Basingstoke and Deane

CAPITAL INVESTMENT STRATEGY 2020/21

1 Statutory Requirements

1.1 The Council is required by the recently revised Prudential Code of Practice to have an annual Capital Investment Strategy and prudential indicators and limits relating to capital expenditure, affordability, external debt and investments.

1.2 This 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 Investment Strategy for 2020/21 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 Capital Programme and Strategy Update Report) are summarised in Table 1.

Table 1 – Capital Expenditure (Prudential Code Indicator)

	Estimate 2019/20 £M	Estimate 2020/21 £M	Estimate 2021/22 £M	Estimate 2022/23 £M	Estimate 2023/24 £M	Estimate Total £M
Service Based Capital Expenditure	9.23	14.89	9.11	7.38	2.64	43.25
Basing View Investment Property	9.80	15.02	0.00	0.00	0.00	24.82
Property Investment Strategy	7.57	8.90	0.00	0.00	0.00	16.47
Manydown Investment*	0.20	0.95	2.14	0.62	0.00	3.91
Total Capital Expenditure	**26.80**	**39.76**	**11.25**	**8.00**	**2.64**	**88.45**

3.3 The main service based capital projects are home improvement financial assistance (disabled facilities grants) of £7.06M, Transformation Programme £6.11M; Council owned asset management plan works of £4.84M, play area and open space enhancements of £4.57M, Local Infrastructure Fund schemes of £3.68M and improvements to sport and recreation schemes of £3.88M and community facilities of £2.29M

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 2019/20 are estimated at £8.50M 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 The process for approving schemes for capital expenditure is set out in the Capital Programme Strategy 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.

4.2 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's estimated capital income over the medium term as shown in table 2.

Table 2 – Capital Income

	Estimate 2019/20 £M	Estimate 2020/21 £M	Estimate 2021/22 £M	Estimate 2022/23 £M	Estimate 2023/24 £M
Asset Sales	0.08	2.37	0.02	0.02	0.02
Loans Repaid	0.61	0.64	0.64	0.64	0.64
Total Capital Receipts	**0.69**	**3.01**	**0.66**	**0.66**	**0.66**
Capital Grants	1.20	1.30	1.30	1.30	1.33
Other Grants and Contributions	3.26	0.35	0.00	0.00	0.00
Developers Contributions	1.09	1.31	1.31	1.30	1.30
Total Grants and Contributions	**5.55**	**2.96**	**2.61**	**2.60**	**2.63**

5.3 The only significant planned asset sale relates to the sale of a site in Priestley Road. Loans repaid relate mainly to service based loans for new waste vehicles. Capital grants relate to Disabled Facilities Grants from the Government. Other Grants and Contributions relate mainly to funding from the Local Enterprise Partnership (LEP) in respect of Basing View regeneration schemes.

5.4 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 £2.00M to £3.00M 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 £M	Estimate 2020/21 £M	Estimate 2021/22 £M	Estimate 2022/23 £M	Estimate 2023/24 £M	Estimate Total £M
External Sources						
Grants & Contributions	6.21	4.13	3.67	2.99	1.38	18.38
Own Resources						
Capital Receipts	17.93	17.61	3.98	2.60	1.14	43.26
Revenue Contributions	2.66	6.92	3.60	2.41	0.12	15.71
Debt (CFR)						
Internal Borrowing	0.00	8.90	0.00	0.00	0.00	8.90
External Borrowing	0.00	2.20	0.00	0.00	0.00	2.20
Total Capital Expenditure	**26.80**	**39.76**	**11.25**	**8.00**	**2.64**	**88.45**

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 zero by the end of 2019/20.

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 virtually debt free and this indicator for 2020/21 is £2.20M.

6.5 The proposed future capital programme will be financed largely from existing resources. 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

	Estimate 31/3/20 £M	Estimate 31/3/21 £M	Estimate 31/3/22 £M	Estimate 31/3/23 £M	Estimate 31/3/24 £M
Supporting Capital Programme	14.48	8.38	6.74	6.10	9.00
Supporting Infrastructure	14.50	13.55	12.28	11.67	12.97
Housing and Homelessness	2.55	2.41	2.28	2.12	2.05
Supporting Investment Strategies	46.56	35.00	32.36	31.74	31.74
Supporting Revenue Plans	3.49	2.45	2.03	2.21	1.91
External Borrowing	2.20	0.00	0.00	0.00	0.00
Available Resources	**83.78**	**61.79**	**55.69**	**53.84**	**57.67**
Invested Capital Resources	25.11	25.50	25.88	26.26	26.64
Risk Reserves	13.49	13.70	16.48	19.66	23.40
Unavailable Resources	**38.60**	**39.20**	**42.36**	**45.92**	**50.04**
	122.38	**100.99**	**98.05**	**99.76**	**107.71**

7.2 The Council's overall available resources are forecast to reduce from £122.38M to £107.71M by March 2024 of which £57.67M will be available to support future capital programmes. This assumes that all capital spending plans are met.

7.3 The figures in Table 4 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 has reviewed 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 2020/21

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 zero at 31 March 2020 and therefore no MRP is required during 2020/21.

8.3 For any additional Capital Financing Requirement MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

9 Borrowing Requirement and Strategy for 2020/21

9.1 The Council's cash resources are forecast to fall from £117.00M to £100.00M by 2023/24 as capital receipts, contributions and reserves are used to finance the capital programme and revenue reserves are used to support the revenue budget.

9.2 Apart from the borrowing from the Local Enterprise Partnership (LEP) for Basing View investments, the Council has no plans or intentions to carry out any long term external borrowing during 2020/21 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 5.

Table 5 – External Debt Indicators

	2019/20	**2020/21**	**2021/22**	**2022/23**
Authorised Limit for External Debt	£50.00M	£50.00M	£50.00M	£50.00M
Operational Boundary for External Debt	£25.00M	£25.00M	£25.00M	£25.00M

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 £50.00M for 2020/21. 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.

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 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 total investments, estimated at over £400M, are shown in Table 6.

Table 6 – Total Investments

Estimate 31/3/20 £M		Estimate 31/3/21 £M	Estimate 31/3/22 £M	Estimate 31/3/23 £M	Estimate 31/3/24 £M
117.00	Treasury Management	111.00	99.00	99.00	99.00
260.16	Existing Investment Property	260.16	260.16	260.16	260.16
23.61	Property Investment Strategy	32.51	32.51	32.51	32.51
0.20	Manydown Investments	1.15	3.29	3.91	3.91
6.00	Service Based Investments	5.00	4.00	3.00	2.00
406.97		**409.82**	**398.96**	**398.58**	**397.58**

11.4 The Council originally had plans to reduce treasury management investments over the medium term and replace them with £90.00M of property related investments via the Property Investment Strategy, Invest to Grow Fund Strategy and Manydown investments.

11.5 To date £23.61M has been invested in the long term via the Property Investment Strategy and a further £8.90M has been committed and this element will then be fully invested.

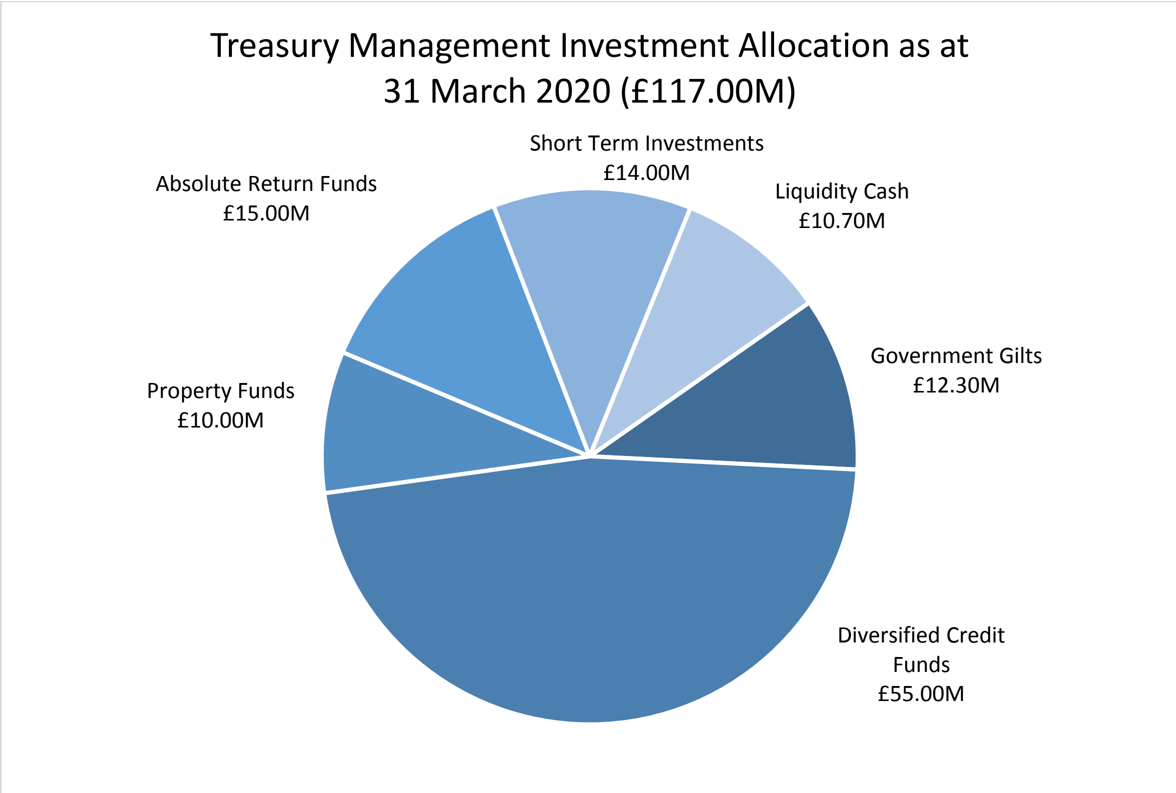
11.6 The Invest to Grow Fund had allocated £25.00M for investment. To date a short term loan of £8.90M has been made. This will be repaid and a decision has been made to close the fund.

11.7 The full planned £35.00M investment in the Manydown scheme is no longer required and now only includes loans totalling £3.91M.

12 Treasury Management Investments

12.1 The Council is expected to have £117.00M of Treasury Investments as at 31 March 2020. A breakdown of the Treasury Investment Portfolio can be seen in Chart 1.

Chart 1 – Estimated Treasury Investment Portfolio 31 March 2020



12.2 Treasury Management investments contribute income of £2.56M 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.

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.

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 2020/21.

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 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 and Knight Frank as property consultants.

14.3 This approach ensures that the Council has access to knowledge and skill commensurate with its risk appetite.