council in previous years, not least in respect of our property portfolio which is substantial compared to other councils and contributes significantly to the council's financial stability and capacity to continue to provide excellent public services for its residents.

Transformational improvements and additions to the borough's commercial property, infrastructure and housing stock, notably Basing View and Manydown are maturing and the strategies contained in this report outline how the council is planning to finance these major capital programmes that will make the borough an even better place to live, raise families and work. This will impose even greater responsibilities on officers and the council's advisers to manage and scrutinise risks and returns, including for increased property investment, with the council's established prudence, drawing upon the council's extensive experience and knowledge.

This council has made good progress in its determination to use its resources as a powerful catalyst to deliver new investment and development for the benefit of residents and, in turn, attract levels of private investment into the borough not seen for many years. I commend officers for their good work to-date as outlined in this report.

## **Recommendation to Cabinet**

It is recommended that:

Cabinet notes:

1. The Capital Strategy for 2019/20 (Appendix 1)
2. The Investment Strategy (Non-Treasury) for 2019/20 (Appendix 2)
3. The Chief Finance Officer (Head of Financial Services and Section 151 Officer) comments on the level of risk set out in Section 7 of this report.

Cabinet recommends that the Council notes:

4. The Chief Finance Officer (Head of Financial Services and Section 151 Officer) comments on the level of risk set out in Section 7 of this report.

Cabinet recommends that the Council approves:

5. The Capital Strategy for 2019/20 (Appendix 1) which includes:
  - i. the Prudential Indicators for 2018/19 to 2021/22
  - ii. the Authorised Limit for External Debt of £50 million for 2019/20 (as set out in the prudential indicators) and
  - iii. the Annual Minimum Revenue Provision Statement for 2019/20
6. The Investment Strategy (Non-Treasury) for 2019/20 (Appendix 2)

## **Background, corporate objectives and priorities**

The council is required to follow the Prudential Code of Practice and investment guidance issued by the Ministry for Housing, Communities and Local Government (MHCLG).

In 2018 a revised Prudential Code of Practice and new investment guidance from the MHCLG were issued replacing all previous codes and guidance.

The code and guidance require the council to produce a new annual Capital Strategy and a new annual Investment Strategy covering non-treasury investments. They are required to be approved by full Council before the start of the financial year and be published on the council's website.

This report sets out the new Capital Strategy for 2019/20 and Investment Strategy (Non-Treasury) for 2019/20.

This report accords with the council's Policy and Budget Framework in that it sets out the overall investment strategy for achieving the additional investment income targets set out in the budget report (property rents and interest) that is critical in providing the council with the resources necessary to deliver its objectives.

## **1 Statutory Requirements**

- 1.1 The council has a new requirement under the recently revised Prudential Code of Practice to have an annual Capital Strategy and prudential indicators and limits relating to capital expenditure, affordability, external debt and investments.
- 1.2 The council is also required by the new investment guidance issued by the Ministry for Housing Communities and Local Government (MHCLG) to have an annual Investment Strategy that covers non-treasury investments.
- 1.3 Both of these strategies must be approved by full Council before the start of the financial year and be published on the council's website.
- 1.4 Whilst there is the new requirements to produce an annual Capital Strategy, it should be noted that the council already has a long term Capital Programme Strategy 2016 -2030 (previously entitled Capital Strategy 2016-2030) approved by the council as part of the budget report.
- 1.5 The intention is that the new annual Capital Strategy will be an overarching strategy that sits on top of and brings together (in summary form) the capital spending plans and the council's various investment strategies over the medium term financial planning period (i.e. up to 2022/23).
- 1.6 The annual Capital Strategy will also be used to set the statutory four year prudential indicators (including an authorised limit for external debt) and the annual Minimum Revenue Provision (MRP) Statement in accordance with the requirements of the Prudential Code of Practice.
- 1.7 The new annual Investment Strategy (Non-Treasury), that supports the Capital Strategy, is a single document that brings together and summarises all of the council's non-treasury investment strategies (for service based investments and investment properties). For this council this means it sits alongside the existing Treasury Management Strategy and is supported by the council's existing Property Investment Strategy and Invest to Grow Fund Strategy.

## **2 The Capital Strategy 2019/20**

- 2.1 The objectives of the Capital Strategy are to provide a high-level overview of capital expenditure, income and financing along with how all types of investment contribute to the provision of public services and how the associated risks are managed and the implications for future financial stability.
- 2.2 The strategy also sets the framework and limits within which officers will operate in the delivery of the strategy and indicators which allow members and the public to assess the level of risk being taken with capital and investment activities.
- 2.3 The proposed Capital Strategy for 2019/20 is set out in Appendix 1.

### **3 The Investment Strategy (Non-Treasury) 2019/20**

- 3.1 The objectives of the Investment Strategy are to provide a high-level overview of the different types of non-treasury investment made by the council and how the investments contribute to the provision of public services and how the associated risks are managed and the implications for future financial stability.
- 3.2 The strategy also sets indicators which allow members and the public to assess the level of risk being taken with these investment activities.
- 3.3 The proposed Investment Strategy (Non-Treasury) for 2019/20 is set out in Appendix 2.

### **4 Chief Finance Officer's Comments on the Level of Risk in the Investment Strategy (Non-Treasury)**

- 4.1 There is a specific requirement for the Chief Finance Officer to comment of the level of risk being taken by the council with its commercial investments.
- 4.2 "The investment strategies have been arrived at following due and proper consideration of the options based on specialist external advice, and look to strike an appropriate balance between risk and return and the underlying security of the investments proposed in the strategies.
- 4.3 The council has previously accepted that the level of risk being taken on commercial investments is much higher than that with treasury management investments because it is looking to increase returns from its investments and these relate to long term investment funds that are not required to be held in short term liquid investments.
- 4.4 I believe the balance between cash investments and property related investments is appropriate and the total exposure to commercial investments is proportionate and prudent for this council."

### **5 Legal implications**

- 5.1 There are no legal implications other than the requirement to approve strategies prior to the start of each financial year.

### **6 Financial implications**

- 6.1 There are no direct financial implications of this report.

### **7 Risk management**

- 7.1 The risks associated with the activities relating to this report are assessed throughout the report and appendices to this report.

### **8 Equalities implications**

- 8.1 There are no equalities issues.

## **9 Consultation and communication**

- 9.1 There is no formal consultation required however the report will be subject to scrutiny by the Audit and Accounts Committee as part of their responsibilities for the council's investments.
- 9.2 The Audit and Accounts Committee will meet on 28 January 2019 to discuss and comment on the proposed Capital Strategy and Investment Strategy. Any comments from the committee will be circulated prior to the Cabinet meeting on 5<sup>th</sup> February 2019.

## **10 HR implications**

- 10.1 There are no HR implications.

## **11 Alternative options considered**

- 11.1 Specific investment options are considered within the individual investment strategies.

**Date: 5 February 2019**  
**Decision taken by: Cabinet**

<b>Lead officer</b>	Executive Director of Finance and Resources – Graham Cadle
<b>Report author</b>	Accountancy Manager – Dean Pletts 01256 845506 Email dean.pletts@basingstoke.gov.uk
<b>Version</b>	Draft for Cabinet Briefing
<b>Dated</b>	8 January 2019
<b>Status</b>	Open
<b>Confidentiality</b>	It is considered that information contained within this report (and appendices) do not contain exempt information under the meaning of Schedule 12A of the Local Government Act 1972, as amended, and therefore can be made public.

**CAPITAL STRATEGY 2019/20****1 Statutory Requirements**

- 1.1 The council is required by the recently revised Prudential Code of Practice to have an annual Capital Strategy and prudential indicators and limits relating to capital expenditure, affordability, external debt and investments.
- 1.2 This capital strategy must be approved by full council before the start of the financial year and be published on the council's website.

**2 Objectives**

- 2.1 The objectives of the Capital Strategy for 2019/20 are to provide a high-level overview of how capital expenditure, income and financing along with how all types of investment contribute to the provision of public services and how the associated risks are managed and the implications for future financial stability.

**3 Capital Expenditure Plans**

- 3.1 Capital expenditure is where the council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, loans and grants to other bodies enabling them to incur capital expenditure.
- 3.2 Total capital expenditure is one of the risk indicators required by the prudential code and the council's capital expenditure plans over the medium term (detailed in the council budget report) are summarised in Table 1.

**Table 1 – Capital Expenditure (Prudential Code indicator)**

	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate Total £'000
Service Based Capital Expenditure	9,028	15,097	9,702	7,631	41,458
Basing View Investment Property	7,043	6,734	0	0	13,777
Property Investment Strategy	5,390	8,900	0	0	14,290
Manydown Investment	31,934	1,350	1,355	361	35,000
Invest to Grow Fund	10,000	10,000	5,000	0	25,000
<b>Total Capital Expenditure</b>	<b>63,395</b>	<b>42,081</b>	<b>16,057</b>	<b>7,992</b>	<b>129,525</b>

## Appendix 1

- 3.3 The main service based capital projects are £5.0 million for vehicles for the new waste contract and £4.0 million for Local Infrastructure Fund schemes.
- 3.4 The capital programme expenditure is monitored through monthly budget monitoring reports, half yearly reports to cabinet and annual reports to full council.
- 3.5 To ensure that capital assets continue to be of long term use, the council has an Asset Management Plan and ongoing revenue and capital budgets for maintenance, major repairs and enhancements. The property maintenance and running costs in 2017/18 were £7.5 million and are expected to be at similar levels in future years.
- 3.6 A key indicator of affordability for the council to consider in setting the capital programme is the impact on the council's overall resources.
- 3.7 The proposed capital programme is currently financed from revenue contributions, revenue and capital reserves, external contributions and short term internal borrowing with a small requirement for external borrowing.

### **4 Capital Expenditure Approval Process**

- 4.1 Service managers and portfolio holders bid annually in September to include projects in the council's capital programme. Bids are collated by the Accountancy team and if there is any external financing required they will calculate the financing costs (usually nil as there are not usually any financing costs as the programme is generally funded from the council's own resources) that will impact on the revenue budget.
- 4.2 The budget challenge group appraises all bids based on a comparison of service priorities against available funds and makes recommendations to Cabinet for inclusion in the capital programme. Following consultation as part of the budget strategy, the revised programme is then presented to Cabinet in January and to full Council in February each year.
- 4.3 Further details of the approval process can be found in the council's existing Capital Programme Strategy shown in Annex A, which sets out how capital expenditure will help deliver the council's long term vision and council plan priorities and how capital resources are prioritised and funding decisions are made.
- 4.4 The Capital Programme Strategy also sets out the various funding streams for capital expenditure including capital receipts and contributions.

## 5 Capital Income

- 5.1 When assets are no longer needed, they may be sold so that the proceeds (known as capital receipts) can be spent on new assets or to repay debt. Repayment of capital grants, loans and capital investments also generate capital receipts and the council also receives grants and contributions towards capital expenditure.
- 5.2 The council estimated capital income over the medium term as shown in table 2.

**Table 2 – Capital Income**

	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000
Asset Sales	20	2,370	20	20
Loans Repaid	631	631	631	631
<b>Total Capital Receipts</b>	<b>651</b>	<b>3,001</b>	<b>651</b>	<b>651</b>
Capital Grants	1,200	600	600	600
Other Grants	1,644	584	0	0
Developers Contributions	1,807	1,806	1,538	439
<b>Total Grants and Contributions</b>	<b>4,651</b>	<b>2,990</b>	<b>2,138</b>	<b>1,039</b>

- 5.3 The only significant planned asset sale relates to the sale of a site in Priestley Road.
- 5.4 Loans repaid relate mainly to service based loans for new waste vehicles.
- 5.5 Capital grants relate to Disabled Facilities Grants from the Government.
- 5.6 Developers' contributions do not currently include any allowance for Community Infrastructure Levy (CIL). The council introduced the levy in July 2018 (estimated annual income over the next 10 years averaging £2 million to £3 million per year). However, no significant income has been received at this early stage, as the levy is only payable on commencement of development. As part of future budget strategy processes there will be an annual opportunity for the council to consider, consult and agree how CIL funding is allocated to meet priority community infrastructure needs resulting from development e.g. expanded or new facilities for sport, education, transport or community facilities. This could be to address infrastructure needs due to the impact of neighbouring new development or to provide additional strategic infrastructure.

## 6 Capital Financing

- 6.1 All capital expenditure must be financed, either from external sources (government grants and other contributions), the council's own resources (reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the expenditure in Table 1 is shown in Table 3.

**Table 3 – Capital Financing**

	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate Total £'000
<b>External Sources</b>					
Grants and Contributions	4,092	6,404	5,224	4,041	19,761
<b>Own Resources</b>					
Capital Receipts	46,986	19,559	3,314	2,485	72,344
Revenue Contributions	2,317	4,618	2,519	1,466	10,920
<b>Debt</b>					
Internal Borrowing	10,000	10,000	5,000	0	25,000
External Borrowing	0	1,500	0	0	1,500
	<b>63,395</b>	<b>42,081</b>	<b>16,057</b>	<b>7,992</b>	<b>129,525</b>

- 6.2 Debt is only a temporary source of finance, since borrowing 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.
- 6.3 The council's cumulative outstanding amount of debt finance is referred to as the Capital Financing Requirement (CFR) and is another prudential code indicator. The CFR increases with capital expenditure and reduces when capital receipts and contributions are used to replace debt. The council's CFR is expected to be £10 million by the end of 2019/20, with a further £11.5 million in 2020/21 and a further £5 million in 2021/22.
- 6.4 The capital financing requirement indicator is a measure of the council's underlying need to borrow for a capital purpose taken from the balance sheet. This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits. The council is currently debt free and this indicator for 2017/18 is therefore nil.
- 6.5 The proposed future capital programme will be financed largely from existing resources, however the planned capital investment relating to the Invest to Grow Fund is not being financed from existing resources because they are likely to take the form of repayable loans. Any unfinanced capital expenditure is deemed to be "borrowing" even if the council does not need to physically borrow.

## 7 Overall Resources

- 7.1 The council's capital expenditure, capital income and financing plans will significantly reduce the council's overall resources available to fund future capital schemes. The estimated resources over the medium term can be seen in Table 4.

**Table 4 – Overall Resources**

<b>Estimate 31/3/19 £'000</b>		<b>Estimate 31/3/20 £'000</b>	<b>Estimate 31/3/21 £'000</b>	<b>Estimate 31/3/22 £'000</b>	<b>Estimate 31/3/23 £'000</b>
19,470	Supporting Capital Programme	12,732	6,137	4,301	4,634
15,997	Supporting Infrastructure	16,312	12,803	10,059	7,993
2,857	Housing and Homelessness	2,456	1,692	1,613	925
57,700	Supporting Investment Strategies	16,272	3,261	1,618	1,257
2,013	Supporting Revenue Plans	3,826	4,416	5,131	5,856
<b>98,037</b>	<b>Available Resources</b>	<b>51,598</b>	<b>28,309</b>	<b>22,722</b>	<b>20,665</b>
24,957	Invested Capital Resources	23,786	24,265	24,744	25,223
12,148	Risk Reserves	11,845	11,809	13,124	13,975
<b>37,105</b>	<b>Unavailable Resources</b>	<b>35,631</b>	<b>36,074</b>	<b>37,868</b>	<b>39,198</b>
<b>135,142</b>		<b>87,229</b>	<b>64,383</b>	<b>60,590</b>	<b>59,863</b>

- 7.2 The council's overall available resources are forecast to reduce from £98 million to £20.7 million by March 2023 of which £4.6 million will be available to support future capital programmes. This assumes that all capital spending plans are met.
- 7.3 The figures in Table 2 include the impact of including an annual revenue contribution to capital (via contributions to revenue reserves) over the medium term as part of the revenue budget strategy in order to generate capital resources to help fund future programmes.
- 7.4 The council is planning to review all of its existing capital programme commitments to ensure that they still align with the Council Plan priorities.
- 7.5 All future additions to the capital programme will need to have a robust business case that identifies how the scheme can be financed and how the borrowing costs and Minimum Revenue Provision are affordable and can be met from revenue budgets.

**8 Annual Minimum Revenue Provision Statement for 2019/20**

- 8.1 Councils with borrowing requirements as measured by the Capital Financing Requirement are required to make provision within their revenue budgets for the redemption of their debts. This provision is called the Minimum Revenue Provision (MRP).
- 8.2 The council expects that its Capital Financing Requirement will be nil at 31 March 2019 and therefore there will be no need to make an MRP in 2019/20.
- 8.3 For future years, the council is expecting to have a Capital Financing Requirement of £26.5 million over the next three years that would require a Minimum Revenue Provision to be made in 2020/21 and beyond.
- 8.4 Most of this requirement is due to potential investments in the council's Invest to Grow Fund which are likely to take the form of loans to developers.
- 8.5 For capital expenditure loans to third parties that are repaid over the short to medium term (up to 5 years) the council will not make an MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead.
- 8.6 The council will need to make an MRP in 2020/21 for the other £1.5 million of external borrowing relating to an element of funding from the Local Enterprise Partnership (LEP) for the Eli Lilly Basing View project. The amount of MRP will be calculated based on the asset life (subject to a maximum of 50 years for buildings) and will therefore result in a charge to revenue of £30,000 per annum for the next 50 years.

**9 Borrowing Requirement and Strategy for 2019/20**

- 9.1 The council's cash resources are forecast to fall from £135 million to £60 million by 2022/23 as capital receipts, contributions and reserves are used to finance the capital programme (includes the new investment strategies) and revenue reserves are used to support the revenue budget.
- 9.2 Apart from the borrowing from the LEP for Basing View investments, the council has no plans or intentions to carry out any long term external borrowing during 2019/20 because it has sufficient cash resources and can effectively "internally borrow" in the short term if required.
- 9.3 The council has however taken steps to secure preferential borrowing rates (called the preferred certainty rate) from the PWLB in case the borrowing position changes.

**10 Authorised Borrowing Limit**

10.1 The prudential code requires the council to set external debt indicators which relate to the amount that the council can prudently borrow. These are shown in Table 4.

**Table 4 – External Debt Indicators**

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Authorised Limit for External Debt	£50m	£50m	£50m	£50m
Operational Boundary for External Debt	£25m	£25m	£25m	£25m

10.2 Under Section 3(1) of the Local Government Act 2003 the council is required to set an authorised limit for external debt. This limit is a statutory limit and is gross of investments. It represents the maximum limit for external borrowing both in the long term and for cash flow and treasury management purposes. The limit is based on a prudent but not worse case estimate with sufficient headroom to allow for operational management.

10.3 To support day to day treasury management activity it is recommended that Council approve an authorised borrowing limit of £50 million for 2019/20. This is to enable short term cash flow management and not to provide funding for capital expenditure.

10.4 The operational boundary for external debt is based on the same estimates as the authorised limit for external debt but represents the estimate of normal activity without the additional headroom included in the authorised limit.

10.5 The code of practice specifies that over the medium term net borrowing will only be for a capital purpose. This is demonstrated by ensuring that, except in the short term, net external borrowing should not exceed the total Capital Financing Requirement in the previous year plus the estimates of any additional Capital Financing Requirements for the current and the next two financial years. This means that the maximum amount of long term borrowing that the council can undertake is currently restricted to £26.5 million.

**11 Investments**

11.1 The council has a significant amount of investments and for the purposes of this report investment means all financial instruments and assets that are used primarily to make a return. This means it includes all of the council's investment property portfolio.

11.2 The council invests its money for three broad purposes:

- i) Because it has surplus cash as a result of its day to day activities or cash that it holds pending the council's spending plans (known as Treasury Management investments).
- ii) To support local public services by lending to other organisations (known as service based investments).
- iii) To earn investment income from rents or interest (known as commercial investments where this is the main purpose).

11.3 The council's estimated investments over the medium term are shown in Table 5.

**Table 5 – Total Investments**

<b>Estimate 31/3/19</b>		<b>Estimate 31/3/20</b>	<b>Estimate 31/3/21</b>	<b>Estimate 31/3/22</b>	<b>Estimate 31/3/23</b>
<b>£M</b>		<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
145	Treasury Management	110	92	80	50
272	Existing Investment Property	272	272	272	272
16	Property Investment Strategy	30	30	30	30
0	Manydown Investments	13	14	15	35
0	Invest to Grow Fund Investments	12	15	25	25
7	Service Based Investments	6	5	4	3
<b>440</b>		<b>443</b>	<b>428</b>	<b>426</b>	<b>415</b>

11.4 The council plans to reduce its treasury management investments over the medium term and replace them with £90 million of property related investments via the Property Investment Strategy, Invest to Grow Fund Strategy and Manydown investments.

11.5 Whilst this approach is likely to increase the overall risk that the council is taking it is being taken within the context of a need to generate revenue income and a well balanced portfolio of investments supported by significant risk reserves that have been created to provide protection from temporary reductions in income levels.

## 12 Treasury Management Investments

- 12.1 The council is expected to have £145 million of Treasury Investments as at 31 March 2019. A breakdown of the Treasury Investment Portfolio can be seen in Table 6.

**Table 6 – Treasury Investment Portfolio 31 March 2019**

<b>Instruments</b>	<b>£'m</b>
Government Gilts	28.0
Supranational Bonds	4.0
Local Authority Deposits/Bonds	25.0
Money Market Funds	13.0
Short Term Cash Funds	10.0
Collective Investment Funds	65.0
<b>Total Treasury Investments</b>	<b>145.0</b>

- 12.2 Treasury Management investments contribute income of nearly £3 million to the revenue budget and also ensure that cash is readily available to fund the council's revenue and capital spending plans.
- 12.3 There are a number of risks associated with treasury management. The main risks are as follows:
- i) **Credit and counterparty risk** (risk to capital) – the risk that a third party will fail to meet its contractual investment obligation resulting in a loss of the council's capital investment or the risk that there will be a permanent reduction in the capital value of the investment.
  - ii) **Liquidity risk** – the risk that the council will commit too much of its investments in fixed term investments and might have to recall investments prematurely resulting in possible additional costs or losses upon disposal of tradable securities.
  - iii) **Market or interest rate risk** – the risk that fluctuating interest rates will have an adverse impact on the council's investment income or the value of its investments.
  - iv) **Other risks** – this includes risks associated with cash management, legal requirements and fraud.

## Appendix 1

12.4 The council's risk appetite with regards to Treasury Management Investments is very low because the council follows the Government's investment guidance which states that the risks should be measured in terms of Security, Liquidity and Yield (returns) in that order. The council's Treasury Management Policy Statement states that the primary objective is to invest prudently having regard to security and the secondary objectives are liquidity and obtaining optimum returns.

12.5 Details on how these risks are managed and mitigated along with the governance arrangements for treasury management investments are contained within the council's annual Treasury Management Strategy.

### **13 Non-Treasury Investments**

13.1 Non-treasury investments currently consist of service based investments and investment property. However the council has plans in future years to increase the amount of non-treasury investments through its Property Investment Strategy and Invest to Grow Fund Strategy.

13.2 Details of how these investments are managed, what contribution they make to the provision of public services and how the associated risks are assessed and managed are set out in the Investment Strategy (Non-Treasury) for 2019/20 in Appendix 2.

### **14 Knowledge and Skills**

14.1 The council employees professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

14.2 For example the Head of Finance is a qualified accountant with 30 years' experience, the Interim Property Manager is a qualified chartered surveyor with 25 years' experience and the Investment Portfolio Asset Manager is a qualified chartered surveyor with 25 years' experience.

14.3 The council pays for other staff to study towards relevant professional qualifications including CIPFA, AAT, ACT (treasury), RICS.

14.4 Where the council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The council currently contracts Arlingclose Limited as treasury advisors, KPMG Investment Advisory as external fund manager advisors and Cushman and Wakefield International as property consultants.

14.5 This approach is more cost effective than employing such staff directly, and ensures that the council has access to knowledge and skill commensurate with its risk appetite.

**CAPITAL PROGRAMME STRATEGY 2016-2030**

**1. The Wider Context**

**Vision for Basingstoke and Deane**

“In 2029 Basingstoke and Deane’s people, communities and businesses will be flourishing – enjoying an excellent quality of life and environment which has been improved through well planned growth that draws on our strengths and secures vital improvements.

Regenerating our towns and estates, and enriching the character and vitality of our villages and outstanding countryside will support Basingstoke as a major vibrant centre, leading north Hampshire and fulfilling an influential role in the region.”

The council has an ambitious vision for the type of place the borough of Basingstoke and Deane will be in 2029. That vision imagines the borough as an enterprising place, well placed to take advantage of opportunities that will arise as we experience wider changes to the economy, technology and the way we live our lives.

**Contextual Drivers**

In respect of capital investment there are a number of global, national and local contextual drivers, which, together with the council’s vision set the scene for this local 15 year strategy. These drivers are:

There is a need to transform some of the borough’s infrastructure and built environment - the council wants its neighbourhoods to be places to be proud of and the town centre needs to be an attractive place to do business. Investing in infrastructure will transform the borough and boost economic productivity and competitiveness.

Reductions to public spending - locally the council aims to translate this into a transformation of the public services.

Technology continues to rapidly evolve, profoundly affecting many parts of our lives - technology is changing the way people communicate and the way customers can access information and the council’s services. Technology also enables the council to provide some services more efficiently and effectively.

Customer Demand – demographic changes are driving up the overall demand for services and customers’ expectations are high including expectations of services and the quality of the place in which they work and do business.

Achieving the council's Vision within this context requires significant up front capital investment and co-ordination. That investment has to be well planned, co-ordinated and focused on the most important priorities.

With this capital investment strategy the council is taking a strategic approach to securing and directing additional capital investment in the council's assets to turn the Vision into a reality.

### **Sound Financial Management**

The council has a reputation for sound financial management and has developed financial strategies that place value for money at the heart of the organisation.

The council is currently debt free and has capacity to increase capital investment without putting increased pressure on council tax.

### **Investing to Save and Investing to Grow**

The council's policies on invest to save enables and allows for up front capital investment that leads to longer term revenue savings and the policy on invest to grow enables up front capital investment that leads to increased income.

These approaches will be reflected in the type of projects prioritised in the council's capital investment programme.

### **Linking Capital and Revenue**

Capital investment should always be considered along with revenue funding. Over the whole life of a capital project there may be a wide range of cost and cost saving implications. The whole life costing of each capital investment project will be considered from the earliest stage.

## **2. Purpose of the Capital Programme Strategy**

The purpose of this strategy is to provide an important link between the ambitions set out in the council's longer term vision and council plan and the important investment in infrastructure that will help turn that vision into a reality.

The strategy looks at how the council will finance, allocate and manage capital investment into services that are vital to supporting the development of a successful and vibrant place.

As well as preparing for controlled and sustainable growth this strategy has been designed to transform the way the council delivers services through better buildings and ICT.

The economic climate is challenging. However, the council is committed to investing now for the longer term. Financing that commitment is made possible by the council's unique finances and the council's track record of strong financial resilience and management.

Through this strategy the council will aim to make every capital investment count by co-ordinating and prioritising all available funding to achieve the council's goals.

### **3. Objectives of the Capital Programme Strategy**

The objectives of the strategy are to:

- Prioritise and coordinate funding to achieve the council's ambitions.
- Invest in the most beneficial projects to meet the council's long term requirements.
- Manage capital investment effectively and efficiently.
- Maintain existing assets.

### **4. Capital Programme Themes**

The council's capital investment programme will focus on the three main Council Plan themes:

- Preparing for controlled and sustainable growth
- Improving resident's quality of life (through improved facilities and services)
- Supporting those that need it

The capital programme will also include projects relating to the corporate plan priorities of maintaining delivery of excellent services within constrained resources, maintaining the council's financial resilience and maintaining the council's capital assets to enable delivery of the council's ambitions.

## Annex A

**Preparing for Controlled and Sustainable Growth** – includes the following capital investment areas:

- Town Centre Redevelopment
- Basing View
- Manydown
- New Transport Infrastructure
- Invest To Grow Schemes

**Improving Resident's Quality of Life (through improved facilities and services)** - includes the following capital investment areas:

- Local Infrastructure Fund
- Play Areas and Open Spaces
- Community and Leisure Facilities
- Sport and Recreation
- Green Initiatives
- Environmental Renewal Schemes
- Parking and Access
- Allotments
- Cemeteries
- Public Art Schemes

**Supporting those that need it** - includes the following capital investment areas:

- Disabled Facilities Grants
- Existing Satisfactory Purchases

**Maintaining Capital Assets** - includes the following capital investment areas:

- ICT Infrastructure
- Council Buildings
- Digitalisation
- Financial Systems
- Council Owned Vehicles
- Property and Alternative Investment Strategies
- Maintaining Commercial Property Portfolio
- Investment Property Re-Lettings Works

## **5. Delivering the Capital Programme Strategy**

The strategic objectives will be delivered by:

**Coordinating and Prioritising Funding** - Through this strategy the council will increase the council's capital funding where necessary to achieve the Vision through the use of external borrowing (within strict limits and linked to affordability and the impact on revenue budgets).

Use the council's own finance to leverage inward investment from private and public sources by:

- Investing in enabling infrastructure, land or environmental improvements.
- Joint Ventures.
- Providing gap funding where necessary.

**Aligning Capital Programme with Corporate Priorities** - Through this strategy the council will ensure that all capital investment will be focused on priorities set out in the key policy documents including the council's Vision, Council Plan, ICT Strategy, Property and Alternative Investment Strategies including an Invest To Grow Fund.

**Managing the Capital Programme Effectively** - There needs to be the highest degree of professionalism in terms of planning, delivery, management skills and governance of the council's capital investment projects. This will result in more successful outcomes and inputs, eradicate costly delivery failures.

Through this strategy the council will:

- Establish a costed five-year programme to provide certainty for large projects and the benefits they offer.
- Ensure capital investment is co-ordinated across the programme.
- Underpin programme planning with robust controls including appraisal processes and quality programme and project management.

## **5.1 Funding the Capital Programme Strategy**

The council will only make capital investments if they are **affordable, prudent** and **sustainable**. The key constraint on capital investment by the council is the availability of capital resources and the scope to be able to afford the financial implications on the council's revenue budgets.

### **Prudential Borrowing**

Although the council is debt free and has significant cash resources there may be occasion for a need to borrow. The council's Treasury Management Strategy sets a prudential borrowing limit and any borrowing needs to be affordable in revenue terms.

### **Internal Borrowing**

Due to the council's current financial position it is more likely that if borrowing is required that it would be done internally from the council's own finances unless external borrowing would be more favourable..

### **Strategic Asset Management (leading to future capital receipts)**

Although not necessarily planned for over the years the council is likely to receive capital receipts from asset sales and existing lease restructures. The council will reinvest receipts back into the local capital programme. The council will also work with local partners to take a strategic approach to making the most out of collective assets to meet local goals.

New capital receipts generated from property, plant and equipment asset sales may be used to fund one-off revenue transformation costs that lead to future efficiency savings (new receipts generated April 2016 to March 2022 leading to qualifying spend in the same period).

### **Forecast New Homes Bonus Grant**

The council's financial policy on New Homes Bonus is that the vast majority of New Homes Bonus Grant is placed in reserves that are available to be used for capital investment in infrastructure and strategic projects – see Financial Policies.

### **Inward Investment and Developers' Contributions (CIL/S106)**

Through investing the council's resources in projects that improve the infrastructure and image of Basingstoke and Deane as a place to do business, the council aims to increase local competitiveness and attract further private sector investment in the borough. It is expected that this initial investment will generate jobs and enterprise opportunities. The council also aims to capture the value (or uplift) of that investment through a range of mechanisms which potentially include increased tax revenue captured locally (New Homes Bonus, Business Rates, Section 106 planning contributions or the Community Infrastructure Levy). Through these types of mechanisms the council will ensure private sector developers contribute towards essential infrastructure and the benefits of growth and prosperity are shared locally. See Financial Policies for the CIL income allocation policy.

### **External Institutional Funding**

Funding for major property related capital investment may come from external institutional investors such as pension funds and large commercial funders.

### **Government Funding**

There will be considerably less funding from government sources than has previously been available. However, the council will continue to work hard to ensure that it receives its fair share of funding from Regional (Local Enterprise Partnership), National and European bodies where it will contribute towards the council's priorities.

The council will continue to work to attract additional government funding to support large scale housing and regeneration projects in the borough.

## **5.2 Aligning Capital Programme with Priorities**

Capital investment relates specifically to the purchase and enhancement of assets. The purpose of the Capital Strategy is to set out how the council will manage, finance and allocate capital investment in assets that will help to achieve local goals and priorities.

At the highest level the Council Plan is the council's business plan that sets out how the council will deliver the Vision. Underneath the Council Plan there are Portfolio Holder Priorities and a number of specific policies and strategies.

It is during the development, delivery, evaluation and modification of these key strategies that decisions are best made about what type of new and modified assets are required to deliver local goals.

Consequently the priority programme and projects identified through these strategies will be reflected in the annual review of the capital programme.

## **5.3 Ensuring Capital Programme is Managed Effectively**

Achieving high quality results from capital investment is the most important aspect of the Capital Strategy. The increased scale of capital investment over the coming years requires a shift in the quality of project management, planning and delivery.

This strategy sets out the measures to ensure the best results. These include:

**A Balanced Programme of Capital Investment** - It should be recognised that smaller scale projects can have an equally profound impact on the quality of life and quality of services in the borough. So the programme will be designed and managed to achieve a balanced portfolio of capital investment that covers on-going rolling programmes as well as large scale strategic projects.

**Long Term Capital investment**- The council has for a number of years had a five year rolling programme. There will be a constant flow of projects being completed as well as new projects entering into the programme, all designed to achieve the council's goals.

The five year rolling investment plan provides greater certainty for financial and resource planning. This is particularly critical for the largest projects with long lead-in and delivery periods. For the largest projects longer term forecasts up to 20 years have been developed to assist with the planning of financing and resources.

**Appraisal and Funding Decisions** - As part of the council's approach to capital investment:

- All capital programmes and projects will be subject to comprehensive but proportional appraisal (as part of a broader Gateway approval process).
- The appraisal process will be universally applied, rigorous, transparent and focus on a clear decision.
- There will be clear separation between the appraisal process and project management function.
- All projects will be appraised and approved before any expenditure is committed (other than preliminary expenditure necessary for preparation of a business case).
- Scrutiny at every gateway stage will include consideration of necessity, value for money, viability, affordability and achievability.

In line with Government 5 Cases Model and related HM Treasury Green Book, these principles will enable the council to make sound capital investment decisions based on scrutiny and the evaluation of projects and programmes.

## Annex A

**Approval Gateways** – To ensure consistently high standards and effective programming across the capital programme, all capital projects will require corporate approval to proceed at key commitment points (Gateways).

**Strategic Fit** – Before an outline business case is prepared a decision will be made at a corporate level whether the project fits with the council's vision and Council Plan priorities.

**Outline Business Case** – All projects require an outline business case that evaluates the options and selects a preferred option that provides the best balance of strategic fit, value for money and risk.

**Full Business Case** – Prior to tendering for major projects a full business case needs to be signed off and integrated with the corporate procurement processes.

**Project Close/completion and Post Project Review**- All major projects will be subjected to a post project review that focuses on the benefits achieved, all obligations being met and lessons that can be learned.

**Investment Decisions Major Projects** – For major projects a final investment decisions will be taken only once a full business case has been approved through the relevant gateway. Approval will be based on the following criteria:

- The investment is necessary to deliver corporate priorities.
- The project has been justified as the best way of delivering corporate priorities following proper options appraisal taking into account the costs and benefits of a project over its whole life cycle.
- No suitable alternative funding source is available.
- Relevant consultation has been undertaken.
- Design work has been completed.
- Project funding is in place or confirmation received the project will be supported by other funders.
- The project complies with environmental/energy efficiency standards.
- The project has undergone Equalities Impact Assessment.

**Investment Decisions Community Infrastructure Levy** – CIL income can be spent on “the provision, improvement, replacement, operation or maintenance of infrastructure to support the development of its area”.

In aligning CIL spending with Council Plan priorities, project approval will be based on the following eligibility criteria and sufficient CIL funding being in place whether the projects are:

- Included in the Infrastructure Development Plan and covered by the scope of the Regulation 123 list;
- Have a local or wider community benefit, particularly those areas which may be impacted by nearby developments;
- Linked to the delivery of homes or jobs in the borough and with clear delivery plans; and
- Able to either lever in funds that would not otherwise be available or provide funding for those that would not otherwise be delivered.

### **Governance**

Governance should not be unnecessarily bureaucratic, but must put the right controls in place to manage a multi-million pound programme of projects. An effective and proportionate governance structure will enable the council to make timely and responsive decisions based on sound business cases. It will follow principles of risk management, escalation of issues and regular reporting.

### **Monitoring**

**Financial Monitoring** – of the capital investment programme will be undertaken monthly with quarterly reporting to the strategic leadership team and half yearly reporting to Cabinet and the Audit and Accounts Committee.

**Monitoring Delivery at Key Stages** – this covers tracking and reporting progress towards delivery of outcomes as well as the realisation of the benefits and lessons to be learned, during and after completion of the projects. This process will be part of an emphasis on continuous improvement and embedded into the Gateway approval system.

**THE INVESTMENT STRATEGY (NON-TREASURY) for 2019/20**

**1 Background Information**

- 1.1 For the purposes of this Strategy “Investment” mean all financial assets and also non-financial assets held primarily to generate income (i.e. investment property).
- 1.2 This Investment Strategy has been produced in accordance with The Government Department guidance on local government investments which requires the production of an Annual Investment Strategy for non-treasury management investments to include risk indicators to allow the level of risk to be assessed.
- 1.3 The council’s Investment Strategy is undertaken within the following context:
  - i) The level of the council’s non-treasury investments is one of the highest of all district authorities and has been for some time.
  - ii) The income generated from non-treasury investments is significant to the council and supports the cost of services. The Council’s Budget Strategy for 2019/20 assumes that income from these types of investment will be nearly £16 million in 2019/20 and sets a remaining target to achieve additional income of £2.070 million by 2022/23 from property related investments in order to balance the budget in future years.
- 1.4 The council invests its money for three board purposes:
  - iii) Because it has surplus cash as a result of its day to day activities or cash that it holds pending the council’s spending plans (known as Treasury Management investments).
  - iv) To support local public services by lending to other organisations (known as service based investments).
  - v) To earn investment income (known as commercial investments where this is the main purpose).
- 1.5 Details of the council’s treasury management investments are contained in the council’s Treasury Management Strategy and are therefore not included in this strategy.

## 2 Total Non-Treasury Investment Exposure

- 2.1 The council's total exposure to non-treasury investments was nearly £300 million as at 31/03/18 and is forecast to increase as set out in Table 1:

**Table 1 – Non-Treasury Investments**

Estimate 31/3/19 £M		Estimate 31/3/20 £M	Estimate 31/3/21 £M	Estimate 31/3/22 £M	Estimate 31/3/23 £M
<b>Investment Property</b>					
272	Existing Investment Property	272	272	272	272
16	Property Investment Strategy	30	30	30	30
<b>Service Based Investments</b>					
0	Invest to Grow Fund Investment	12	15	25	25
0	Manydown	13	14	15	35
7	Service Based Loans	6	5	4	3
<b>295</b>		<b>333</b>	<b>336</b>	<b>346</b>	<b>365</b>

- 2.2 The government guidance requires the council to indicate how the investments are funded (presumably to identify where borrowing has been used). Although local authorities do not normally associate individual sources of funding to specific investments it is possible to say that none of the above investments have been funded from borrowing.
- 2.3 This is a key indicator of the level of risk the council is taking as borrowing to invest is deemed to be extremely risking and is discouraged.

## 3 Expected Rates of Return Indicator

- 3.1 This indicator shows the investment income receivable as a proportion of the sum invested for the non-treasury investments and can be seen in Table 2.

**Table 2 – Average Returns on Non-Treasury Investments**

	2017/18 Actual %	2018/19 Forecast %	2019/20 Forecast %
<b>Investment Property</b>			
Existing Investment Property	5.50	5.50	5.50
Property Investment Strategy Investments	6.90	7.30	6.40
<b>Service Based Investments</b>			
Invest to Grow Fund Investments	0.00	0.00	5.25
Manydown Investments	0.00	0.00	3.20
Service Based Loans	0.00	0.00	0.00

- 3.2 The returns above do not include valuation gains and losses or property running costs.

#### 4 Investment Property

- 4.1 The council has a very large Investment Property Portfolio valued in the accounts at £296 million. A summary of the portfolio is shown in Table 3.

**Table 3 – Investment Property Portfolio**

	<b>Value</b>
	<b>31/03/2018</b>
<b><u>Investment Property</u></b>	<b>£m</b>
Houndsmill Industrial Estate	52
Daneshill Industrial Estate	48
Viables	37
Basing View	30
The Malls	25
Festival Place	14
Manydown Land	20
Other Industrial and Commercial Property	46
Property Investment Strategy Properties	24
	296

- 4.2 For the council's historically held Investment Property Portfolio it is not possible to identify the initial sums invested and therefore the actual returns from these properties. It is possible to calculate a simple return based on the value of the properties in the balance sheet and the income generated.
- 4.3 The historically held property portfolio generated £15 million of rent income on properties valued at £272.3 million which is a gross return of 5.5%. After maintenance and running costs the net income is £10 million which is a net return of 3.7%.

#### 5 Property Investment Strategy

- 5.1 The council has recently formulated a Property Investment Strategy which aims to invest up to £30 million in new and existing Investment Properties in order to increase the council's income.
- 5.2 The Property Investment Strategy is expected to generate returns in the 5% to 7% range.
- 5.3 Approximately £16 million has already been invested in new properties as part of this strategy. There are plans to invest the remaining £14 million during 2019/20.
- 5.4 In order that commercial investments remain proportionate the council currently has a limit of £30 million for this type of investment, however there are proposals in the Property Investment Strategy to increase this limit to up to £35 million.

5.5 The individual investments and the expected returns are shown in Table 4.

**Table 4 – Property Investment Strategy Returns**

	<b>Investment Made £'000</b>	<b>Return %</b>	<b>Additional Income £'000</b>
Units 1 to 4 Armstrong Road	4,554	9.6%	436
Units 1 to 2 Stroundley Road	4,993	6.0%	300
Units 1 to 2 Winchester Road	6,019	5.2%	315
Ringway House	470	16.8%	79
	16,036	7.0%	1,130

5.6 Although the primary objective of these investments is to generate additional rent income to balance the council's future budgets they can also make other contributions such as regeneration, economic growth, increased business rates income and replacing local property market failure.

5.7 The council's Budget Strategy for 2019/20 identifies the need to generate an additional £2.070 million per annum from additional property investment in order to contribute towards balancing its future year's' budgets.

5.8 With financial return being the main objective, the council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include vacancies, loss of capital value and increasing maintenance costs. The council has had to strike a balance between security, liquidity and yield based on the contribution the investments make and the council's risk appetite.

5.9 The target returns (%) and gross income (£) from these investments are government recommended indicators and will need to be monitored and reported throughout the year along with any costs associated with the investments (currently none) and the net income.

5.10 When looking at the security of capital for property investments the MHCLG guidance requires the council to look at the fair value of the property and as long as the value does not fall below the price paid for the property then it is deemed to be secure.

5.11 If the value of a property investment drops below the purchase price (excluding costs) then the council will need to determine what mitigation is required in order to maintain the council's future financial stability. This may involve reviewing the property portfolio and identifying properties that are not performing well and if necessary disposing of them.

## Appendix 2

5.12 The investments made and the fair values can be seen in Table 5.

**Table 5 – Value of Property Investment Strategy Investments**

<b><u>Property</u></b>	<b>Investment Made</b>	<b>Original Value</b>	<b>Valuation</b>	
			<b>Value 31/03/18</b>	<b>Gain 31/03/18</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Units 1 to 4 Armstrong Road	4,554	3,250	11,650	3,846
Units 1 to 2 Stroundley Road	4,993	430	6,650	1,227
Units 1 to 2 Winchester Road	6,019	0	5,650	-369
Ringway House, Bell Road	470	1,150	2,100	480
	16,036	4,830	26,050	5,184

5.13 As shown in Table 5, in 2017/18 the Property Investment Strategy Investments had a net valuation gain of £5.184 million (32%) which when added to the income return of 7% increases the notional return for these properties in 2017/18 to 39%.

5.14 As these property acquisitions are very recent there are currently no additional costs associated with them that would reduce the net return.

5.15 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 has accepted this liquidity risk because it has considerable cash investments within its treasury management investments that are highly liquid to ensure that it can assess sums when needed.

5.16 Further details on how the risks are managed and the process for ensuring effective due diligence for these investments can be found in the Council's Property Investment Strategy.

5.17 The other main recommended indicators relate to the level of voids (currently none) and the council's dependency on the income from these commercial investments (which equates to about 1% of its total income budget of £132.4 million or 3% of the council's net cost of services in 2018/19) which will also need to be monitored and reported during the year.

5.18 The council's dependency on the income from all of its investment property (including the existing property portfolio) is much higher at £16.6 million or 13% of the total income budget or 43% of the council's net cost of services.

5.19 Once established, any significant changes in the indicators between years would need to be explained in the annual strategy.

## Appendix 2

- 5.20 If the investments fail to meet the budgeted income from rents the short term contingency plan is to make use of the council's Rent Risk Reserve (which currently has a balance of £2.5 million) which would allow the council some time to review the properties and look for opportunities to disinvest or make improvements.
- 5.21 The government recommend that benchmarking is undertaken for commercial investments against other councils and other types of investment. The council does not currently carry out benchmarking for these specific investments however, the property management team have plans to carry out this type of benchmarking once all the investments under the strategy are in place.
- 5.22 In terms of the governance arrangements for these investments, the council has a specific strategy that was approved by Council and it has an asset management plan. The approved strategy set out the criteria, and limits on this type of investment and officers are required to operate within these criteria and limits.
- 5.23 Decisions on commercial investments are made by the Executive Director of Finance and Resources, after consultation with the Portfolio Holder for Property and Development, within the limits and criteria approved in the strategy.
- 5.24 Property and most other commercial investments are also deemed to be capital expenditure and therefore will also be approved as part of the capital programme.
- 5.25 Quarterly monitoring reports on property investment activity under the strategy are presented to the Audit and Accounts Committee and half yearly to Cabinet.

## **6 Invest to Grow Fund**

- 6.1 The council has an Invest to Grow Fund Strategy that has allocated £25 million to be invested in future years via loans to development companies. The primary purpose of the Invest to Grow Strategy is economic development rather than income and therefore the investments will be treated as service based investments once they are made.
- 6.2 For financial planning purposes it has been assumed that £12 million will be invested during 2019/20 and further details of investments will follow in future strategies once the investments are made.

### **7 Manydown Investments**

- 7.1 The council is also planning to invest in the Manydown Project. The scale and timing of the investment is still uncertain.
- 7.2 For long term financial planning purposes it has been assumed that the total amount of investment will be around £35 million and is likely to take the form of loans. The capital programme includes an investment of £12.5 million in 2019/20 expected to generate a return of 3.2% followed by a number of smaller loans in later years expected to generate returns in the 5% to 10% range.
- 7.3 It is likely that these investments will be considered as a service based investment as income generation is not the primary purpose.
- 7.4 Details of the investment strategy for the Manydown project will follow in future reports once the arrangements have been finalised.

### **8 Service Based Loans**

- 8.1 The council has a number of loans that it has made for operational purposes to other organisations and individuals. The main loans are £2.297 million lent to Sentinel Housing Association as part of an existing house purchase scheme linked to homelessness prevention and £5.066 million lent to SERCO as part of the arrangements for the newly let waste management service.
- 8.2 The contribution these loans make relate to the direct provision of council priority services and therefore this has been taken into consideration when assessing the risks involved with making these types of loan.
- 8.3 The council's total exposure to this type of loan is currently £7.520 million and all of these loans have been capitalised and have been funded from the council's own resources which mean that there is no requirement to set aside allowances for expected credit losses.
- 8.4 In nearly all cases with service based loans the council has a claim on the underlying assets should the organisation default on the loan.

### **9 Investment Performance Monitoring and Reporting**

- 9.1 The council has delegated responsibility for the monitoring and scrutiny of its investment strategies and activity to the Audit and Accounts Committee.
- 9.2 The execution and administration of the Property Investment Strategy is delegated to the Executive Director of Finance and Resources, supported by the Investment Portfolio Asset Manager who acts in accordance with the council's approved Property Investment Strategy and as a member of The Royal Institution of Chartered Surveyors (RICS) with Standards of Professional Practice.

## Appendix 2

- 9.3 Performance of the council's Property Investment Strategy and associated investments are monitored and scrutinised quarterly by the Audit and Accounts Committee and half yearly by Cabinet.
- 9.4 Performance of the council's investment property portfolio is reported in summary form quarterly to the Audit and Accounts Committee and the income from investment property is monitored and reported as part of the council's revenue budget monitoring.
- 9.5 There is currently no formal monitoring and reporting of the service based investments.

### **10 Capacity, Knowledge, Skills and Culture**

- 10.1 The council employees professionally qualified and experienced staff in senior positions with responsibility for making commercial and service based investment decisions.
- 10.2 For example the Interim Property Manager is a qualified chartered surveyor with 25 years' experience, the Investment Portfolio Asset Manager is a qualified chartered surveyor with 25 years' experience and the Cabinet Member for Property and Development is a chartered surveyor.
- 10.3 The council pays for other staff to study towards relevant professional qualifications including RICS.
- 10.4 Prior to all major investments the council will seek independent advice from external advisors 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 skill commensurate with its risk appetite.
- 10.5 For property investments the council currently uses Cushman and Wakefield International and for Invest to Grow Fund investments the council is using CBRE.