

Outline Capital Investment Strategy

INDEX	Page
FOREWORD	2
1. INTRODUCTION	3
2. PURPOSE	4
3. SUMMARY	5
4. INFLUENCES ON CAPITAL INVESTMENT	7
5. CURRENT CAPITAL EXPENDITURE	8
6. COMMERCIAL PROPERTY INVESTMENT STRATEGY	11
7. FUTURE CAPITAL INVESTMENT PLANS	12
8. RISK MANAGEMENT	14
9. CAPITAL APPRAISAL PROCESS	15
10. GOVERNANCE	16
APPENDICES	
1. TREASURY MANAGEMENT FRAMEWORK	19

FOREWORD

This Outline Capital Investment Strategy sets out Reigate & Banstead Council's approach to capital investment. This builds on well-established decision-making structures and policies that support our investment ambitions.

We anticipate that the underlying details will develop further over coming months as priorities in our new Corporate Plan and Housing Strategy are confirmed and our commercial investment ambitions develop further.

As this Strategy evolves it will form an important part of our governance arrangements and provide a mechanism for prioritising our capital investment and financing plans, ensuring that decisions take account of stewardship, value for money, prudence, sustainability and affordability.

Throughout this document we describe the follow-up actions that are planned to develop our approach further to help ensure that our capital investment decisions continue to support delivery of corporate priorities.

1. INTRODUCTION

Reigate & Banstead Borough Council is committed to delivering high quality services and support, and providing value for money for our customers, be they residents, workers, local businesses or visitors.

However, being a great Council is not just about what we do, but about how we do it. The ways in which local government is funded has changed in recent years: we now receive no revenue support grant from central government and are able to retain only a small amount of the business rates that we collect. We therefore need to operate in a more commercial way, and become self-financing, if we are to deliver the quality of services that our residents and our other partners expect.

This Outline Capital Investment Strategy is an important part of the jigsaw which explains how we will do that.

It is focused on the investment activity we need to undertake to deliver the priorities set out in our current corporate Five-Year Plan which runs until 2020. Throughout 2019, we will be developing a new Corporate Plan, for the period 2020 to 2025, and so, of course, this Strategy will develop to ensure we can deliver our new priorities as well as our existing ones.

In the meantime this document provides a clear framework for our future investment activity so that Reigate & Banstead can continue to provide high quality services, value for money and make the borough a great place to live, work in and visit.

2. PURPOSE

This Strategy has been developed by Members and officers to set out the framework for future investment decisions and to ensure transparency in how these activities are reported.

The underlying principles are summarised below:

- Capital investment decisions reflect the aspirations and priorities included within our Corporate Plan and supporting strategies. This is underpinned by the commitment of Members and senior officers to adopt a strategic approach, making effective use of our capital resources to deliver corporate priorities, balancing ambition with prudence, sustainability and affordability.
- We will seek opportunities to work in partnership across the public and private sector to deliver our aims.
- New capital investment opportunities will be prioritised according to availability of resources and scheme-specific funding along with factors such as legal obligations, health and safety considerations and the longer-term impacts on our financial position.
- Commissioning and procuring capital schemes will comply with the requirements set out in our Constitution, financial procedure rules and contract standing orders.
- Risks will be identified and monitored as investments are evaluated and pursued.

3. SUMMARY

This Outline Capital Investment Strategy presents an overview of:

- how capital expenditure, capital financing and treasury management activities contribute to the provision of services
- how the associated risks are managed; and
- how the implications for our future financial sustainability are assessed.

Going forward it is intended to be an integral part of our service and financial planning framework and should be read in conjunction with the current Five-Year Corporate Plan, Capital Programme 2019 to 2024, the Medium-Term Financial Plan, the Treasury Management Strategy Statement and the Asset Management Plan.

Figure 1: Service & Financial Planning Framework



Over the medium term the intention is for this Strategy to include a longer-term vision, covering the time frame for the 10 years to 2033/34. The plan is to take a forward look at those projects that are likely to run beyond the initial five-year Strategy and programme period.

The Strategy includes information on non-treasury investments and is aligned to, but reported separately from the Treasury Management Strategy Statement. This ensures the separation of information about commercial investments from the core treasury function which operates under the principles of security, liquidity and yield.

In relation to non-treasury investments, the Strategy will cover:

- The governance and decision-making arrangements;
- An overview of service objectives relating to capital investments;
- The expected income, costs and resulting contribution to support our budget;
- Information about borrowing and associated financing costs;
- The debt payback period (Minimum Revenue Provision Policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Our approach to developing the Strategy has included:

- Taking on board the relevant guidance and regulations
- Collating information about current custom and practice relating to our investments so that it can be reviewed and made available in one place
- Calling on support from our Treasury advisors, Link Asset Services ('Link')
- Briefing senior management and Executive Members
- Holding a workshop with a group of representative Members, facilitated by Link; and
- Adopting a 2-stage reporting and approval process to reflect the fact that our investment plans will change as the new Corporate Plan and Housing Strategy are developed.

Next Steps - Action Plan

Action	Timescale
Further development of the 5-year Medium Term Financial Plan – to confirm scale of the financial challenge and future investment ambitions	Q2 19/20
Capital Investment Strategy updates to reflect: <ul style="list-style-type: none"> • the new Corporate Plan 2020 to 2024 • the new Housing Strategy 2020 to 2024 • relevant recommendations from the recent Commercial Governance Review • relevant recommendations from the planned Corporate Governance Review 	Q3 19/20
Recommendations on types of assets / commercial activity that will be considered and investment durations where appropriate along with the maximum level of investment and any other decision-making criteria.	Q3 19/20
Further work to develop a longer-term vision, a forward-look at those projects that are likely to run beyond the five-year Strategy. This will cover a timeframe for the 10 years to 2033/34	Q4 19/20

4. INFLUENCES ON CAPITAL INVESTMENT

Influences on Investment

Current capital investment plans that underpin this Strategy reflect external, partner and internal influences. We aim to take a strategic view in relation to capital investment so that it can be directed to make a real and demonstrable impact on service delivery and the local economy by:

- Ensuring that service delivery is supported by fit for purpose assets
- Regenerating the borough, building on the established investment programme, by attracting external investment to supplement Council resources and deliver an enhanced borough-wide regeneration offer
- Using regeneration investment to drive up gross value-added and increase the yield from business rates and commercial rents
- Working with partners, including Surrey Council and other public and private sector bodies, to take advantage of joint investment opportunities, co-location and the release of surplus assets
- Adopting transformational approaches to the delivery of services with and by local communities
- Aiming to get the basics right and drive improved business performance through investment in technology and instigating new service delivery models.

Next Steps - Action Plan

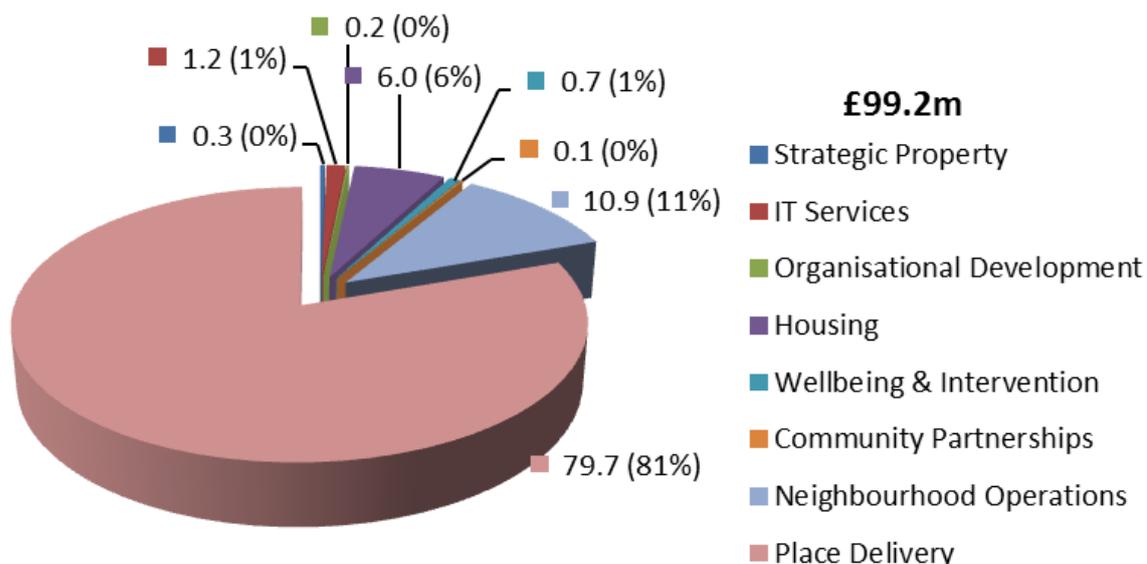
Action	Timescale
Asset Management Plan refresh	2020/21

5. CURRENT CAPITAL EXPENDITURE

Capital Programme

The Capital Programme for 2019/20 to 2023/24 includes initial forecasts for capital growth during the 2019/20 year and the resources available to fund it. New capital schemes will be reported to Executive for approval during the year as our Commercial Investment Strategy priorities are confirmed and new investment opportunities are identified.

Figure 2: Capital Programme 2019/20 to 2023/24 by Service



Source: Budget Report 2019/20, Executive 24 January 2019

Asset Management

For an organisation like the Council, with a diverse property portfolio, the Asset Management Plan describes the general direction that the organisation's property portfolio will take over the next 5-10 years, the approach to be adopted in getting there and the policies that will be applied to decision making. The Asset Management Plan presents such a vision and reflects the operational and business strategies of the Council. It is essential to achieving efficient use of corporate assets.

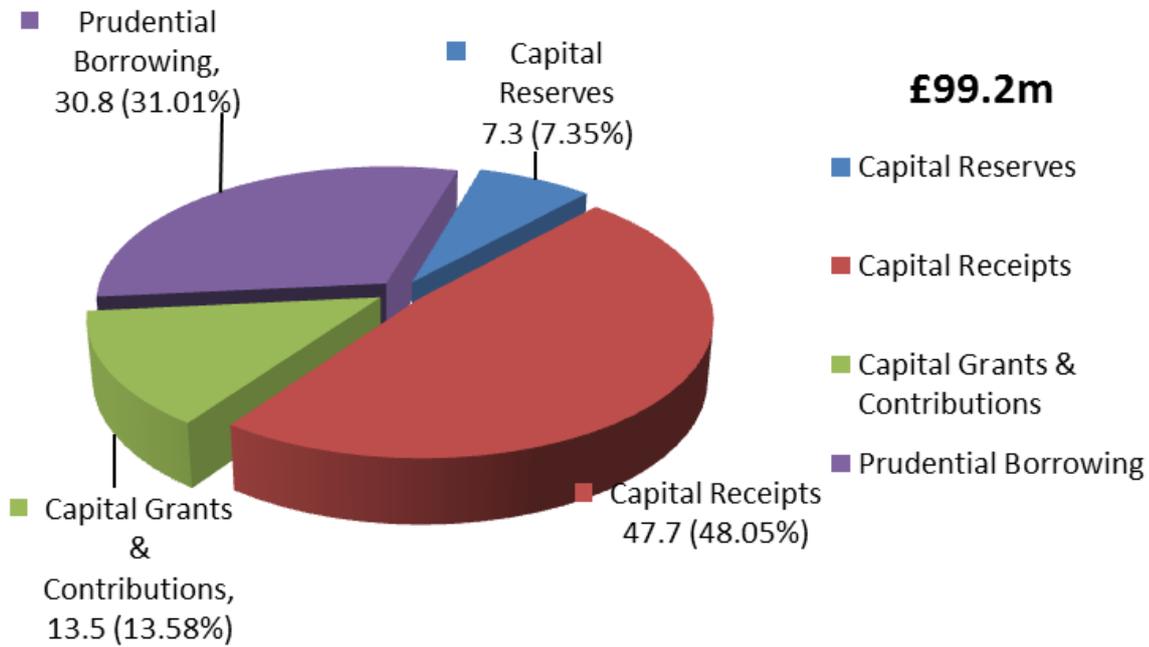
Commercial Investment

Our current approach to making property investment decisions was approved by Executive in 2014 and explains how investment decisions are made, delivery approaches and how risks will be managed.

In order to support investment decisions we rely upon the principles established in our evolving Commercial Investment Strategy and powers under the Localism Act 2011. This forms the framework for maximisation of new and existing income streams to support service provision. We will continue to identify suitable property investments and to complete substantial due diligence.

Capital Funding

Figure 3: Capital Programme Financing 2019/20 to 2023/24

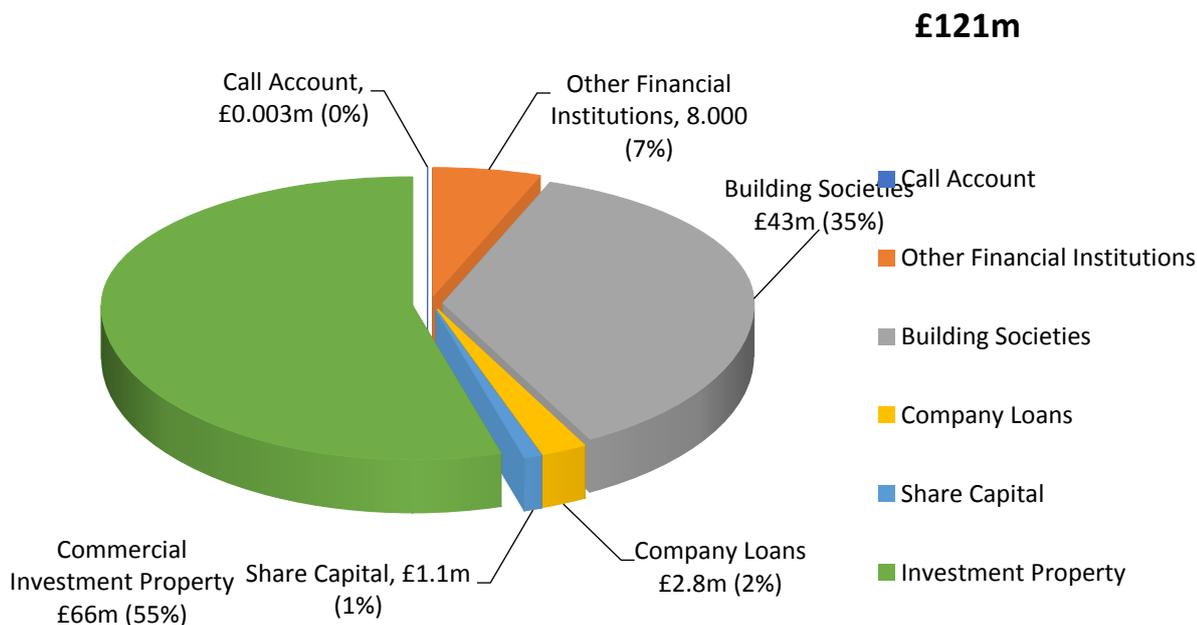


Source: Budget Report 2019/20, Executive 24 January 2019

Treasury Management Investments

Our Treasury Management Strategy Statement is reported each year to Executive and full Council. Treasury investments are central in providing an income stream to help fund our revenue activities.

Figure 4: Investment Portfolio Components at 31 December 2018



Next Steps - Action Plan

Action	Timescale
Evaluate performance and risk profile of existing and planned capital investments in treasury investments - to help inform capital investment decision-making and investment prioritisation in future.	Complete - see Treasury Management Strategy and Q3 Performance Report
Evaluate performance and risk profile of existing and planned capital investments in company loans - to help inform capital investment decision-making and investment prioritisation in future.	Complete - see Company Performance Report
Evaluate performance and risk profile of existing and planned capital investments in commercial properties - to help inform capital investment decision-making and investment prioritisation in future.	Q1 19/20
Evaluate performance and risk profile of existing and planned capital investments in operational assets - to help inform capital investment decision-making and investment prioritisation in future.	Q3 19/20

6. COMMERCIAL PROPERTY INVESTMENT STRATEGY

Commercial Investment Strategy

We plan to develop a Commercial Investment Strategy which is anticipated to cover:

- Our objectives for generating sustainable future income streams to support service delivery
- The role of commercial investments acquisition in achieving that objective
- The commercial investment decision-making process
- The financial resources that will be available to facilitate commercial investments
- How commercial investments will be managed

Next Steps - Action Plan

Action	Timescale
Further development of our Commercial Property Investment approach and priorities. Including reviewing current Commercial Property Investment Property decision criteria	Q2 19/20
Monitor and respond to further developments in relevant CIPFA guidance and Government regulations	Ongoing
Develop organisation capacity and skills to support delivery of our commercial investment ambitions	Ongoing

7. FUTURE CAPITAL INVESTMENT PLANS

Capital Investment Plan 2019/20 to 2023/24

The proposed Capital Programme includes £20.8m of investment in 2019/20, with an indicative programme for the subsequent four years of £78.4m. Our intention is to develop this Programme over the coming year to include longer-term (10-year) forecasts.

How Future Capital Requirements Will Be Prioritised

We plan to assess our approach to capital expenditure and investment, and aim to avoid over-exposure to specific markets, sectors or activity. This will reflect investments made to deliver Council services and those designed for wider economic benefit.

Overall, the intention is that our portfolio will comprise an acceptable balance of risk and return, based on market conditions and the level of secured / unsecured investments. Appropriate risk management tools will be applied, tailored to individual schemes and projects.

Asset Management Planning

Our Asset Management Plan will both inform, and be informed by, this Capital Investment Strategy. The overriding objective of asset management within the Council is to achieve a portfolio of property assets that is appropriate, fit for purpose and affordable. Our property portfolio consists of operational property, commercial investment property and property held for specific community or regeneration purposes.

Purchase of Shares/Provision of Loans:

We may make investments to support delivery of local public services, including making loans to and buying shares in service providers, local businesses to promote economic growth and our subsidiaries that provide services or which have been established for the purposes of trading.

During 2018/19 our Members have carried out a Commercial Governance Review that focussed on our companies and Executive has agreed a number of recommendations that are intended to further develop the governance arrangements relating to their operation.

Non-Specified Investments

Shares are the only investment type that we have identified that meets the definition of a non-specified investment in the government guidance.

Treasury Management Investments

Our Treasury Management Strategy Statement and Annual Investment Strategy set out our current decision-making arrangements, investment position and forward view.

Non-Treasury Investments

This will be covered in our Commercial Investment Strategy

Next Steps - Action Plan

Action	Timescale
Develop 10-year capital investment plan to support an improved view of affordability and better identification of the financial and non-financial outcomes of capital investment	2020/21
Implement recommendations from the Commercial Governance Review of the Council's companies	Timescales as agreed by Executive in March 2019

8. RISK MANAGEMENT

Our capital investment activity requires us to manage a range of risks.

This section of the Strategy provides an initial overview of known risks. Next step will be to develop a more detailed Risk Register, including an assessment of risk tolerances and risk appetite with cross-references to the Corporate Risk Register.

Affordability and Delivery Risks

We are exposed to a range of risks with regard to the continued affordability and delivery of the Capital Programme and Commercial Investment Strategy as follows:

- Financial risks related to the investment of our assets, cash flow and market volatility
- Macroeconomic risks related to the growth or decline of the local economy, interest rates, inflation and the wider national and global economy
- Credit and counterparty risks related to investments, loans to public and private institutions
- Operational risks related to operational exposures within the organisation, its counterparties, partners and commercial interests
- Strategic risks related to key initiatives undertaken by we such as areas of organisational change necessary to enable the Council to meet its goals and objectives, significant capital schemes and major purchases and new ventures
- Reputational risks related to our dealings and interests, and the impact of adverse outcomes on our reputation and public perception
- Environmental and social risks related to the environmental and social impact of our Strategy and interests
- Governance risks related to ensuring that prudence and careful consideration are prominent in Council decision-making, augmented by quality independent advice and appropriate checks to ensure that we have the correct level of oversight, scrutiny and efficiency.

Next Steps - Action Plan

Action	Timescale
Develop a detailed Capital Investment Strategy Risk Register, including and assessment of risk tolerances and risk appetite and cross-references to the Corporate Risk Register	Q2 1920

9. CAPITAL APPRAISAL PROCESS

In considering schemes for inclusion in the capital programme, regard will be had to the following principles:

- schemes to be included in the Capital Programme will follow an appropriate level of due diligence and assurance regarding deliverability
- prior to mobilisation, all projects will be supported by an affordable and sustainable plan, including careful consideration of value for money and options appraisal
- capital appraisal will promote schemes which provide a direct gain to our revenue budget position within agreed risk appetite limits, e.g. council tax and business rate growth, commercial investment return, 'invest to save' outcomes
- environmental and social sustainability issues in line with Council policy will be built into project appraisal
- the financial implications of capital investment decisions will be properly appraised as part of the determination process
- available resources will be identified for investment over the capital planning period
- available capital funding will be optimised e.g. through surplus asset disposal, maximising use of planning gain, by pooling capital receipts and by exploring external financing sources
- capital funding decisions will seek to minimise or mitigate the ongoing revenue implications of investment decisions
- the financial implications of capital investment decisions will be fully-integrated into revenue budget and longer-term financial plans
- robust governance arrangements will be in place for all programmes and projects, clearly defining responsibility for the delivery of individual schemes within the Capital Programme
- capital schemes will follow appropriate project management arrangements
- there will be effective working relationships with partners
- projects will be reviewed on completion to ensure key learning opportunities are captured.

Next Steps - Action Plan

Action	Timescale
Further development of the approach to capital investment appraisal.	Continual improvement of schemes brought forward for approval.

10. GOVERNANCE

Capital Programme

Democratic decision-making and scrutiny processes provide overall political direction and ensure accountability for investment in our Capital Programme. These processes include:

- Executive and full Council approve the Corporate Plan and supporting Strategies which set out our strategic priorities
- Full Council is ultimately responsible for approving the Capital Investment Strategy, Treasury Management Strategy Statement and Capital Programme
- The Executive receives regular capital monitoring reports, approves variations to the programme and considers new bids for inclusion in the Capital Programme
- Overview & Scrutiny Committee can call in Executive reports and routinely receive and scrutinise reports
- All projects progressing to the Capital Programme comply with the Constitution and financial procedure rules
- The Capital Programme is subject to internal and external audit.

Any new capital expenditure is subject to thorough evaluation which focuses on the key benefits that are expected in relation to Council priorities. The evaluation includes financial considerations such as the expected cost and funding sources identified. Risks to either the delivery or cost forecasts are considered as part of the evaluation.

Approval to spend on individual capital schemes will only be given once procedural guidelines have been complied with and assessed to the satisfaction of the Section 151 Officer. Designated budget managers monitor the delivery of individual capital schemes.

Treasury Management

Day to day decisions on investment and borrowing are delegated to the Section 151 Officer and the Finance Team, who act in line with the Treasury Management Strategy Statement, which is approved by full Council before the start of each financial year. The underlying framework is explained at Appendix 1.

The Overview & Scrutiny Committee is responsible for scrutiny and governance of Treasury Management. It reviews the Treasury Management policy and procedures and all Treasury Management reports. It also scrutinises the full suite of budget reports prior to their presentation to Executive and Council for final approval.

Throughout the year the Overview & Scrutiny Committee receives regular updates on performance and emerging issues and the Mid-Year Treasury Management report which is also reported to full Council. The Treasury Management function is also subject to regular internal and external audit reviews.

APPENDICES

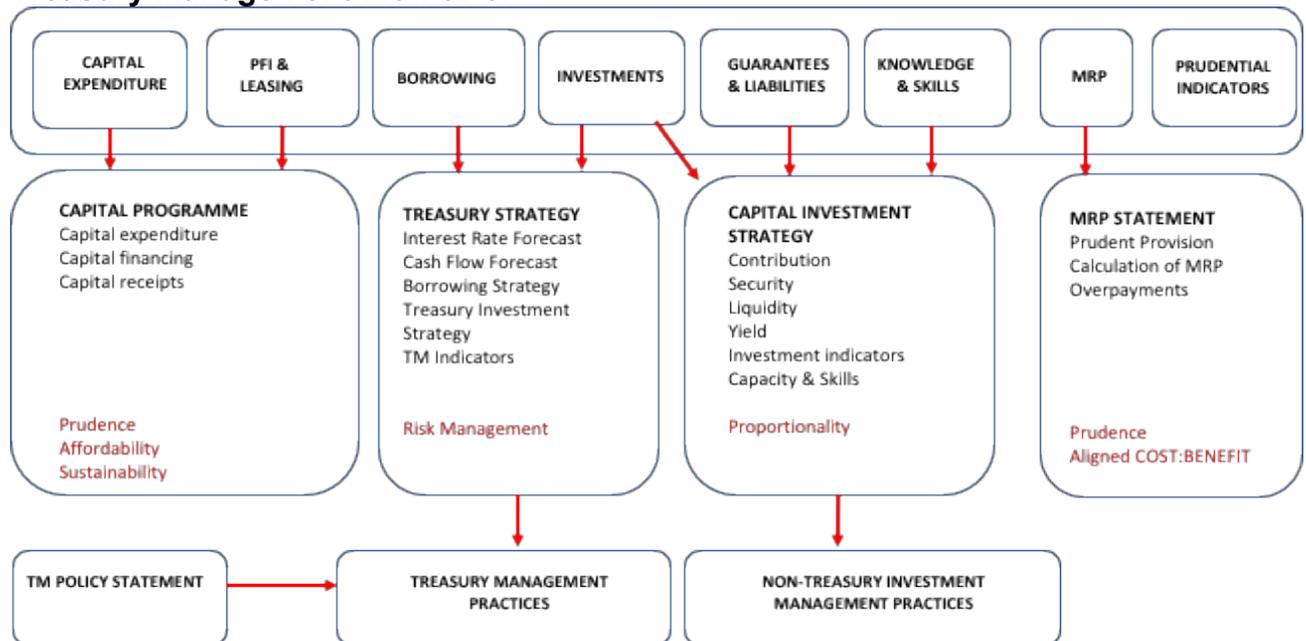
1. TREASURY MANAGEMENT FRAMEWORK

TREASURY MANAGEMENT FRAMEWORK

To be read in conjunction with the Treasury Management Strategy Statement 2019/20.

The implications of financing capital expenditure from borrowing is that the expenditure is not funded immediately but charged to the revenue budget over a number of years. We may defer the timing of external borrowing on a short to medium term by using temporary cash resources held in reserves and balances. This practice, which is referred to as ‘internal borrowing’, does not reduce the magnitude of borrowing required or the level of funds held in reserves and balances; the funds are merely being utilised in the short term until they are required for their intended purpose. The timing of external borrowing and the balance of external / internal borrowing is determined by market conditions and our cash flow position. Officers manage this position on a day to day basis in line with the overall Treasury Management Strategy Statement, as approved by full Council each year.

Treasury Management Framework



Debt is only a temporary source of finance, loans must be repaid. We have a statutory duty to set aside an amount that we consider to be prudent, in line with guidance, for the repayment of borrowing. This is known as the Minimum Revenue Provision (MRP). See our Treasury Management Strategy Statement for the MRP Policy for 2019/20.

Our underlying debt liability will be repaid in line with the MRP Policy, amortised over the life of the assets creating the debt liability. Alternatively we may repay debt from selling capital assets (capital receipts).

Although capital expenditure is not charged directly to the revenue budget, interest payable and MRP are charged to revenue. The cost is offset by income and

investment income. Our treasury and non-treasury investments make a contribution to our services, and in meeting our strategic aims and objectives.

Our ability to borrow to fund our capital investment plans is governed by CIPFA's Prudential Code, which requires local authorities to publish indicators to demonstrate that the level of borrowing is affordable, prudent and sustainable.