

Buckinghamshire Council
**Capital & Investment
Strategy**
v4.0

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1. Purpose of the Capital Strategy

- 1.1 The main purpose of the Capital Strategy is to define how the new Buckinghamshire Council will maximise the impact of its limited capital resources to deliver its key aims and priorities. It considers future capital investment needs, especially in relation to regeneration and the growth agenda and ensures the optimum impact of those investments.
- 1.2 In managing its Capital and Investment Strategy, the Council will have regard to its statutory obligations within the context of a changing operational environment, the longer term impact of its decisions, the delivery of value for money and the risks associated with any particular course of action.
- 1.3 The strategy is designed to fully comply with the Prudential Code of Practice for local authority capital investment by the Chartered Institute of Public Finance and Accountancy (CIPFA) in parallel with guidance to local authorities from the Ministry of Housing, Communities and Local Government (MHCLG). The main purpose of the Code is to ensure that capital investment proposals are affordable, prudent and sustainable.
- 1.4 By the very nature of capital investment it is necessary that this strategy takes a longer term view. However, the strategy also focusses on the medium term to fit in with the Medium Term Financial Plan (MTFP), the latest version of which covers the period 2020 – 2023, and includes the Capital Programme for the same period. The new Council will want time to review this strategy
- 1.5 By virtue of being a new Council there are a number of legacy strategies and programmes, especially in regards to regeneration, which the new Council will need to review and consider in light of the requirements of the entirety of the new Council geographical area (such as the Aylesbury Garden Town masterplan and Wycombe Regeneration Strategy). The importance of these strategies is recognised, but the new Council will need sufficient time to establish overarching strategies and determine the relative priorities of the substantial pipeline of schemes, taking into account the strategic direction developed with the Buckinghamshire Growth Board.
- 1.6 This Capital and Investment Strategy is underpinned by a number of other strategies and plans. The Council holds a wide range of assets, but two major classes of assets in particular for which it needs to have regard in maintaining their integrity. To this end there is a [Property Asset Management Plan](#) (PAMP) and a [Highways Asset Management Plan](#) (HAMP). There is also an [ICT, Digital and Information Strategy](#) to guide investment in what is an increasingly important asset class as the new Council enters into a significant period of transformation.
- 1.7 Following revisions to the Prudential Code and guidance from MHCLG in February 2018 this Strategy includes the Investment Strategy and needs to be read in conjunction with the [Treasury Management Strategy](#). This strategy is also cognisant of the latest guidance issued by CIPFA on Prudential Property Investment.

2. The Context of the Capital Strategy

2.1 The Council's Aims and Priorities

2.1.1 The Council's aims and priorities are set out in the [Corporate Plan](#), the latest version of which covers the period 2020-23, although the underpinning service delivery plans are refreshed annually.

The key priorities set out in the Corporate Plan are:

- Strengthening our communities
- Protecting the vulnerable
- Improving our environment
- Increasing prosperity

2.1.2 Of course, all that the Council does is set within a legislative context, so that meeting its statutory obligations is a key component determining the actions it takes. In the context of the capital strategy examples of the statutory requirements are the need to provide sufficient school places, to maintain the highway infrastructure to certain standards and to provide suitable disposal facilities for waste.

2.2 Growth and Demographic Change in Buckinghamshire

2.2.1 The population of Buckinghamshire is constantly changing and the Council needs to take account of these changes in planning its future service provision. The Council in partnership with other agencies, the Local Enterprise Partnership in particular, has responsibility for facilitating the infrastructure to promote economic growth. Current local plans indicate housing growth in Buckinghamshire of around 46,500 by 2033 leading to a population increase from c. 541,000¹ to 638,000. Indications from Government set expectations much higher than that, suggesting housing growth of 61,000 by 2033 and a further 42,000 by 2050. This would mean the population of Buckinghamshire growing by just over 50% between now and 2050 and may be larger still if Buckinghamshire needs to pick up growth targets from neighbours unable to hit their own targets. This level of growth not only has implications for new infrastructure, but also for the wear and tear on existing infrastructure.

2.2.2 Beyond the current confirmed plans for housing growth there are many pressures in the system to go further as indicated by the Government figures mentioned in the previous paragraph. The Council and its partners are already promoting a major development at the "Woodlands" site in south east Aylesbury. The Government has been keen to push forward housing growth through the concept of Garden Towns and the Council has submitted a Housing Infrastructure Fund (HIF) Forward Funding bid for around £180m to create the infrastructure to support these plans. Wycombe District Council was awarded £12m HIF funding for the Princes Risborough expansion area.

¹ ONS Mid-year estimate 2018

- 2.2.3 Notwithstanding the overall growth in the population the nature of the population is also changing. Buckinghamshire already has one of the highest rates of increase in people aged over 85 of all county areas in the country. The diversity of the ethnic and socio-economic make-up of Buckinghamshire is also increasing. These changes are likely to increase the demand on a range of public services, particularly care services. This too will need to be factored into the longer term planning of service provision.
- 2.2.4 The location of Buckinghamshire also creates a unique set of circumstances which impacts on economic development and other infrastructure demands which are likely to have capital implications. The high speed rail line (HS2) will run through the county and have significant knock-on impacts. The proximity of the south of the county to London and Heathrow Airport is likely to place an increased burden on transport infrastructure. The north of the county lies at the heart of plans to link Oxford and Cambridge with both an East-West Railway and major new highway. Few of these plans are yet firm, less so how they will be funded, yet the direction of travel is clear, so they cannot be ignored by this Capital Strategy, albeit presents a challenge to plan with absolute certainty.

2.3 Changes in Technology

- 2.3.1 As well as changes to the profile of the population, developing the economy needs to reflect changes to the way we work and better still to reflect the way we will work in the future. The pace of change in technological advancement appears to get ever faster, so keeping up with these changes presents a range of challenges.
- 2.3.2 The Council has a role in putting in place, or at least facilitating, enabling infrastructure. A good example of this currently might be the developing market in electric vehicles that need a more comprehensive network of charging points. However, as is often the case with emerging technologies there are a number of different options available, so identifying which particular solution to support is a key challenge if capital investment is not to be wasted.
- 2.3.3 By contrast the economic development role the Council plays may need to facilitate experimentation, such as creating space for start-up businesses in emerging technologies. The very nature of this means that there is likely to be a fair degree of failure and the Council needs to determine the degree of risk it is prepared to take and the mitigations that can be put in place.
- 2.3.4 The Buckinghamshire Integrated Care System is part of the wider Buckinghamshire, Oxfordshire and Berkshire West sustainable transformation partnership (STP) and provides an opportunity for the Council to collaborate with the Buckinghamshire Clinical Commissioning Group (CCG) and Buckinghamshire Healthcare NHS Trust in particular to work in partnership in the delivery of ICT services and deliver integrated or compatible technological solutions that provide excellent value for money for the local health sector and the Council.

2.4 The Changing Public Sector Landscape

2.4.1 From 1st April 2020, the new Buckinghamshire Council will replace the previous County Council and four District Councils. Implementing the Buckinghamshire Council Accommodation Strategy will involve the review, rationalisation and re-purposing of accommodation to allow flexible working and ensure the new Council has a countywide footprint for both Members and staff.

2.4.2 Over and above the asset requirements of the new unitary authority, there are other pressures in the existing system likely to lead to change. All public sector bodies are under financial pressure as well as there being a need to offer the public a more coherent means of accessing services, and the One Public Estate (OPE) project aims to achieve the rationalisation of publicly held assets. Also as part of this property rationalisation and in order to facilitate a more coherent service offer to the public the new Council is promoting the creation of Council and Community Access Points to enable residents to access services through a network of fixed buildings in communities across the county.

2.4.3 Those financial pressures on local authorities, caused in large part by huge cuts in Government grant funding, but also significant increases in demand for services, lead to the exploration of alternative sources of income. This in turn prompts consideration of investment in assets which can support the generation of additional income. This might mean investing in existing assets to facilitate their use to create income streams. It may also mean investing in assets purely, or significantly, for the purposes of making a return.

3 Capital Investment Objectives

3.1 The key objectives of capital investment will be to:

- Support service delivery in line with the Council's strategic objectives
- Facilitate the generation of income, be that from commercial assets held predominantly for their rental yield, or service based assets capable of generating income as a by-product.
- Enhance value for money by helping to reduce or avoid costs
- Support regeneration, economic development and the wider growth agenda

3.2 Where assets are held by the Council that do not fall into the above categories the Council will aim to dispose of such assets. However, it will seek to maximise the return in doing so and therefore will on occasions hold assets awaiting favourable market conditions. The retention of assets in this way will require an explicit decision to do so.

3.3 As well as the key objectives set out in 3.1 above there will also be regard for the following:

- Meeting legislative requirements, such as school place planning requirements, or health and safety, and the Social Value Act 2013.
- Maximise community benefits, working in partnership with other agencies.
- Ensure that investments are affordable and sustainable.

- Safeguard the on-going integrity of existing assets (property, highways, ICT, etc.) ensuring they remain fit for purpose, including reducing the maintenance backlog.
- Be forward looking in terms of investing in future technologies and recognising societal behaviour patterns and not the ways of the past.
- Ensure, where appropriate, that investments are in line with the Property Asset Management Plan, the Highways Asset Management Plan and the ICT, Digital and information.

3.4 Based on the above objectives it is envisaged that capital investment will fall into three main categories:

- Assets owned by the Council to support the direct delivery of services by the Council itself.
- Assets owned by the Council to support the delivery of services by third parties where there is a strategic need/advantage in continuing to own the assets.
- Assets held for a financial return to support the financial resilience of the Council.

3.5 In addition the Council may on occasions make capital investments in assets owned by third parties where doing so facilitates the delivery of Council objectives, or legislative requirements.

4 Key Areas for Investment

4.1 Given both the Capital Investment Objectives and the Corporate Priorities described above the following list, whilst not necessarily exhaustive, describes key areas where one might expect to see investment directed.

- Investments that facilitate growth, economic development and regeneration in the county, such as Aylesbury Garden Town, Wycombe and Princes Risborough growth areas, the Woodlands development, East West Rail and the Oxford-Cambridge Arc
- Structural Maintenance of Highways Infrastructure.
- Structural Maintenance of Properties in which the Council has a continuing interest, including schools within the local authority family of schools.
- Meeting the statutory requirement to provide school places for all primary and secondary age children.
- Investment to increase availability of specialised accommodation to meet needs of increasing numbers of highly vulnerable adults and children.
- Assets which facilitate community involvement in services which meet corporate objectives.
- New infrastructure such as roads and schools to support the growth in housing.

- ICT Infrastructure, both to facilitate modern service delivery from the Council and within the local community, e.g. Broadband connectivity across the community.
- The re-design/re-configuration of assets or services that permit lower on-going revenue costs, or halt a trend of increased revenue costs.
- New or enhanced existing assets that allow a secure revenue income stream to the Council.
- Assets that help the Council meet sustainability targets, such as reduced energy consumption/CO₂ emissions, reduced waste disposal via landfill and flood defence.
- Assets which facilitate easier access to services, including the Council's website.
- Assets which facilitate service improvements provided that these are identified corporate priorities and are financially sustainable on an on-going basis.
- Assets that facilitate the release of other assets, where the net effect is an increase in value to the Council.

4.2 Given that resources are limited it would not be expected that investments will be made in the following, although there might be exceptional circumstances that dictate otherwise.

- Assets which facilitate service improvements, but that are not corporate priorities.
- Assets which result in increased revenue expenditure unless meeting other key priorities.
- Assets that lead to an adverse environmental impact created by the Council unless this is unavoidable in achieving a statutory requirement, or Strategic Plan objective.
- Assets where the risk exposure exceeds the probable benefits.

5. Investments for a Return

5.1.1 Beyond those investments for cash management purposes and for service enhancement the Council may also make investments, with a range of economic, environmental and social objectives in mind, but with a key element being on making a return on the investment. It is these types of investments which are the focus of this section of the Strategy.

5.1.2 It must not be forgotten that the Council is an organisation heavily governed by statute and that it is not a commercial organisation with the purpose of making a financial return for shareholders. Nonetheless like any organisation it does need to fund its activities and with more traditional funding sources, such as government grants, substantially decreasing and local taxation being

heavily constrained by central government rules, there is a need to look to more innovative ways of generating income, the financial return on investments being one such approach in addition to other intangible social, economic, environmental and regeneration benefits these investments can yield.

- 5.1.3 Recognising the Council's core objectives to support its local community there may be a range of further objectives beyond a simple financial return that the Council seeks when making investments and in so doing may accept a lower rate of financial return in order to achieve, or facilitate these other objectives. Examples of this might be to promote local economic development, or to support partner organisations. The remainder of this section seeks to set out the nature of investments the Council will engage in and the circumstances in which it will do so.

5.2 Financial Investments

- 5.2.1 Financial Investments can fall into three categories, as defined by the Statutory Guidance issued under section 15(1)(a) of the Local Government Act 2003: Specified Investments; Loans and; Non-specified Investments.
- 5.2.2 Specified and non-specified investments are only likely to be undertaken on either a short, or a long term basis as part of managing the council's cash flows and are therefore covered by the [Treasury Management Strategy](#) rather than here.
- 5.2.3 Loans may also be used for treasury management purposes, but where they are used in support of service delivery objectives this is covered by the [Loans and Guarantees Financial Instruction](#).

5.3 Non-Financial Investments

- 5.3.1 For the purposes of this strategy a non-financial investment is a non-financial asset held by the authority primarily, or partially to generate a surplus. This might be through an anticipated appreciation in the capital value of the asset, or by way of delivering a regular income stream, or a combination of both. However, in the current financial climate the emphasis is likely to be on assets that generate a regular income stream.
- 5.3.2 Although the Council remains open minded to consider a range of opportunities the high likelihood is that non-financial investments will involve property assets. Chosen carefully, property offers the opportunity for a higher yield and less volatility than financial investments, however, it is an illiquid asset and carries with it the inherent risk of being unable to respond quickly enough to changes in market conditions.
- 5.3.3 The new council should aim to have a commercial investment portfolio of in the region of £300m, in order to achieve a suitably balanced portfolio of asset classes, locations, etc. so that risks are spread. A portfolio of this size at a

yield of 6% would produce a gross revenue income stream of £18m p.a. and an anticipated net income stream of at least 1.5% (or £4.5m p.a.). This may vary according to loan rates available to the Council at the time of acquisition.

5.3.4 When selecting suitable properties in which to invest the Council will have regard to the following criteria:

- Lot size to ideally be up to £30m in order to diversify holdings in the portfolio. Exceptions can be made for high value strategic purchases.
- The property provides diversification in the investment portfolio in terms of type, sector and location.
- Target rate of return for the portfolio is an average (i.e. the yield as measured across the Council's entire commercial property portfolio) running yield of 6.00% for the entire portfolio, after the deduction of purchaser's costs, with a minimum expected yield per property of 5.50%. In exceptional circumstances the yield could be below 5.5% when it may help with the overall risk profile of the investment portfolio and still delivers a positive net yield after the deduction of borrowing and operational costs. The gross yield is calculated before allowing for the cost of any borrowing and any management fees/costs.
- Lease length, or the average of lease lengths if multiple occupation, of existing tenants to be generally 5 years left to run or greater.
- Preferred maximum exposure to any one tenant should not exceed £500,000 p.a., unless there are compelling reasons why a higher exposure is acceptable.
- A preference for purchases to be in locations within but not limited to the County of Buckinghamshire, although they should be in close proximity to, and have an economic footprint that includes, the County.
- Only opportunities let to strong covenant tenants on full repairing leases will be considered based on Dun & Bradstreet ratings or similar, unless there are clear opportunities for regeneration or a suitable business case where a weaker covenant might be underpinned by a superior location or opportunity.
- Properties in strategic locations with good transport links.
- Properties that offer a marriage value with the existing portfolio.
- Properties and/or tenants consistent with the ethical values and aims of the public sector.
- Preference will be given to properties that offer the option of alternative uses through gaining planning permission for a change of use, or through redevelopment in order to enhance the capital value.
- A preference will be given to premises that offer the opportunity to increase income streams by infilling additional services e.g. coffee shop.
- Consideration will be given to emerging and established changes in the market e.g. retail investment.

- Consideration given to lease events across the entire portfolio to avoid 'cliff edges' where there are a significant number of lease events involving large rental income streams in a relatively short period of time.

5.3.5 The following risks associated with the purchase of commercial property are recognised:

- The relative illiquidity of property as an asset class compared with holding cash reserves or a share portfolio.
- As lease lengths erode the value of the asset will tend to diminish in most cases.
- The risk of a tenant failing financially, which will present the Landlord with a temporary loss of income coupled with the cost of re-letting the accommodation.
- Void rates and service charge liability whilst the property remains vacant.
- Obsolescence of the building and the cost of returning it to a tenantable condition at the end of a lease.
- Over time certain segments of the property market can weaken leading to a loss of both a revenue income stream and capital value.
- Potential capital expenditure when properties become vacant which is not met by a dilapidations settlement.

5.3.6 In order to mitigate the risks it will be essential to carry out full due diligence, and a template of the Investment Property Due Diligence Summary Report can be found at Appendix B. To this end investments in property will only be made following advice from suitably qualified and experienced specialist advisors. Adherence to the selection criteria set out in 5.3.4 will also be important to ensure that properties are well located and have tenants with a strong covenant. It will also be important that a diverse portfolio is established to reduce vulnerability to market fluctuations. A suitable balance needs to be found between yield rates and lease length and security. Active asset management will be essential to ensure that tenant obligations under the lease are fulfilled and regular rent reviews are carried out, as well as looking for opportunities to maximise income streams and reduce the likelihood of voids. Despite these measures it is inevitable in any portfolio of scale that there will be some level of voids from time to time. A reserve account has been created into which is paid 5% of all rental income in order to cover unforeseen void/default issues. The Council will look for opportunities to increase this provision where it is able to do so, to further reduce any void/default risk.

5.3.8 In addition, on occasions the Council may choose to purchase land or property for strategic reasons rather than just for a return and therefore the hurdle rates described above might not apply in those circumstances. This might be to protect existing service provision, but will most likely be linked to its community leadership role in accommodating and facilitating economic and housing growth. This will require well documented business cases and formal decisions.

6. Funding Capital Investment

6.1 There are a number of potential sources of financing for the capital programme. These can be described as follows:

6.1.1 **Grant Funding** (often specifically for capital purposes and also often from central government, but they may come from, or through, other agencies).

6.1.2 **Capital Receipts** (receipts arising from the disposal of existing assets are constrained to only be useable for the purposes of funding new assets. Such funds when generated are held in a Capital Receipts Reserve until such time as used).

6.1.3 **Developer Contributions** (S106 agreements and/or the Community Infrastructure Levy (CIL) effectively impose a tax on new development in order to fund infrastructure required as a consequence of the development).

6.1.4 **Partner Contributions** (some projects may be jointly funded between the Council and other agencies, such as schools, other councils, or the Buckinghamshire Local Enterprise Partnership (BLEP). Under current arrangements the Council is the accountable body for the BLEP and thus capital expenditure on behalf of the BLEP is included in the Council's Capital Programme and funded by resources available to the BLEP).

6.1.5 **Prudential Borrowing** (the Council is able to borrow in order to fund its capital expenditure provided that the revenue financing costs of such borrowing are affordable and sustainable. Prudential borrowing will be considered as a source of capital funding in accordance with the Government's guidelines and with regard to the Prudential Code for capital finance in local authorities).

6.1.6 **Revenue Contributions to Capital** (the Council is able to use its revenue resources to fund its capital expenditure, but obviously this then reduces the funding available for recurrent expenditure).

6.1.7 **Use of Earmarked Reserves** (essentially this is just a mechanism for deferring the application of one of the sources listed above, e.g. revenue contributions, or capital receipts. A typical example is the use of a Repairs and Renewals Fund).

6.1.8 **Leasing** (essentially this is a specialised form of borrowing linked directly to the asset).

6.2 The choice of funding for the capital programme and projects within it will depend upon the overall availability of resources and any constraints applicable to particular sources.

- Wherever possible external resources such as partner contributions, or grants will be the first preference for funding projects. It is likely that developer or partner contributions will only be available for specific projects. It is also possible that some grant funding is ring-fenced for specific purposes, although this tends not to be the case in recent times.
- Prudential borrowing will be the second choice of funding, but will only be used where there is a strong business case offering an appropriate rate of return. The use of the Prudential Borrowing allocation approved by Council

as part of the MTFP Capital Programme, will only be released following approval by Cabinet.

- Finally the Council's own resources (capital receipts and revenue contributions) will be used where available and affordable.
- 6.3 Given the recent 1% increase in margin above gilts for the PWLB borrowing rates, the Council will consider arranging borrowing via the Municipal Borrowing Agency (MBA) or other alternatives, providing it is prudent to do so and a rate below PWLB rates can be achieved. This borrowing route will be subject to approval by Cabinet before it is undertaken.
- 6.4 The Council will aim to maximise its funding for capital expenditure by bidding for grant funding, disposing of surplus assets, seeking to maximise its leverage with partners in respect of joint funding opportunities, etc. Indeed the ability to respond to the very substantial growth agenda will be heavily dependent upon the ability to attract additional resources. This may come in the form of additional funding from Government, such as is being sought via the HIF bid, developer contributions, or working in partnership with other bodies e.g. the BLEP, other public bodies, or the business community. A Location Asset Strategic Review (LASR) was carried out by the County Council which has identified opportunities to reduce the property estate and thus generate capital receipts. However this will need to be reviewed in the context of the new Council as there may be longer term strategic reasons to hold on to assets and/or the ability to improve the operational efficiency including the potential to generate income which need to be considered.
- 6.5 Although the Council will continue to bid for all the resources it can, the Government's austerity measures are leading to a tightening of grant funding. For Buckinghamshire this is particularly relevant in respect of Basic Need funding for school places.
- 6.6 Historically the Council has provided a reasonable level of revenue contributions to fund the capital programme. However, as part of measures to keep the revenue budget in balance in the face of reduced funding and increasing service pressures the capacity to do this has been reduced to a relatively low level for the future.
- 6.7 A £1.2m feasibility revenue budget has been identified and there are earmarked reserves available for feasibility work, but the new Council may want to increase the level of this once it has had chance to review the scale and overall priorities for capital investment. Generally feasibility work is a one-off revenue cost.
- 6.8 Given the nature and lead in times in relation to Regeneration and new road schemes, the new Council may want to develop a longer term capital programme to cover the longer timeframes relating these significant areas of capital investment.
- 6.9 Any capital investment decision which involves prudential borrowing must include the cost of servicing the debt as part of a robust business case. Investment decisions will be approved by Cabinet and will be supported when the cashable cost reductions (or increased income) exceed the financing costs of any borrowing needed to fund the investment over its life, with a reasonable tolerance to cover off risk.

7. Minimum Revenue Provision

- 7.1 Minimum Revenue Provision (MRP) is the charge to revenue made in respect of paying off the principal sum of the borrowing undertaken to finance the capital programme. MRP, which is largely defined by regulation is aimed at ensuring that the council does not have time expired/fully depreciated assets, but still has associated outstanding debt.
- 7.2 Where capital expenditure was incurred before 1 April 2008 MRP will be charged on a straight line basis over 50 years (from 1 April 2016) in accordance with the guidance. For capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP using the asset life annuity method. Using this method MRP is calculated in a similar way as calculating the capital repayment element of a fixed rate repayment mortgage. Where borrowing relates to historic balances from the former County and District Councils, the calculation will be based on the outstanding balances on 1 April 2020 and the remaining asset lives.
- 7.3 In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.
- 7.4 The asset life annuity method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined under delegated powers to the Service Director Corporate Finance, with regard to the statutory guidance. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the asset life annuity method would not be appropriate.
- 7.5 As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.
- 7.6 Recognising the impact of MRP on the revenue budget is an important element in determining the affordability and sustainability of borrowing to fund an asset. Essentially, if there is no on-going capacity within the revenue budget to afford the MRP then one shouldn't take out the borrowing in the first place. This is why a robust business case demonstrating a rate of return in excess of costs (including MRP) is important.

8. Capital Governance and Processes

8.1 Overview

- 8.1.1 This Capital Strategy sets out the framework for the governance of capital assets for the organisation. Primary responsibility for the development of the Strategy rests with the Service Director Corporate Finance, although ultimate

accountability for its approval rests with Full Council in line with the Prudential Code.

8.1.2 The development or purchase of new assets, maintenance of existing assets and disposal of surplus assets are matters of operational and financial significance and therefore require robust governance arrangements. For this reason the Corporate Management Team (CMT) will play a pivotal role in these governance arrangements, providing co-ordination and consistency across the organisation.

8.1.3 Whilst this Strategy sets out the framework for identifying, approving, implementing and reviewing capital projects, the details are set out in the Financial Instructions for Capital.

8.2 Governance Boards

8.2.1 Although the assets held by the Council can be as diverse as the services it delivers they can be grouped into a few broad categories, namely: property; technology; and highways. For each of these broad categories this will be an appropriate governance board chaired by the relevant Cabinet Member and with further member representation. These are governance advisory Boards, Cabinet authority will still be required where a key decision is required. The relationship between these Boards is illustrated in Appendix C. Each Board will have an officer group that will review all business cases before they go forward to the relevant Board to ensure that all due diligence has been undertaken beforehand.

8.2.2 Although its role is still developing, the Growth Board will facilitate growth bids and the delivery of programmes of work to deliver the growth agenda across Buckinghamshire, working closely with partners. To this end, the Property and Highways Boards will feed into and advise the Growth Board where project delivery feeds into major growth projects they are considering, although the Growth Board is not a decision making body for the Council.

8.2.3 The Property Board will cover all land and property whether held for service delivery purposes, or as an investment for financial return. It will be responsible for all land and property regardless of which services are delivered from those premises at any point in time. So, for example, it will cover multi use offices, but also care homes, highways depots, waste processing sites and other single service premises.

8.2.4 The ICT Board will cover all technology assets, be that laptops, screens, phones, or servers, cabling and other hidden infrastructure. It will also include capitalisable software licences and assistive technology. This will apply to technology assets owned by the council whether they are within council premises, or elsewhere.

8.2.5 The Highways Board will cover all highways assets, such as roads and footpaths, but also bridges, signals, safety fences etc.

8.2.6 For any assets that do not fall readily into any of these major categories, potentially some items of plant and equipment, CMT will either allocate responsibility to one of the above Boards, or exercise that responsibility directly itself.

8.2.7 To ensure that appropriate technical financial advice is available to each of the boards, the relevant directorate Head of Finance will be a representative on each board.

8.3 Development of the Capital Programme

8.3.1 Each year the Capital Programme will be developed as part of the Medium Term Financial Plan, culminating in approval by full Council in February each year. The table below sets out the timeline to be followed.

Jun - Aug	Portfolio groups/Directorates develop capital bids (Robust business cases produced supported by the relevant Directorate HoF)
Early Sep	Corporate Finance consolidates bids and reports summary to CMT CMT advise on strategy to resolve any gap.
Mid Sep	Property/ICT/Highways Boards review bids and prioritise
Late Sept/ Early Oct	Service Director Corporate Finance convenes a Corporate Investment Board meeting of FDs and Board lead Members/officers to scrutinise bids in detail and arrive at a proposal for a balanced capital programme.
Mid Oct/Nov	CMT reviews SDCF proposal and agrees recommendation to Cabinet
Dec	Cabinet approves draft capital programme for consultation
Jan -Feb	Follows MTFP process in parallel with revenue

8.3.2 Bids to the capital programme should be prioritised by both Portfolio groups and the three governance boards taking guidance from this Capital Strategy and any relevant service priorities. The following criteria will be used to prioritise bids in order to close any gap to the available resources:

- a. Reductions from the previous programme
- b. Ring-fenced funding, e.g. S106 or genuinely ring-fenced grants (i.e. no call on Council resources)
- c. Strong financial business case, i.e. the savings arising from the investment will pay back the cost of the investment within 7 years (or less); or the capital receipt generated exceeds the cost of the investment.
- d. Statutory requirement (including Health & Safety)
- e. Strategic Plan priority
- f. Directorate, Service Plan priority

8.4 Monitoring of Progress

8.4.1 Once the Capital Programme is approved individual schemes will be allocated to the most appropriate governance board. Each Board will then have the authority to release resources on individual schemes to project managers in line with the Capital Gateway Process, subject to the necessary requirements at that stage, e.g. outline business case, full business case, etc.

- 8.4.2 Each Board will put in place appropriate arrangements to monitor progress and drive delivery of the individual projects both in financial terms and practical delivery, effectively carrying out a high level Programme Management Office role.
- 8.4.3 The Corporate Investment Board will be convened on a 6 monthly basis to review the delivery of the overall capital programme for the Council.

The Buckinghamshire Council Capital Programme for 2020/21-22/23 can be found here <Link>

Prudential and Performance Indicators**Prudential Indicators**

Indicator			Unit	2019/20	2020/21	2021/22	2022/23
Estimates of capital expenditure	Estimate	Years 1, 2 and 3 (and longer as necessary)	£m	194.41	162.89	200.81	129.99

Indicator			Unit	2019/20	2020/21	2021/22	2022/23
Capital Financing Requirement			£m	561.15	713.87	750.44	678.65

Indicator			Unit	2019/20	2020/21	2021/22	2022/23
Authorised limit (for borrowing) *	Estimate	Years 1, 2 and 3	£m	540	590	615	655
Authorised limit (for other long term liabilities) *	Estimate	Years 1, 2 and 3	£m	10	10	10	10
Authorised Limit (for total external debt) *			£m	550	600	625	665

* These limits can only be breached with the approval of the full Council to raise them

Indicator			Unit	2019/20	2020/21	2021/22	2022/23
Operational boundary (for borrowing)	Estimate	Years 1, 2 and 3	£m	482.50	530.00	555.00	595.00
Operational boundary (for other long term liabilities)	Estimate	Years 1, 2 and 3	£m	9.50	7.50	7.50	7.50
Operational Boundary			£m	492.00	537.50	562.50	602.50

Indicator			Unit	2019/20	2020/21	2021/22	2022/23
Gross Debt	Estimate	Years 1, 2 and 3	£m	484.48	508.78	535.74	573.01
Capital Financing Requirement			£m	561.15	713.87	750.44	678.65

Indicator			Unit	2019/20	2020/21	2021/22	2022/23
Financing costs to net revenue stream	Estimate	Years 1, 2 and 3	£m		3.98%	4.10%	4.27%

Investment Performance Indicators

Indicator	Target Level	Current Level
Debt Costs to Net Service Expenditure (NSE) ratio	3.1%	TBC
Commercial Income to NSE ratio	4.8%	TBC
Target Income Returns – average yield	6.00%	TBC
Gross Investment Income	£18m	TBC
Net Investment Income	£4.5m	TBC
Operating Costs as a proportion of Investment Value	5.0%	TBC
Weighted Average Unutilised Lease Term (WAULT)	5 Years	TBC
Vacancy Levels for Non-Financial Investments	MSCI Benchmark (currently 7.05%)	TBC

INVESTMENT PROPERTY DUE DILIGENCE SUMMARY TEMPLATE

Recommendation from Cabinet authorising the purchase:

[Cabinet Recommendation]

The purpose of this report is to comply with the authorities agreed by Cabinet and to allow exchange of contracts and completion.

INVESTMENT PROPERTY			
Property		Purchase Price	£
		Purchase Costs	£
		Total Purchase Price	£
Leasable Sq Ft	Sq Ft	Total Gross Rental Income p.a.	£
Gross Rent per Sq Ft	£	Gross Rent per £m Invested	£
Active Management Fees	£	Property Management Fee p.a.	£
5% Void Contribution p.a.	£	Annual Borrowing Costs p.a.	£
Gross Initial Yield %	X.XX%	Net Yield %	X.XX%
Net Annual Rental Income	£	Net Annual Rent as a % of Total Gross Rent	X.XX%
Comments			
LEGAL			
Restrictive Covenants? (Y/N)	Y/N	Drainage Search Issues? (Y/N)	Y/N
Third Party Rights Affecting Title? (Y/N)	Y/N	Water Search Issues? (Y/N)	Y/N
Full Repair and Insurance Lease? (Y/N)	Y/N	Subsidence Search Issues? (Y/N)	Y/N
Assignable Contracts/Warranties? (Y/N)	Y/N	Local Authority Search Issues? (Y/N)	Y/N
Site Roads Adopted? (Y/N)	Y/N		

Comments

SURVEY DUE DILIGENCE

Building Fabric Issues? (Y/N)	Y/N	Insurance Valuation Completed? (Y/N)	Y/N
Mechanical and Electrical Issues? (Y/N)	Y/N	Independent Valuation Confirms Value for Money? (Y/N)	Y/N
Warranties Issues? (Y/N)	Y/N		

Comments

ENVIRONMENTAL SURVEYS

Flood Risk Assessment Issues? (Y/N)	Y/N
Phase 1 Environmental Report	Y/N
Ground Search Issues? (Y/N)	Y/N
Utilities Search Issues? (Y/N)	Y/N

Comments

TENANCY					
	D&B Rating	Break Clause Date	Rent Review	Lease End Date	Rental Income
Building/Unit /Floor A					
Building/Unit /Floor B					
Building/Unit /Floor C					
Building/Unit /Floor D					
Building/Unit /Floor X					
Positive Net Yield Rental Tolerance			Weighted Average Unexpired Lease Term (Target 5 years+)		
Rent Free Periods					
Voids					
Service Charge Accounts/Arrears Checked					
Comments					
Location					
Impact on the Buckinghamshire Council Footprint					
Property Transport Links					
Alternative Use/Future Development Options					

Recommendation to Proceed		Yes/No
Comments		
Service Director of Property and Assets		
Head of Finance Resources & ACE		
Service Director Corporate Finance		
Service Director Legal & Democratic Services		

Decision Sign Off	Signature	Date
Corporate Director Resources		
Cabinet Member Resources		

Attachments:

For example

- Environmental Report
- Building Survey Report
- Legal Transaction Report
- Valuation Report

INVESTMENT GOVERNANCE BOARDS

