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FOREWORD

The Capital Investment Strategy ('the Strategy') sets out Reigate & Banstead Council's approach to capital investment. It builds on well-established decision-making structures and policies that support our investment ambitions that underpin our draft Corporate Plan, Reigate & Banstead 2025, which explains the Council's proposed priorities for the next five years, and explains how we will deliver services to those living, working and spending time in our borough. This includes things like how we will deliver leisure and housing services, neighbourhood services (including recycling and refuse collection), our plans to tackle climate change and how we will support our towns, villages and local businesses. The draft Plan has been developed looking at resident feedback, what is likely to change in the borough over the next five years and what our partner organisations are saying.

This Strategy forms an important part of our governance arrangements and provides a mechanism for prioritising our capital investment and financing plans, ensuring that decisions take account of stewardship, value for money, prudence, sustainability and affordability.

1. SUMMARY

The Capital Investment Strategy presents an overview of:

- how we plan to invest to meet the needs of the area and local residents in a sustainable manner, as set out in the Corporate Plan and other key strategies
- 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.

The Strategy is an integral part of our Policy Framework and integral to service and financial planning and should be read in conjunction with the Corporate Plan and supporting strategies, Capital Programme, Medium-Term Financial Plan, Treasury Management Strategy Statement and Asset Management Plan. Next step will be to develop our Commercial Investment Strategy.

The Strategy is reported separately from the annual Treasury Management Strategy Statement. This ensures the separation of information about commercial investments and fixed assets from the treasury function which focuses on investment of cash balances and operates under the principles of security, liquidity and yield.

In relation to investment in commercial investments and fixed assets, the Strategy covers:

- The governance and decision-making arrangements
- How we will set service objectives relating to capital investments
- How we will assess expected income, costs and resulting contribution to support our budget
- The links to borrowing and financing costs and the debt payback policy (Minimum Revenue Provision Policy); and
- 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
- Briefing and consulting senior management and Executive and other Members
- Holding a workshop with a group of representative Members, facilitated by Link; and
- Adopting a two-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.

Progress over recent months includes:

- Allocation of £25 million in the Capital Programme for investment in corporate priorities in 2019/20 onwards and creation of an Earmarked Reserve of £250k that is available to fund feasibility studies. The Commercial Ventures Executive Sub-Committee has delegated authority to approve investment of these funds.

- Further progress in developing the new Corporate Plan ('Reigate & Banstead 2025') which is now open to public consultation www.reigate-banstead.gov.uk/rbbc2025

- Approval of an updated Medium Term Financial Plan for the revenue budget by Executive in July 2019. This included approval of a draft Reserves Strategy.

- Implementation of new governance and decision-making arrangements relating to capital and commercial investment – further details below.

- Development of reporting on our existing asset portfolio and an assessment matrix for new property investments.

- Continued progress towards developing a new Housing Strategy which is currently expected to be available by the end of the calendar year.

2. 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. This is defined in its widest sense and will include investments in the borough that create retail, industrial, office and housing assets including working in partnership with other developers.
- 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.

To date the Council has focussed its investments on properties and developments that located within the borough. A number of these investments over recent years (funded from capital receipts) have delivered financial returns to support our ambition to be financially self-sufficient; nevertheless a primary goal remains to focus investment to support our regeneration and community development ambitions.

Going forward, the overall investment value and range of assets acquired has to represent a mix and spread of risk, size and location across differing sectors to ensure that the portfolio is resilient to change that might lie outside our control. At the same time, it will be important that we maintain an adequate level of reserves and balances to ensure it can manage any down turn in the property market and limit the impact it will have on revenue income.

The Council may hold property assets either directly or indirectly. Direct property investment gives us full control over the property and responsibility for its management and the properties brought forward over the past year for investment are held in this way. Indirect property investment is where the asset is held through an arm's length trading company and will be necessary where the Council holds investments solely for income generation or where that is the most effective way The Council has previously acquired one property in this way, owned by its subsidiary company Greensand Holdings Limited.

Progress over recent months includes:

- Continued progress in delivery of major schemes in the current Capital Programme, including the Marketfield Way, Cromwell Road, Lee Street and Pitwood developments.

- Communications with key stakeholders and taxpayers during service and financial planning and Corporate Plan consultation to highlight areas of improvement and achievement in the Council's commercial investment approach for example, through publicising the emerging Capital Investment Strategy.

- Reviewing current asset condition surveys in order to assess the level of maintenance investment required over coming years. This will be taken into consideration in service and financial planning when developing the proposed Capital Programme for 2020/21 onwards.

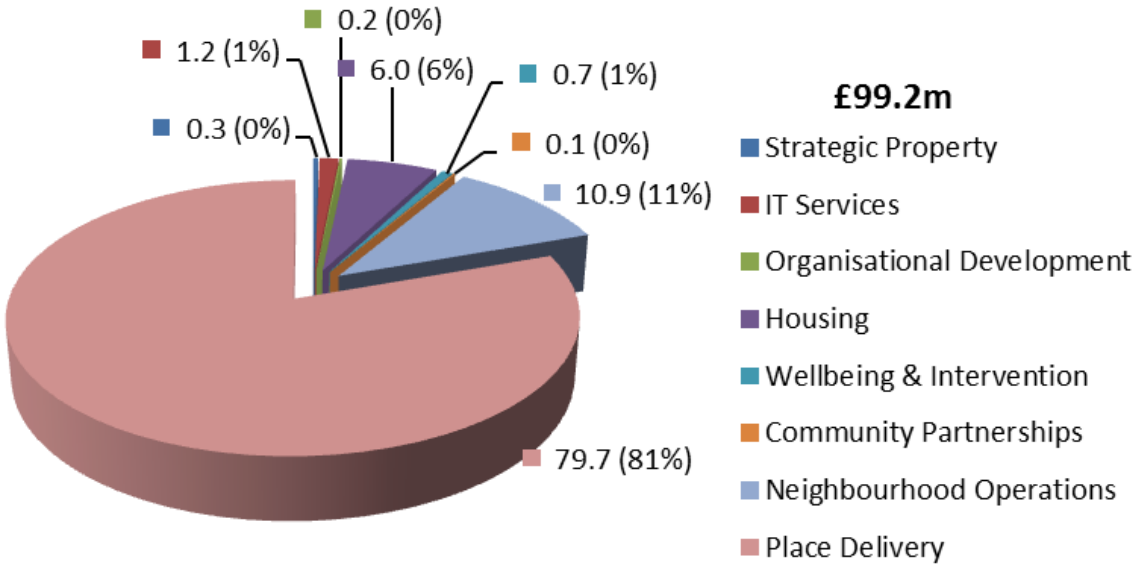
3. CURRENT CAPITAL EXPENDITURE

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 investment opportunities will be reported to the Commercial Ventures Executive

sub-committee for approval during the year as our Commercial Investment Strategy priorities are confirmed.

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



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

Capital Programme spending plans and priorities are now being reviewed as part of service and financial planning for 2020/21 onwards.

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.

We plan to review and refresh the Asset Management Plan to help support current and future aspirations. An objective will be to ensure that the ongoing costs associated with existing assets are fully reflected in revenue and capital budgets and are taken into account when making decisions on the use and performance of assets.

Commercial Investment

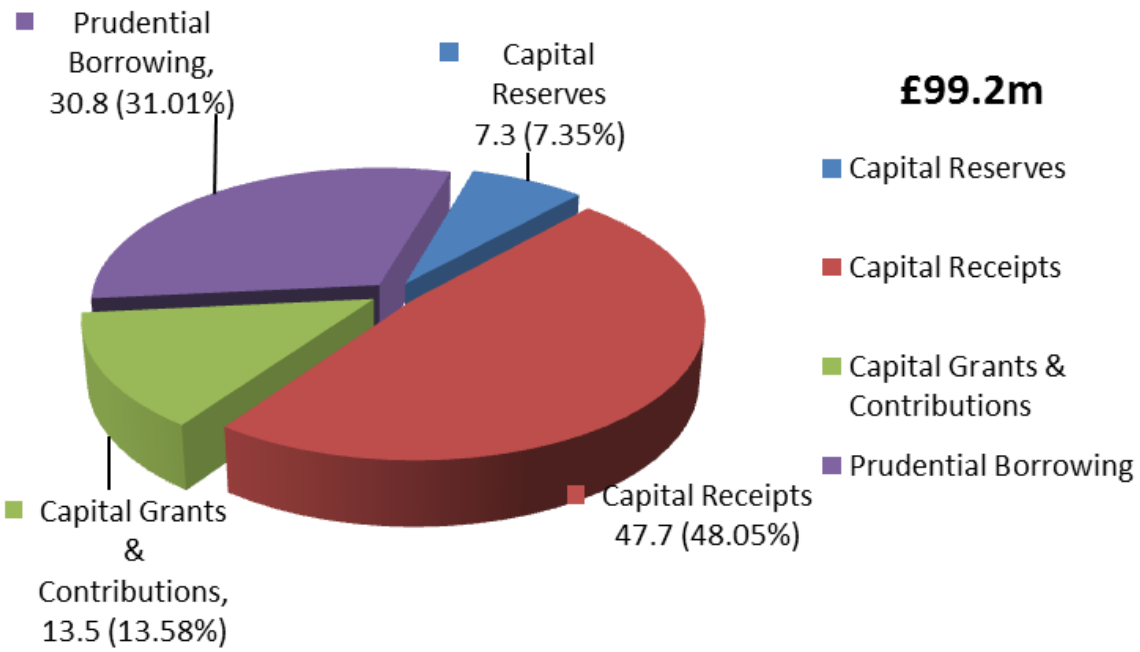
Our commercial investments comprise those activities and assets that deliver income streams to support our objective of achieving financial self-sufficiency over the medium term.

Our current approach to making commercial property investment decisions was approved by Executive in 2014 and explains how investment decisions are made, delivery approaches and how risks will be managed. This is now being updated by the Commercial Ventures Officer Board reporting to the Commercial Ventures Executive Sub-Committee which were established during 2019. A Commercial Investment Strategy is also under development, as referenced elsewhere in this document

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. We will also be taking into account updated guidance from CIPFA on prudential borrowing, specifically 'borrowing in advance of need'..

Capital Funding

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



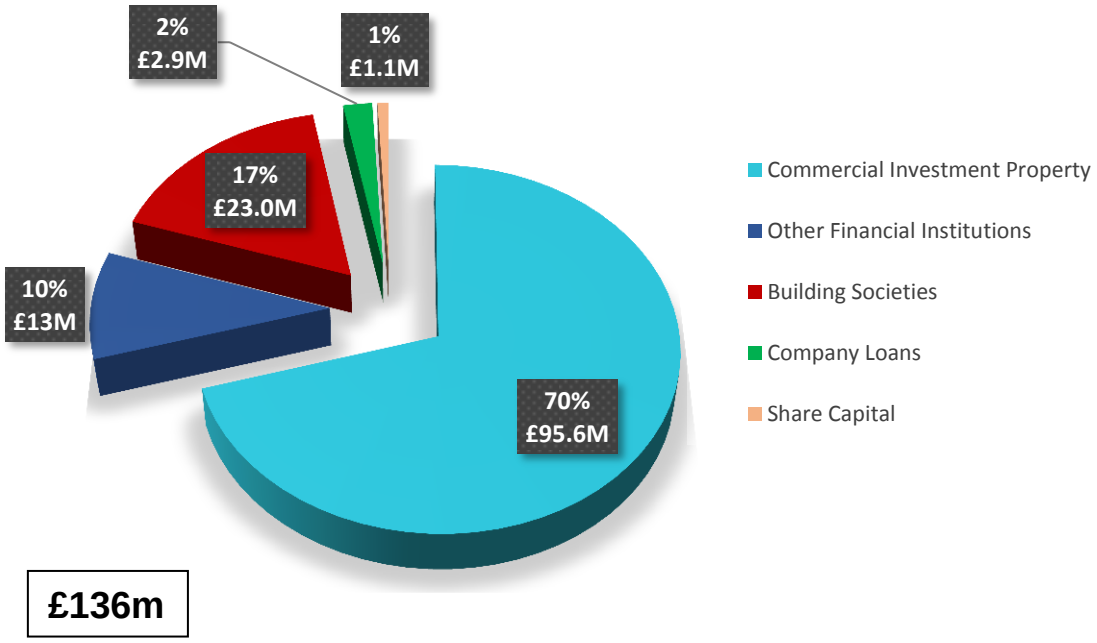
Source: Budget Report 2019/20, Executive 24 January 2019

Capital funding requirements are monitored throughout the year as part of treasury management activities and will be reviewed in detail during service and financial planning for 2020/21 onwards. At 31 March 2019 there was still no borrowing necessary to fund capital expenditure; however, this is expected to change during 2019/20 as there are now very limited capital reserves available.

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 September 2019



Our Treasury Management Framework is described in more detail at Appendix 1. The Framework and associated Treasury Management Strategy and reports cover:

- how long-term projections are prepared and managed for external debt, internal borrowing and the use of cash-backed reserves
- the authorised limit and operational boundary for external debt, internal borrowing and cash back reserves
- the liability benchmark for the authority. This is an indicator that describes the Council's debt position and its ability to cover it
- how debt will be repaid and the associated Minimum Revenue Provision (MRP) Policy which confirms compliance with the latest statutory guidance
- how treasury management decisions are made and risks are managed, along with key delegations
- arrangements for the scrutiny of treasury management activities by Overview & Scrutiny Committee and the Portfolioholder's Treasury Management Panel
- ensuring awareness of the availability of capitalisation flexibilities under circumstances (the Council has not made use of them to date)

Government regulations require authorities to consider whether each asset retains sufficient value to provide security of investment using the 'fair value' model *[International Accounting Standard 40: Investment Property (paragraph 37)].* A fair value assessment has been undertaken as part of year-end processes for 2018/19 and has confirmed that the underlying assets provide security for the capital investment. Short-term reductions in value may arise (for example if assets are being used to support delivery of regeneration developments) but no other assets are currently at risk of significant impairment. As explained in this Strategy, work is underway to carry out condition surveys and review planned maintenance budgets to ensure that appropriate levels of investment are funded going forward.

Progress over recent months includes:

- Implementation of the Commercial Governance review which resulted in recommendations to adopt a good practice Framework and Checklist to guide future working and ensure lessons from past practice are implemented to inform investment decisions

- Ensuring that policies and governance arrangements are clearly established for the approval of commercial activity through the establishment of the Commercial Ventures Executive Sub-Committee and the Commercial Ventures Officer Board.

- Reporting on the Treasury Management outturn position for 2018/19

- Commencing a review of the 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 – led by the Commercial Ventures Executive Sub-Committee supported by the Commercial Ventures Officer Board.

- Commencing a review of the current Capital Programme and capital growth proposals as part of service and financial planning for 2020/21

4. COMMERCIAL 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 investment risks will be managed

Commercial Governance Framework

Commercial property investment opportunities often arise unexpectedly and it is important to be agile in order to take advantage of opportunities when they arise. The Commercial Ventures Officer Board and Executive-Sub-Committee are now responsible for identifying suitable opportunities and developing the viability appraisal and business case for the Council to invest. The Framework is important to provide a guide when identifying appropriate investment opportunities. Examples of where the Council may need to respond without delay include the traditional route of a selling agent and bidding process, through auctions and 'off market' through direct approaches from prospective sellers who want to save time and risks of abortive costs. Receivers or administrators of distressed sellers may also seek offers for commercial property assets quickly. The Framework and supporting tools will provide a systematic assessment investment opportunities so that we are able to move quickly when a compelling opportunity arises.

Asset Management

It is also important that the Council actively manages the investment portfolio. Such work includes rent collection, service charge calculation and collection, building maintenance, security, dealing with tenants, re-letting empty units, negotiating terms of rent reviews, dilapidation claims and the general miscellany of property management. The commercial Ventures Officer Board and Executive Sub-Committee are now responsible for ensuring that the portfolio is delivering the

investment returns that were envisaged and to always act in the Council's financial interest, which will also include making recommendations for appropriate disposal of investments that are underperforming or no longer meet the Council's objectives.

Progress over recent months includes:

- Implementing the Commercial Governance Framework and supporting tools for evaluating new investment opportunities – overseen by the Commercial Ventures Executive Sub-Committee.
- Monitoring the potential impacts of emerging guidance on investment and borrowing, in particular on 'borrowing in advance of need'.
- Commissioning an independent review of the Council's Property service and calling on the services of interim development management and strategic acquisitions advisors to help take key developments and investment opportunities forward.

5. FUTURE CAPITAL INVESTMENT PLANS

Capital Investment Plan 2019/20 to 2023/24

The Capital Programme includes £20.8m of investment in 2019/20, with an indicative programme for the subsequent four years of £78.4m. In addition, the Commercial Ventures Executive sub-committee has delegated authority to approve new investments funded from the £25 million allocated for investment in corporate priorities. 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.

We also recognise delivery of our ambitions will be constrained by availability of funding which then necessitates prioritisation of the use of capital resources. We are therefore developing our approach to assessing new opportunities and for prioritising capital investments.

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.

Capital growth is considered as part of the service and financial planning process. Heads of Service submit proposals for new investments that are considered for inclusion in the five year rolling capital programme by Executive which is subject to review by Overview and Scrutiny Committee.

Proposals for investment in new commercial assets and initiatives are considered by the Commercial Ventures Executive Sub-Committee which has delegated authority

to invest. Work is under way to develop new processes for evaluating and prioritising new investment opportunities.

Option appraisals include an assessment of strategic and operational risks.

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 carried out a Commercial Governance Review that focussed on our companies and Executive 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.

Other Capital and Commercial Investments

This will be covered in our Commercial Investment Strategy

Progress over recent months includes:

- Establishment of the Commercial Ventures Executive Sub-Committee with delegated authority to monitor existing and approve new investments. The Sub-Committee is supported by an officer Board with aligned terms of reference.

- Establishment of People & Place Officer Board to oversee delivery of new initiatives, with associated reporting arrangements to ensure that Executive Members are kept informed on delivery progress.

6. 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. An initial risk assessment has been carried out and this will continue to be monitored and developed, as referenced in the action plan below. Details at Appendix 2.

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.

Progress over recent months includes:

- Producing a draft Risk Register for consideration and development

7. CAPITAL APPRAISAL PROCESS

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

Funding

- 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
- the financial implications of capital investment decisions will be fully-integrated into revenue budget and medium term financial plans
- 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
- capital funding decisions will seek to minimise or mitigate the ongoing revenue implications of investment decisions

Evaluation

- investment proposals will be supported by an affordable and sustainable plan, including careful consideration of risks, value for money and options appraisal along with an appropriate level of due diligence and assurance regarding deliverability
- environmental and social sustainability issues in line with Council policy will be built into project appraisal

Deliverability

- capital schemes will adhere to corporate project management and governance arrangements, with clear responsibility for delivery and risk management
- there will be effective working relationships with partners
- projects will be reviewed on completion to ensure key learning opportunities are captured.

Progress over recent months includes:

- Establishment of the Commercial Ventures Executive Sub-Committee with delegated authority to monitor existing and approve new investments. The Sub-Committee is supported by an officer Board with aligned terms of reference.

- Establishment of People & Place Officer Board to oversee delivery of new initiatives, with associated reporting arrangements to ensure that lead Members are kept informed on delivery progress.

- Adoption of the Commercial Governance Framework and development of an outline investment appraisal process for commercial investments

- Considering the latest MHCLG and CIPFA guidance on 'borrowing in advance of need'. The Council does not currently borrow for commercial investment and is aware of the additional risks that this entails.

- Commencing a review of current Capital Programme plans as part of service and financial planning

- Confirming those commercial activities that will require formal Business Plans to help map their future strategies

8. 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 Commercial Ventures Executive Sub-Committee will receive regular capital monitoring reports, approves variations to the programme and consider 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 Chief Finance Officer. Designated budget managers monitor the delivery of individual capital schemes.

It is for the Chief Finance Officer to advise, and ultimately Members to determine, the level of borrowing the council should undertake. The principles of prudence, affordability and sustainability are a reference to revenue budget impact. The revenue costs must be fully budgeted for through either:

- Savings/efficiencies made elsewhere; or
- Net income generated (after borrowing costs) from investments – going forward these have to be robust enough to fund the debt for the lifetime of the loan.

Progress over recent months includes:

- Establishment of the Commercial Ventures Executive Sub-Committee with delegated authority to monitor existing and approve new investments. The Sub-Committee is supported by an officer Board with aligned terms of reference.

- Adoption of the Commercial Governance Framework and development of an outline investment appraisal process for commercial investments

- Development of management information to support the Sub-Committee and Board in their work so that they have oversight of how investments are being managed and reported on a routine and exception basis. This is in addition to established quarterly revenue budget monitoring and capital programme monitoring

- Establishment of People & Place Officer Board to oversee delivery of new initiatives, with associated reporting arrangements to ensure that lead Members are kept informed on delivery progress.

<u>Treasury Management</u>

Day to day decisions on investment and borrowing are delegated to the Chief Finance 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.

Progress over recent months includes:

- Reporting treasury management outturn for 2018/19 to Executive and preparing to report the mid-year position for 2019/20. These reports set out details of the current treasury investment portfolio, its risk profile and how risks are managed.

- Balance sheet and cashflow planning to ensure that treasury investments are optimised while ensuring security' liquidly and yield objectives are met.

- Drawing on support from treasury advisors on extending the range of treasury investments available to the Council

Skills and Advice

Work is underway to ensure that we have access to appropriate levels of skills and knowledge to support delivery of this Strategy. This includes the establishment of a corporate Project Management office to support capital scheme delivery while progress is monitored by the People & Place Board and Member Panels.

The Council draws on support from its Treasury Advisors (Link Asset Services) when preparing treasury management reports and plans. Officers make reference to the regular technical updates that Link provide and attend their seminars on treasury and investment topics. These are also valuable networking opportunities with other councils as well as ensuring that we are up to take with the latest thinking and guidance. Link also provide treasury management briefings for our Members. A number of treasury brokers are called upon to provide information about specific treasury investment options. We also subscribe to relevant CIPFA networks and attend their practitioner briefings and training events.

Proposals for investment in new capital assets are always supported by independent valuations and appropriate legal advice.

The appointment of external advisers is periodically tested through a tendering process to ensure that the quality of advice is benchmarked, monitored and maintained. Regular client meetings are held to consider performance.