Finance, Performance and Resources Select Committee
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Capital Strategy
(including Investment Strategy)

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Key recommendations to FPR Select Committee:

- To note the requirements of the revised Prudential Code.
- To note the contents of the proposed draft Capital Strategy, recognising that further amendments will be required as the Medium Term Financial Plan develops
- To suggest improvements to the draft strategy prior to onward submission formally to Cabinet.

The Prudential Code

- Revised December 2017 and supported by guidance from MHCLG (Feb 2018)
- Requires Capital Strategy to be approved by Full Council but the Treasury Management Strategy no longer required to go
- Should “tell the story” of all capital investments
- New requirement for an Investment Strategy, but can be included within Capital Strategy.
- Strategy to focus on delivering local policy objectives and locally determined risk appetite. (local indicators)

The Context

- Delivering against a potentially huge growth agenda and leveraging the resources to do so.
- Maintaining existing assets in good order in the face of significant financial constraint.
- Little funding certainty from Government
- Striking an appropriate balance between Revenue and Capital.
- Short term vs. long term
- Leveraging our assets to maximise an income stream whilst managing/mitigating the associated risk.
- Striking an appropriate balance between public accountability (transparency) and commercial confidentiality.

Research Undertaken

- Read the Codes and guidance itself.
- Attended CIPFA Capital Conference and “Better Capital Strategies” workshop.
- Canvassed views of other S.E. Counties

Findings

- Most other councils are further behind in their thinking.
- CIPFA encouraging issues to be taken more seriously, but more local discretion.
- Strategy to focus on delivering local policy objectives and locally determined risk appetite. (Local indicators)
- Increased accountability – role of Audit important.
- Generally others sticking with existing governance arrangements and making as few changes as possible.

The Updated Capital Strategy

- Redrafted to include a major new section on commercial investments in order to meet the new Investment Strategy requirements.
- Moving the service/portfolio specific elements to an appendix. This appendix is necessarily still being drafted as it will need to align with the agreed capital programme being developed through the MTFP process.
- Reframed the governance section to align with recent developments.
- Brought in the MRP section and capital prudential indicators from the Treasury Management Strategy.
- Added in some performance indicators (still in draft), as required by MHCLG guidance.

Investment Property

- Target Portfolio £250m (currently £80m, 2 new proposals would bring it up to £159m).
- Minimum 5% yield per property, blended portfolio yield 6%
- Lot size ideally £5m-£30m
- Lease length or average lease length 5+ years
- Preference for within County or with an economic footprint falling within County
- Properties with strong covenant tenants on full repairing leases
- Strategic locations with good transport links
- Properties/tenants that align with Council ethical values and aims
- Properties with an opportunity of enhancement in value or income stream

Financial Considerations for BCC (1)

- Spend too much and financing the associated debt could become unaffordable.

- Spend too little and our assets will deteriorate with impacts on asset values and an increase in revenue maintenance

- Revenue contributions to Capital have been reduced

- Grant streams from Government are reducing, most notably Basic Need funding.

- The introduction of CIL and new rules on s106 add further constraint.

Financial Considerations for BCC (2)

- LASR and OPE present opportunities for capital receipts, but this needs to be balanced with holding some assets for strategic reasons and generating a revenue income.

- Failing to invest in an economic development initiative, or a high yielding investment property, may represent a lost opportunity.

- High profile failures in the retail sector illustrate some of the risks associated with investment properties, making portfolio diversification and robust due diligence essential features of the strategy.

Colleagues and Partners

- Delivery of a substantial growth agenda will require extensive partnerships working with other agencies in both the public and private sectors e.g. TVLEP, District Councils, Bucks Advantage, developers etc

- Rationalisation of the public estate under the OPE programme will require working with other organisations across the public sector e.g. districts, health, police etc

The next steps proposed

- Update the information included in the service specific requirements (Appendix A)
- Finalise the governance arrangements around capital/asset management and reflect this in the strategy.
- Agree an appropriate set of performance and prudential indicators to include within the strategy.
- FPR Select Committee review of draft strategy 13 November 2018
- Draft strategy formally approved by Cabinet on 10 December 2018
- Final Capital Strategy approved by Full Council on 21 February 2019