Central Bedfordshire Council

Executive **5 February 2019**

Capital Strategy 2019-20

Report of: Cllr Richard Wenham, Deputy Leader and Executive Member for Resources (Richard.Wenham@centralbedfordshire.gov.uk)

Responsible Director: Charles Warboys, Director of Resources (Charles.Warboys@centralbedfordshire.gov.uk)

This report relates to a Key Decision

Purpose of this report

The purpose of this report is to seek Executive agreement to the Capital Strategy for 2019/20 to facilitate effective financial management and planning.

RECOMMENDATIONS **The Executive is asked to:**
1. **Recommend to Council that the Capital Strategy for 2019/20 be approved.**

Overview and Scrutiny Comments/Recommendations

1. The Corporate Resources Overview and Scrutiny Committee considered the Capital Strategy at its meeting on 31st January 2019 and the Executive will receive a verbal update of any comments or recommendations from that meeting.

Issues

1. As a new requirement of the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Prudential Code for Capital Finance in Local Authorities (2017 Edition)*, the Council is required to approve a Capital Strategy for the forthcoming financial year.
2. This Strategy is a high-level summary of the approach to longer term capital investment in the future of Central Bedfordshire. It guides the development of service capital plans, and sets out the policies and practices that the Council uses to establish, monitor and manage its Capital Programme, in line with the Medium Term Financial Plan (MTFP).
3. It outlines how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
4. Subject to agreement by the Executive Committee, this report will be submitted for approval by Council on 21st February 2019. In line with local arrangements which require the Corporate Resources Overview and Scrutiny Committee to scrutinise the Treasury Management Policy, Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Policy on an annual basis, this new Capital Strategy will follow the same route. The Strategy document is presented to the Executive for recommendation to Council.

Reason for Decision

5. To recommend to Council the Capital Strategy for 2019/20, providing an effective capital framework for the Council which is underpinned by the principles of prudence, affordability and sustainability.

Council Priorities

6. As a key part of the Council's overall financial plan, the Capital Strategy supports the delivery of all the organisation's priorities.

Corporate Implications

Legal Implications

7. The Council's capital activities are regulated by statute, professional codes and official guidance. The Local Government Act 2003 (as amended) (the Act) provides the powers to borrow and invest as well as providing controls and limits. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended), develops the controls and powers within the Act. The Regulations require the Council to undertake any borrowing activity with regard to the CIPFA *Prudential Code for Capital Finance in Local Authorities (2017 Edition)*. As a new requirement of this *Prudential Code*, the Council is required to approve a Capital Strategy for the forthcoming financial year.

Financial and Risk Implications

8. The Capital Strategy sets out the financial and risk implications within the context of the Council's Medium Term Financial Plan (MTFP).

Equalities Implications

9. Central Bedfordshire Council has a statutory duty to promote equality of opportunity, eliminate unlawful discrimination, harassment and victimisation and foster good relations in respect of nine protected characteristics; age disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. The Capital Strategy 2019/20 sets out a range of capital investment relating to regeneration, affordable housing, school places, integrated health and care hubs, independent living and highways improvement, all of which will have a positive impact in terms of improving equality outcomes.

Conclusion and next Steps

10. The Corporate Resources Overview and Scrutiny Committee considered the Capital Strategy at its meeting on 31st January 2019 and the Executive will receive a verbal update of any comments or recommendations from that meeting.

Appendices

A – Capital Programme Detail 2019-20 to 2022/23 (General Fund)

B – Capital Programme Detail 2019-20 to 2022/23 (HRA)

Background Papers

None.

Report author: Anthony Dodridge

Finance Manager

anthony.dodridge@centralbedfordshire.gov.uk

Capital Strategy 2019/20

Background

This Capital Strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

Introduction

This Capital Strategy provides a framework within which the Council's Capital Programme, including Housing Revenue Account (HRA) assets, is monitored and managed. The Council plans to invest a total of £470.8M on its capital assets over the four-year period from 2019/20 to 2022/23, in line with its strategic priorities over the longer term.

Driven by long-term financial pressures, a more commercial approach to investment is being pursued by a number of local authorities. The General Power of Competence (GPOC) in the Localism Act 2011 enables the Council to invest in commercial property for a financial return. CIPFA's *Prudential Code for Capital Finance in Local Authorities (2017 Edition)* recommends that the exposure to commercial risk should remain proportionate to the size of the Council.

Further details on the Council's commercial activities are included in the Investment Strategy, which is a separate report on the same agenda.

Capital Strategy Executive Summary from the Section 151 Officer

This document sets out Central Bedfordshire Council's approach to capital investment for the next four years, 2019/20 to 2022/23. The Council's Capital Medium Term Financial plan covering this period contributes to the achievement of the Council's strategic aims and objectives.

In my opinion, the Council's spending plans are deliverable, but will be challenging to achieve within the specified timescales given the level of external stakeholder involvement necessary to achieve a number of key projects.

There are risks associated with the Capital Strategy, however I believe the level of risk to be acceptable and suitable risk management processes are in place throughout as part of the Council's approach to project management.

The Capital Strategy results in extra borrowing over the next four years, however the proportion of borrowing cost (Minimum Revenue Provision & Interest) remains affordable in comparison to the Council's net budget.

Charles Warboys
Director of Resources &
Section 151 Officer

Capital Strategy Executive Summary from the Deputy Leader & Executive Member for Corporate Resources

The Council's Capital Medium Term Financial Plan (MTFP) has been developed with our residents at the forefront of our plans. The Plan is ambitious, but we are committed to delivering these schemes to ensure Central Bedfordshire becomes an even greater place to live and work.

Councillor Richard Wenham

Deputy Leader and Executive Member for Corporate Resources

A tremendous amount of work has gone into the production of the new Capital Strategy, which has involved officers throughout the Council and this document is testament to their hard work.

1. Governance

1.1 Business Case Process

1.1.1 Service Managers bid annually to include projects in the Council's Capital Programme. An Outline Business Case (OBC) is required prior to the start of the financial year, to ensure the scheme is considered for inclusion in the Medium Term Financial Plan (MTFP). Bids are collated by Corporate Finance who calculate the capital financing cost (which can be nil if the project is fully externally financed). The Executive Committee appraises all capital schemes based on a comparison of service priorities and taking account of capital financing costs, and makes recommendations to Full Council in February each year.

1.2 Programme Management Approach

1.2.1 A programme management approach is taken within Directorates where there is a large capital programme which is agile, flexible and customer focused to enable the successful implementation of projects and programmes by:

- increasing the Directorate's capacity to deliver key projects and reducing the burden on operational staff covering project roles;
- providing access to help, coaching and support for staff involved in the delivery of projects and programmes;
- setting and embedding standards for agile project delivery to ensure services can work flexibly and respond to change;
- avoiding duplication of effort by creating a framework to ensure all new projects and programmes are aligned to the Council's strategic vision and MTFP;
- managing risk at a level proportionate to the needs of each project and programme;
- providing project management tools to enable people to work collaboratively and to improve communication and handover between services; and

- improving communication by sharing good practice, lessons learned and celebrating success to promote continuous improvement.

2. Asset Management

To ensure that capital assets continue to be of long-term use, the Council has an Asset Management Strategy in place. The Council's overriding aim for its asset base is:

'To promote the best use of the Council's assets for service delivery, deliver an optimum return from our commercial and agricultural investments, and facilitate regeneration and development.'

- The Council's Asset Management Strategy can be read at:

https://centralbeds.moderngov.co.uk/documents/s65051/Appendix%20A%20-%20Corporate%20Asset%20Management%20Strategy.pdf

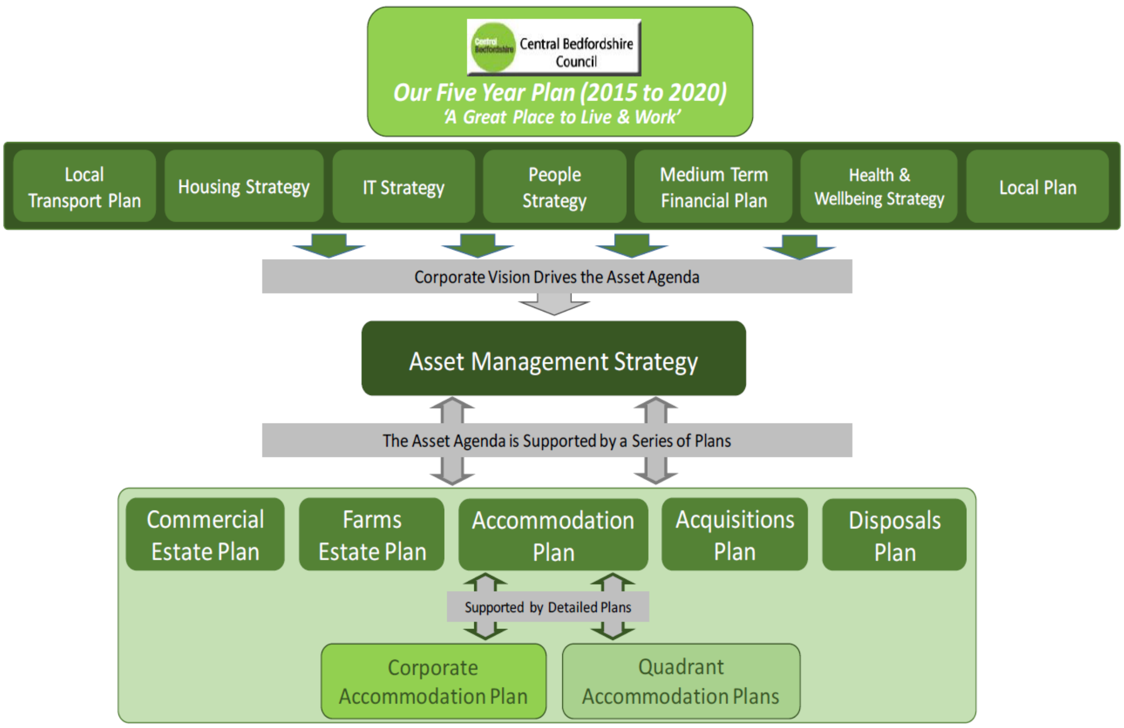
- The Asset Management Strategy relating to the Council's Housing Revenue Account (HRA) can be read at:

http://www.centralbedfordshire.gov.uk/housing/policies/overview.aspx

2.1 General Fund Assets

Stock Condition

2.1.1 The Council maintains a five-year strategic plan for the management of its assets:



2.1.2 The Corporate Accommodation Plan (CAP) and the Quadrant Accommodation Plan are part of a suite of plans that form the Council's Asset Management Strategy. These set out a holistic approach to the management of the Council's corporate accommodation.

2.1.3 The CAP is a specific element of Central Bedfordshire's Accommodation Plan and articulates the Council's approach to its corporate accommodation. It sits alongside plans for all four quadrants of the Council's geographic area and explains how it accommodates its staff and services in a co-ordinated manner across the region to best support the delivery of its outcomes.

2.1.4 The purpose of the CAP is to ensure that the Council's corporate accommodation:

- is of the appropriate scale, in the right location and in the right condition for the delivery of services;
- is flexible enough to manage future changes in requirements resulting from changing workforce needs;
- aligns with and facilitates the implementation of the Working Smarter project; and
- delivers the best value for money solution considering both quality and cost.

2.1.5 The Corporate Accommodation Plan can be found here:

https://centralbeds.moderngov.co.uk/documents/s68799/Appendix%20A%20-%20Corporate%20Accommodation%20Plan.pdf

2.1.6 The Quadrant Accommodation Plan is designed to address the following Asset Management objectives:

a) review and revise the Council's operational estate to optimise ways of working, optimise operational space, achieve revenue savings and focus on service provision;
b) ensure that operational properties are appropriately located, fit for purpose, provide flexible accommodation, in good condition, within an efficient cost envelope that is appropriately accessible to customers.

2.1.7 The Quadrant Accommodation Plan has been approved by Executive at its meeting on 12 June 2018 as a direction of travel:

https://centralbeds.moderngov.co.uk/documents/s77904/Appendxix%20A%20-%20Quadrant%20Accomodation%20Plan.pdf

2.1.8 The Farms Estate Plan outlines how holding a Farms Estate:

- can provide greater access to the countryside for residents;
- can provide more control over the pace and type of development that takes place to meet local housing and employment needs;
- contributes to the supply of minerals to meet local, regional and national supply;
- provides greater influence and control over the environment; and

- provides the Council with a source of income.

2.1.9 The Farms Estate Plan can be viewed here:

https://centralbeds.moderngov.co.uk/documents/s78999/Appendix%20E%20-%20Farm%20Estate%20Plan%20-%20Adoption%20of%20Plan.pdf

2.1.10 The Commercial Estate Plan (CEP) is being drafted and will be submitted to the Executive by the end of April 2019.

2.1.11 The Highways Network strategies can be found at:

http://www.centralbedfordshire.gov.uk/transport/roads-strategies/highways-asset-management.aspx

2.1.12 The Highways Asset Management Strategy defines how the implementation of highways asset management will support the Council in delivering its corporate vision. The Highways Asset Management Strategy sets out how the Council will best manage the Highway Network taking into consideration customer needs, local priorities, asset condition and the best use of available resources. It also ensures that both short- and long-term needs are appropriately considered, whilst delivering a minimum whole life cost approach to Highway Assets. Highways asset management is defined as:

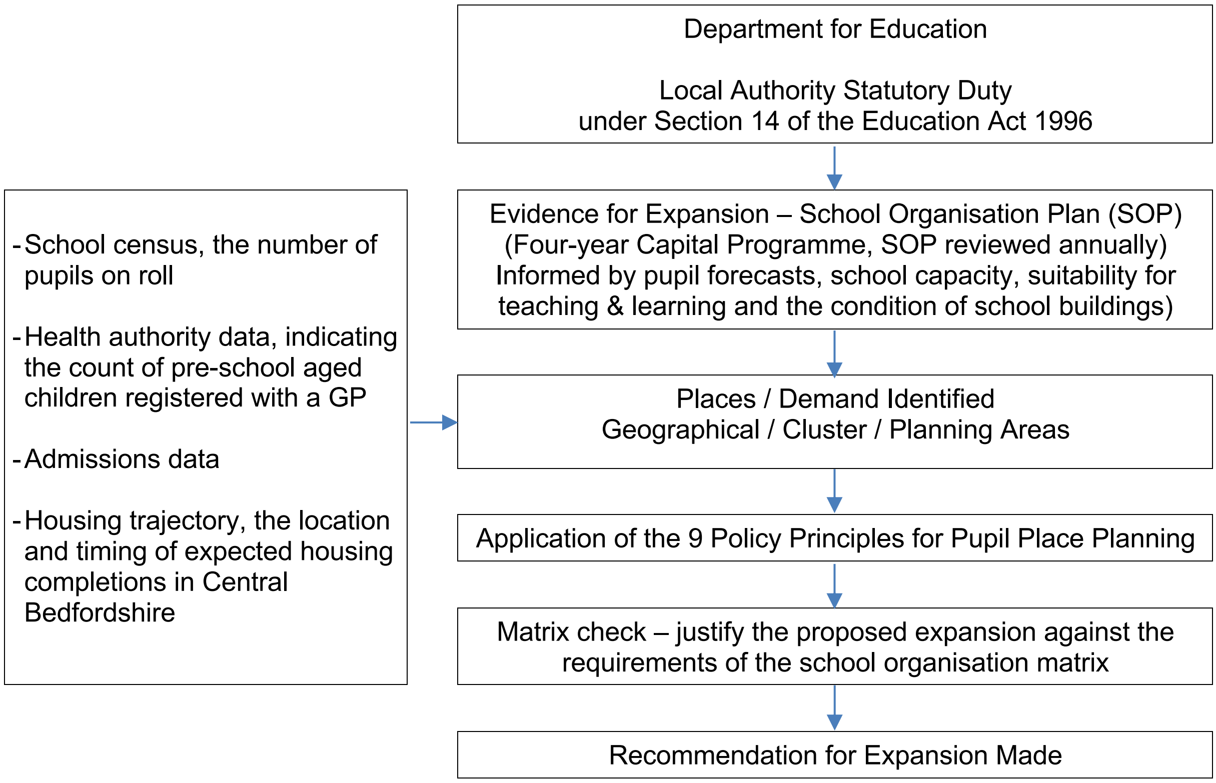
"A systematic approach to meeting the strategic need for the management and maintenance of highway infrastructure assets through long-term planning and optimal allocation of resources in order to manage risk and meet the performance requirements of the Council in the most efficient and sustainable manner."

Source: Highway Infrastructure Asset Management Guidance–UKRLG/HMEP, May 2013

2.1.13 The transport infrastructure is one of the most important assets owned by the Council. Being able to conveniently and safely use the local transport network is vital to the Council's plans for economic growth. It is used to access local services important to maintaining a good quality of life, and is a link between local communities and more strategic transport assets, such as motorways or the rail network. It is therefore essential that the local transport infrastructure is managed effectively. The scope of the Network Maintenance Management Plan is to provide and maintain a highway network, supporting the transport needs of Central Bedfordshire's communities and businesses and enhancing the local environment.

2.1.14 Significant capital expenditure is invested in new school places. The Council has a statutory duty, as a commissioner of school places, to make sure that sufficient school places are available for every child in Central Bedfordshire.

2.1.15 The framework for commissioning new school places is:



2.1.16 The School Organisation Plan (SOP) outlines expected changes in pupil population over five years and proposals for delivering additional school places when required:

http://www.centralbedfordshire.gov.uk/Images/school-org-plan-2017-2022_tcm3-7596.pdf

Asset Disposals, Purchases and Stock Re-modelling

2.1.17 The Council is committed to using its land and property assets in a corporate manner which realises their optimum benefit to the community and represents value for money. This requires proactive good practice management of the existing portfolio, a commercial approach to the development of new assets and the disposal of assets no longer required.

2.1.18 Where property assets are not meeting the Council's objectives, then a process of rationalisation and disposal for surplus/under-performing property will be adopted.

2.1.19 The Council will rationalise or dispose of surplus or under-performing assets, subject to market conditions and possible community use that may affect any such decision.

2.1.20 The specific objectives that drive asset disposals are to:

- achieve priorities in the Council's Medium Term Financial Plan;
- optimise capital receipts for the benefit of the Council and its community;
- reduce overheads and running costs;
- deliver community benefits;
- provide resources for service partners; and
- meet statutory requirements.

2.1.21 Land and property assets can be declared surplus to requirements if the asset meets the following criteria:

- it makes no contribution to delivery of the Council's services, either directly or indirectly;
- it does not generate sufficient income;
- it has no potential for future service delivery or regeneration purposes; and
- it is not fit for purpose.

2.1.22 A site could be considered surplus if an alternative site has been identified which would achieve more cost-effective service delivery and the existing site has no potential for future alternative service delivery or regeneration.

2.1.23 A site may also be considered surplus if a community body can more effectively deliver the objectives for managing the land and provide a sustainable Business Case to support the objectives.

2.1.24 Corporate property can be deemed to be under-performing if the following criteria are met:

- part of the property is vacant and likely to remain vacant for some time; and
- the beneficial use, including any joint uses or financial return generated from the property is below that which could be achieved from an alternative use, a disposal or an alternative investment opportunity.

2.1.25 The Council may also dispose of property that is not formally classified as surplus or under-performing: to developers for regeneration schemes; to nominated registered housing associations for the development of affordable housing or local communities as part of its aims to benefit the community. The Council will consider the balance between capital receipts and delivery of specific Council objectives.

2.1.26 Some property disposals are also driven by statute rather than the identification of surplus assets, the most significant being the right to buy provisions in the Housing Acts and the transfer of the whole of the housing stock and transfers under the Schools Standards and Framework Act 1998 and subsequent legislation such as the Academies Act 2010.

2.1.27 In general, the Council is required to achieve the 'best consideration reasonably obtainable' when it is disposing of land or buildings under Section 123 of the Local Government Act 1972. If it seeks to dispose of land or buildings below the market value, it must obtain the consent of the Secretary of State for the Ministry of Housing, Communities and Local Government, where the difference between the unrestricted value of the interest to be disposed of and the consideration accepted ("the undervalue") is more than £2M.

Property investment decision making

2.1.28 The Council is committed to using its land and buildings to generating sustainable revenue streams (rental income). A strategy will be incorporated into the Commercial Estate Plan and approved by Executive (target: April 2019). The strategy will highlight how Council-owned land will be used to promote local employment and support the expansion of local businesses where opportunities arise. Investments will be created with minimal risk to the Council, e.g., capital for construction will only be committed following an Agreement to Lease (with the exception of any speculative builds) and property will be let on full repairing and insuring leases.

Lease repair covenants

2.1.29 The Council holds a number of commercial properties let to generate rental income. The leases are typically drawn on Tenants Internal Repair where the Council has an ongoing liability for structural repair and maintenance. These properties are older industrial type units and there is a drive to sell them to divest the Council's liability. Any new property builds held to generate revenue will be on tenant full repairing and insuring lease terms. Again, this will be referred to in the Commercial Plan.

Corporate Landlord model

2.1.30 Central Bedfordshire Council is in the process of implementing a "Corporate Landlord", the best practice approach to asset management endorsed by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.1.31 Corporate Landlord focuses on responsibility for assets (excluding HRA assets) sitting within a single integrated team, enabling front-line staff to focus on their core areas of service delivery.

2.1.32 Implementation of Corporate Landlord has been overseen by the Council's Asset Management Group that has representation from each Directorate to enable collaborative working and a 'One Council' approach. It has recently been brought into the Project £6M work as part of the new governance arrangements for delivery of the Council's priorities.

2.1.33 As part of the move towards a Corporate Landlord, and the centralisation of spend, contracts for the delivery of Facilities Management Services are being re-procured to support a "go-live" in 2019.

2.2 HRA Assets

HRA Stock Condition

2.2.1 The Council's HRA Business Plan is well placed to maintain its existing housing stock of around 5,200 homes in reasonable repair for the 30-year life of the Business Plan. Additional funds are also available for:

- new provision of Independent Living housing;
- re-provision of unsatisfactory housing;
- environmental improvements;
- new building and purchasing of homes for both affordable rent and sale on a shared ownership / outright sale basis

2.2.2 Although the Council housing stock has been well maintained many of the properties have poor layouts, are of poor design and located in areas where future generations may not want to live. Central Bedfordshire Council has achieved the Decent Homes standard which is no longer a central Government directive.

2.2.3 Having achieved this benchmark, the Housing Asset Management Strategy advocates an approach that combines a comprehensive maintenance, remodelling and regeneration programme that may include demolition as well as building new homes. Funding for the schemes may come from a variety of sources including partnerships with Registered Providers and the private sector in order to create sustainable funding models, with the Council being able to contribute a mix of funding, land sales, land swaps and section 106 agreements.

2.2.4 The HRA Capital Programme comprises a series of projects targeted at improving the existing stock (grouped under the heading of "Stock Protection") and a series of projects targeted at new build and regeneration (grouped under the heading of "Future Investment").

2.2.5 A full stock condition survey was undertaken by Savills in 2012, where 100% of the stock was surveyed externally and 85% internally. Their conclusion was that:

"The overall impression gained from our surveys is that the stock has benefitted from significant investment over the years and it is generally in good condition."

2.2.6 As part of this work, a 30-year schedule of works was prepared based on estimated life cycles for major property components. The drawback with this approach is that components may be replaced according to a fixed schedule when in reality they may still be functional for many more years.

2.2.7 The approach to capital works has therefore been refreshed in recent years to realise greater efficiency, financial savings and improve customer satisfaction. A full stock condition survey is completed for each property by our own surveyors once every five years allowing property components to be replaced when they become substandard or beyond economical repair. No longer are property components replaced on a predicted life expectancy without consideration for condition and the demands of use, occupation and lifestyle. Property components are now replaced when identified as needing replacement; the customer no longer has to wait for a space on the replacement programme: the work will be done in our customer's home at the next available opportunity. This demand-led approach to replacement is part of a refreshed approach to managing the stock, where the Council re-examines and challenges its previous methods in order to maximise efficiency via a policy of "Active Asset Management".

HRA Asset Disposals, Purchases and Stock Re-modelling

2.2.8 Historically, the majority of disposals of Council homes resulted from the statutory obligations surrounding Right to Buy (RtB) regulations. These regulations were refreshed in 2012, when Government increased the discounts available in order to re-invigorate RtB and encourage more tenants to execute their RtB. As part of this policy Councils were able (subject to signing an agreement with the Secretary of State) to retain the majority of the receipt - whereas previously 75% was pooled (transferred) to Government - on the condition that for every additional home sold a new affordable home was provided.

2.2.9 The Council has signed an agreement to retain the receipts and replace homes sold, and has achieved the Government's requirements for matching "1-for-1" receipts, by a combination of a new build programme and the purchase of properties on the open market.

2.2.10 When a property becomes void the Council has a General Consent from Government to sell that property, with no pooling requirement. To date the Council has not elected to take this approach. A small project has recently been completed highlighting properties that are high value, together with properties that may not be the best fit with our other stock (either due to location or other attribute).

2.2.11 This is part of the first phase of a significant change in approach and reflects the new focus on "Active Asset Management", where the Housing Service is implementing a more strategic approach to its asset base and re-evaluating the most efficient use of those assets when they become available via the void process. The intention is to make this a rolling programme, subject to consultation with tenants.

2.2.12 Some properties will be evaluated for works to improve market value and marketed for sale, gaining the best price for reinvestment. Other properties will be converted to provide accommodation that more closely matches need in each region of Central Bedfordshire (e.g., extension of 3 bed properties to 4 beds where there is demand for larger affordable homes, or building of properties on infill sites between existing habitations). The aim is to use the funds to provide more suitable accommodation and meet the current demand for affordable homes, minimising cost to the HRA and making the best use of our stock. In so doing this will also alleviate pressure on General Fund revenue budgets for transitional accommodation.

2.2.13 In recent years the Council has embarked on a programme of acquiring properties in the private sector, converting them into affordable housing with a view to replacing units lost through RtB. Whilst this does not add to the overall housing stock it does offer a much quicker provision of replacement affordable housing than building new properties. At a time of intense shortage of affordable housing this policy both enhances the HRA stock but also alleviates pressure on the Council's General Fund, where responsibilities exist to provide accommodation to eligible clients presenting as homeless. This is an example of whole system resilience and reflects a joined up and strategic approach. As need changes, and hopefully abates, it may be appropriate to sell some of these units, generating capital receipts that can be used for other regeneration, remodeling, or new build aspirations, or potentially for debt repayment.

3. Treasury Management

3.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

3.2 As at 30 November 2018, the Council had £319.5M total external borrowing at an average interest rate of 3.3% and £29.3M treasury investments at an average rate of 1.9%.

Borrowing strategy

3.3 The Council's main objectives when borrowing money is to strike an appropriate balance between securing low interest costs (short-term loans are currently available at around 0.8%) and achieving cost certainty over the period for which funds are required (long-term fixed rate loans are currently 2.0% to 3.0%). The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

3.4 Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the Capital Financing Requirement (the underlying need to borrow for capital purposes).

Table 1: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.3.2018 Actual £M	31.3.2019 Forecast £M	31.3.2020 Estimate £M	31.3.2021 Estimate £M	31.3.2022 Estimate £M	31.3.2023 Estimate £M
Debt (incl. PFI & leases)	318.2	356.3	**398.2**	413.2	424.1	429.9
Capital Financing Requirement	519.2	536.1	**578.5**	613.9	625.5	633.3

3.5 Statutory guidance is that debt should remain below the Capital Financing Requirement (CFR), except in the short-term. Table 1 shows that the Council expects to comply with this in the medium term.

Affordable borrowing limit

3.6 The Council is legally obliged to set an affordable borrowing limit (also termed the "authorised limit" for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 2: Prudential Indicators: Authorised limit and operational boundary for external debt

	2018/19 Limit £M	2019/20 Limit £M	2020/21 Limit £M	2021/22 Limit £M	2022/23 Limit £M
Authorised limit – borrowing	586.4	598.2	634.4	647.3	656.0
Authorised limit – PFI and leases	16.7	16.3	15.9	15.1	14.7
Authorised limit – total external debt	**603.1**	**614.5**	**650.3**	**662.4**	**670.7**
Operational boundary – borrowing	576.4	588.2	624.4	637.3	646.0
Operational boundary – PFI and leases	16.2	15.8	15.4	14.6	14.2
Operational boundary – total external debt	**592.6**	**604.0**	**639.8**	**651.9**	**660.2**

Investment strategy

3.7 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

3.8 The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and long-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 3: Treasury management investments

	31.3.2018 Actual £M	31.3.2019 Forecast £M	31.3.2020 Estimate £M	31.3.2021 Estimate £M	31.3.2022 Estimate £M	31.3.2023 Estimate £M
Short-term investments	10.0	10.0	**10.0**	10.0	10.0	10.0
Long-term investments	5.5	5.6	**5.6**	5.6	5.6	5.6
TOTAL	**15.5**	**15.6**	**15.6**	**15.6**	**15.6**	**15.6**

3.9 Further details on treasury investments are included in the Council's annual Treasury Management Strategy report.

3.10 As part of the Self-Financing Settlement (2012), the Council's HRA took out borrowing to the value of £165.0M. All loans were taken on a maturity (interest only) basis. To date, £0.1M of this debt has been repaid.

3.11 The HRA Business Plan has been structured with a view to potential full debt repayment within a 30-year period. However, flexibility exists to re-profile debt repayment according to other factors, such as the current demand for and shortage of affordable housing. The Self-Financing Settlement stipulated a Debt Cap at the Settlement value. In October 2018, the Government announced that it was abolishing the debt cap with immediate effect. Given a current asset value (existing use value – social housing) for the whole stock of around £425M the debt ratio is around 39%, which is low for a property related business and indicates the potential for significant additional borrowing. The Council is exploring this as an opportunity to develop additional affordable housing.

Governance

3.12 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Resources and staff, who must act in line with the Treasury Management Strategy approved by Council. Local arrangements require the Corporate Resources Overview and Scrutiny Committee to receive, on a quarterly basis, treasury management performance reports and every year to scrutinise the revised strategy.

Liabilities

3.13 In addition to debt of £319.5M as at 30 November 2018 (figure inclusive of £164.9M HRA debt), the Council is committed to making future payments to cover its pension fund deficit valued at £430.4M as at 31 March 2018.

4. Commercial Activities

4.1 With Central Government financial support for local public services declining, the Council invests to a limited extent in commercial property for financial gain. The Council holds numerous commercial investments (including its farms estate), inherited from the legacy councils. Currently valued at £116.7M and providing a net return after all costs of 2.6%, nothing new has been added to this portfolio in recent years.

4.2 With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include tenant vacancies and falls in capital value. It is important that commercial investments remain proportionate to the size of the Council.

4.3 In terms of governance, commercial property investments are capital expenditure and purchases are approved as part of the Council's Capital Programme.

4.4 Further details on the Council's commercial activites are included in the Investment Strategy which is a separate report.

5. Knowledge and Skills

5.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Resources is a qualified accountant with many years' experience, the Head of Estate Management is a qualified surveyor with both private and public sector experience and the Acquisitions and Disposals Manager is also a qualified and experienced surveyor. Treasury management staff carrying out transactions on behalf of the Council have worked in a professional position making investment decisions for many years. The Council supports and encourages its staff to study relevant professional qualifications, such as CIPFA and RICS.

5.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, Reynolds Butler as property consultants and Bidwells as property advisers specifically for the Council's farm estate. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

6. Risk Management

6.1 General Fund Risks – Identification and Mitigation

Interest Rates

6.1.1 The Council's General Fund external debt was £154.6M as at 30 November 2018, utilising a mixture of fixed maturity debt (£97.1M) borrowed from the Public Works Loan Board (PWLB), fixed rate debt borrowed from a Private Finance Initiative provider (£16.5M), Lender Option Borrower Option (LOBO) loans (£13.5M) from banks, and variable rate debt (£27.5M) borrowed from other local authorities and other public bodies. The majority of the debt is on a fixed rate basis (82%), with the remainder as variable rate debt (18%). Interest rates are difficult to predict. Due to the size of the variable proportion of the debt, relatively minor increases in rates could have a significant impact, for example a 1% increase in the variable interest rate would incur an additional £1M cost per year. Conversely, higher interest rates might reduce the Council's net pension liability which would be reflected in the triennial assessment of employer's contributions by the Local Government Pension Scheme Fund Actuary.

6.1.2 The Council reviews and approves annually its Treasury Management Strategy and monitors financial markets on an ongoing basis. It is possible that, based on market conditions, the Council may choose to borrow at a fixed rate of interest to reduce exposure to variable debt. The MTFP makes allowance for one such loan to be taken out on a fixed term basis (£20M for 25 years). However, medium term fixed interest rates are higher than variable rates and any decision to fix more debt in the short term would adversely impact revenue implications within the MTFP.

Inflation

6.1.3 The annual Consumer Price Index (CPI) measure of inflation was 2.4% as at the end of October 2018, unchanged from 2.4% in September 2018. Inflation is likely to remain above the Bank of England's Monetary Policy Committee (MPC) 2.0% target over much of the next three years.

6.1.4 The MPC meets on a monthly basis to set the Bank of England's Base Rate, which is used to control the level of inflation. The MPC aims for a target CPI inflation rate of 2.0%, within a range of plus or minus 1.0%, i.e., between 1.0% and 3.0%.

6.1.5 There is a risk that inflation could grow at a rate significantly above the Bank of England's target of 2.0%, which would lead to an increase in the cost of capital works. This is mitigated to the extent that capital schemes include a contingency provision for inflation and the Council aims to deliver its Capital Programme within the planned timescales in order to mitigate this inflation risk.

Supplier Financial Stability

6.1.6 The Council undertakes a thorough financial appraisal of prospective contractors prior to their appointment.

6.2 HRA Risks – Identification and Mitigation

6.2.1 The Council's HRA is subject to detailed and complex Government legislation, that is subject to regular change. This includes regulation on rent increases and use of RtB receipts. Government policy decisions can have a radical effect on income streams, which in turn could reduce the revenue surpluses and Reserves available to fund investment in the existing stock, or the new build programme.

6.2.2 An example of Government intervention occurred in the Summer budget of 2015, where the newly elected Government instituted a 4-year rent cut for all social housing providers, such that rents are to decrease by 1% per annum for the years 2016/17 to 2019/20. It is estimated that over that 4-year period this will cost the Council's HRA £13M, but over the course of the 30-year Business Plan period the cumulative effect is around £220M. Current policy is for rental increases to return to the more viable and sustainable level of the Consumer Prices Index (CPI) + 1%, at least for a five-year period from 2020. However, future Governments may amend this policy.

6.2.3 To mitigate the risk of future limitations on rent increases, or even another round of rent reductions, the Council has structured its procurement of capital investment in such a way that if necessary its Stock Protection programme can be scaled back at short notice. There would be an inevitable consequence in terms of the longer term standard of the existing stock, if this approach was required, but items related to health and safety and the wellbeing of tenants would be prioritized. Similarly, projects within the new build programme could be deferred, subject to contract status.

6.2.4 As part of the Self-Financing Settlement, the Council took on a debt of £165M, utilizing a mixture of variable rate and fixed rate maturity debt borrowed from the Public Works Loan Board (PWLB). The majority of the debt was taken out on a fixed rate basis (73%), with the remainder as variable rate debt (27%). Interest rates are difficult to predict. Due to the size of the variable proportion of the debt, relatively minor increases in rates could have a significant impact, for example a 1% increase in the variable interest rate would incur an additional around £0.450M cost per year.

6.2.5 It is worth considering the risk of interest rate increases when the Council comes to refinance the £120M of fixed rate debt that matures from 2024 onwards. It is unlikely that the Council will achieve the preferential interest rates available at the time of the Self-Financing settlement. To mitigate the risk of increases to interest rates, the Business Plan anticipates a gradual increase in the average interest rate so that by 2024/25 the average rate is 3.5%, and that this rate continues throughout the rest of the 30-year period. In order to avoid early redemption penalties, debt repayments in the period to 2022 will be made from the variable rate portion (£44.9M).

6.2.6 There is a further risk that inflation could grow at a rate significantly above the Bank of England's target of 2.0%. If this was to occur, it would lead to an increase in interest rates and would also impact on the value of contracts for capital works. This is mitigated somewhat by the nature of our procurement approach, where for Stock Protection programmes we are not contractually committed to giving any supplier a minimum quantity of works.

6.2.7 Higher rates of inflation are beneficial to the Business Plan, as they erode the value of the debt carried within the HRA. Given that rental incomes exceed revenue expenditures and rental increases are linked to inflation from 2020 (e.g., CPI + 1%), higher rates of inflation should enhance revenue surpluses. However, recent policy on rents illustrates that this scenario cannot be taken for granted.

6.2.8 Both the Stock Protection and Future Investment programmes are reliant upon labour supply, supplier financial viability and the availability of contractors willing to tender and contract with the Council. Recent years have seen shortages in skilled construction related labour supply, which can delay delivery and increase cost. The effect of Brexit on this situation is still difficult to quantify. When procuring for new build projects there is an assessment of the reasonable level of contingency to include, which acts as some mitigation for this risk. Procurement procedures ensure that where significant contracts are to be awarded suppliers undergo a thorough quality and financial viability assessment.

6.2.9 There is the risk of a significant impairment in market values of the HRA stock, as occurred in the recession of 2008/09. However, such losses would not directly affect the balances within the Housing Revenue Account, nor the rental incomes received. A reduction in property values would reduce RtB receipts, and therefore could impact on delivery of new affordable housing, however historical evidence suggests such downward revisions tend to be reversed within a few years.

6.2.10 The HRA has a significant amount of Reserves (£37.1M as at 31 March 2018), and in year cash balances (rental surpluses) that are invested on its behalf by the Council's General Fund. Whilst the Council is not subject to the Government's Financial Services Compensation Scheme, the HRA is protected from any investment losses as part of the HRA ring fence, so HRA Reserves and cash balances are not at risk. Tenants are therefore protected from any investment losses the Council may incur.

6.2.11 There is the small risk of a major incident affecting a large number of Council properties, such as a fire or plane crash. The Council has insurance policies in place to cover most of these contingencies, and where they are not covered Central Government would intervene to fund short- and long-term re-provision of housing.

6.2.12 As a means to mitigate the risks above, the HRA maintains a minimum general reserve (HRA Balance) of £2M, which in the example quoted above could be used to provide emergency temporary accommodation for families unable to return to their homes. Whilst other Reserves are earmarked for a range of future schemes they could be diverted to finance additional interest or debt repayments if required, where not already contractually committed.

7. Capital Expenditure and Financing

7.1 Capital Expenditure

7.1.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In Local Government, this includes spending on assets owned by other bodies and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing less than £2,000 are not capitalised and are charged to revenue in year.

7.1.2 Further details of the Council's policy on capitalisation are provided in the Council's Capital Handbook (FP8).

7.1.3 In 2019/20, the Council is planning capital expenditure of £156.9M as summarised below:

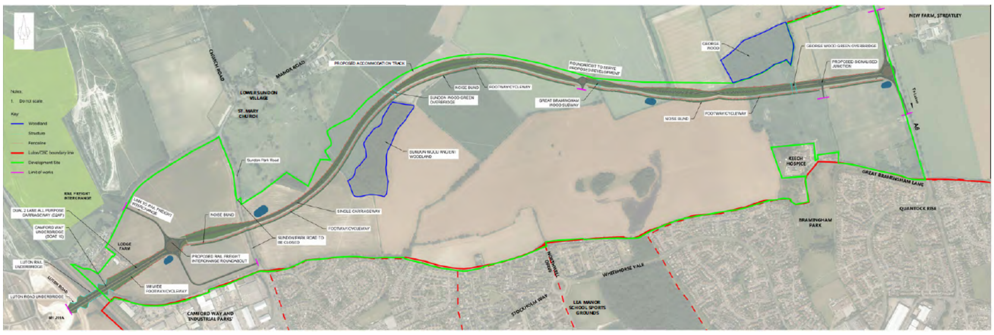
Table 4: Estimates of Capital Expenditure

	2017/18 Actual £M	2018/19 Forecast £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M
General Fund services	73.2	141.2	**117.5**	104.0	77.6	44.2
Council housing (HRA)	7.5	27.2	**39.4**	33.3	27.5	27.3
TOTAL	**80.7**	**168.4**	**156.9**	**137.3**	**105.1**	**71.5**

7.1.4 Major projects within the General Fund Capital Programme include:

M1/A6 Link Road

The Council is planning a new strategic route in the form of a northern Luton bypass. This would run from the A6 road to junction 11a of the M1, connecting with the A5-M1 Link road. The new M1-A6 link road will be 2.75 mile (4.4km) long with a dual carriageway to a new planned rail freight interchange at Sundon Park, and then a single carriageway connecting to the A6. The road supports our priorities to enhance Central Bedfordshire by delivering improved infrastructure that will create opportunities for employment, leisure activities and housing.

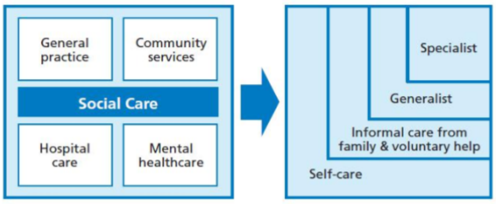


New School Places

We fulfil our statutory duty, as a commissioner of school places, by making sure that sufficient school places are available for every child in Central Bedfordshire. The current five-year investment programme represents an investment of £160M over 15 years and will provide an additional 6,500 pupil places.

A421 – M1

The Executive Committee gave approval to award a contract for dualling the remaining section of the A421 road running from Magna Park in Milton Keynes to the roundabouts in Central Bedfordshire adjacent to junction 13 of the M1. The majority of this stretch falls in Central Bedfordshire. The new road layout will improve east-west transport links by widening this last remaining 3km section of the A421 and this stretch is used by almost 30,000 vehicles per day.



Integrated Health & Care Hubs (Mid & South)

The Health and Wellbeing Board, Council and the Clinical Commissioning Group wish to ensure that the population of Central Bedfordshire has access to good quality, safe, local primary, community, health and social care across the towns and rural areas. The framework for achieving this is through primary care led Integrated Care Hubs and by using new models of care delivery across health and social care services.

IT Digitisation

Digitisation provides the Council with a number of opportunities to both improve services though customer self service or process improvement whilst reducing transactional costs.

There are a number of system changes planned over the next two years that will enable these opportunities. These include upgrading the Council's:

- Finance/Procurement/Payroll from SAP to S4HANA – the next generation of SAP.
- Replacing or upgrading the Council's Adult Social Care system (SWIFT).
- Replacing Acolaid, the Council's (Case Management) system.

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that Council Housing does not subsidise, nor is itself subsidised by, other Council services. HRA capital expenditure is therefore recorded separately and includes the provision of around 400 new homes over the forecast period (before potential schemes funded by additional borrowing capacity made available by removal of the HRA debt cap). The main HRA capital Stock Protection projects include: kitchens and bathrooms, central heating installations, roof replacements, and energy conservation works. The main Future Investment projects include: development of an Independent Living facility in Houghton Regis Town Centre (see images below), re-modelling and regeneration schemes for existing stock, small scale new build projects, and the acquisition of properties to convert into affordable housing.

Reserve List Schemes

7.1.5 The Reserve List is part of the Capital Programme and approved at Executive Committee. Schemes are included on the Reserve List after production of outline business cases in the same way that the schemes in the main Capital Programme are. These can be activated if schemes in the main Capital Programme do not progress as planned and if the revenue impacts can be accommodated within the revenue budget. In this way, the planned level of capital investment which delivers future benefits to Central Bedfordshire residents is maintained.

7.2 Capital Financing

GF and HRA Summary

7.2.1 All capital expenditure must be financed, either from external sources (Government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and PFI).

Table 5: Capital financing

	2017/18 Actual £M	2018/19 Forecast £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M
External sources GF	45.0	36.3	62.5	57.4	52.7	27.5
External Sources HRA	0.0	2.1	0.8	0.8	0.7	0.0
Own resources GF	28.2	40.2	12.0	15.0	15.0	10.0
Own Resources HRA	7.5	25.1	33.6	22.5	16.8	17.3
Debt GF	0.0	22.3	43.0	31.6	9.9	6.7
Debt HRA	0.0	0.0	5.0	10.0	10.0	10.0
TOTAL	**80.7**	**126.0**	**156.9**	**137.3**	**105.1**	**71.5**

Asset Disposals

7.2.2 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets. The Council plans to receive £52M of General Fund capital receipts in the coming financial years (2019/20 – 2022/23) as follows:

Table 6: General Fund capital receipts

	2017/18 Actual £M	2018/19 Forecast £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M
Asset sales	48.6	18.2	12.0	15.0	15.0	10.0

Debt Repayment

7.2.3 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP / PFI loan repayments are as follows:

Table 7: MRP / PFI Loan Repayment

	2017/18 Actual £M	2018/19 Forecast £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M
MRP	4.5	4.5	5.2	5.9	7.5	8.5
PFI loan repayment	0.7	0.8	0.5	0.3	0.7	0.4
TOTAL	**5.2**	**5.3**	**5.7**	**6.2**	**8.2**	**8.9**

7.2.4 The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP / PFI loan repayments and capital receipts used to replace debt. The CFR is expected to increase by £37.4M during 2019/20.

7.2.5 The Council's estimated CFR is as follows:

Table 8: Prudential Indicator: Estimates of Capital Financing Requirement

	31.3.2018 Actual £M	31.3.2019 Forecast £M	31.3.2020 Estimate £M	31.3.2021 Estimate £M	31.3.2022 Estimate £M	31.3.2023 Estimate £M
General Fund services (£m)	354.3	371.2	408.6	434.0	435.6	433.4
Council housing (HRA) (£m)	164.9	164.9	169.9	179.9	189.9	199.9
TOTAL CFR (£m)	**519.2**	**536.1**	**578.5**	**613.9**	**625.5**	**633.3**

7.3 Revenue implications of Capital Programme

7.3.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans, MRP and PFI loan principal repayments are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream. For the General Fund, this is the amount funded from Council Tax, business rates and general Government grants. For the HRA, the financing costs are funded from housing rents.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 Actual	2018/19 Forecast	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Financing costs General Fund (£M)	11.6	12.1	12.7	14.4	16.6	17.1
Proportion of net revenue stream (GF)	5.9%	6.1%	6.3%	6.8%	7.6%	7.6%
Financing costs HRA (£M)	3.9	4.1	4.2	4.5	4.7	5.0
Proportion of net revenue stream (HRA)	13.5%	14.1%	14.1%	14.0%	14.1%	14.2%

Sustainability

7.3.2 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future for the General Fund and up to 60 years for the HRA.

7.3.3 The ratio of financing costs to net revenue stream measures the proportion of the revenue budget that is required to meet the ongoing financing costs of past capital expenditure which was funded from borrowing. Future year estimates incorporate the additional financing costs of planned capital expenditure to be funded from borrowing. It is important that the total capital investment of the Council remains within sustainable limits.

7.3.4 The Director of Resources is satisfied that the proposed Capital Programme is prudent, affordable and sustainable, given that the financing costs represent a relatively small proportion of the Council's net revenue budget.

7.4 Depreciation Policy

7.4.1 Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e., freehold land and Community Assets) and assets that are not yet available for use (i.e., Assets under Construction). The value of an asset and its estimated useful economic life determine the depreciation cost, charged to the Comprehensive Income and Expenditure Statement.

7.4.2 Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the Valuer;
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset;
- infrastructure – straight-line allocation over 30 years.

7.4.3 The following useful lives have been used in the calculation of depreciation:

- Council houses up to 60 years;
- Operational buildings up to 50 years;
- Infrastructure up to 30 years;
- Vehicles up to 10 years;
- Plant and equipment up to 10 years.

7.4.4 Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

7.4.5 Services are debited with depreciation and amortisation costs attributable to the assets used by the relevant service. The Council is not required to raise Council Tax to fund depreciation.

7.5 Componentisation Policy

7.5.1 Where a financially material item of Property, Plant and Equipment (PPE) over £1M in Net Book Value (NBV) has major components over £250K of the asset value, the components will be depreciated separately where the useful life is substantially different and the calculated depreciation can also be shown to be significantly different.

7.5.2 Individual PPE assets with an NBV under £1M will be classed as de-minimis and excluded from the requirement to be componentised.

7.5.3 Given that residential units are valued and reported individually, the Council does not componentise its HRA dwellings on the basis that the value for any single Council dwelling does not exceed £1M.

Appendices

A – Capital Programme Detail 2019-20 to 2022/23 (General Fund)

B – Capital Programme Detail 2019-20 to 2022/23 (HRA)

Links to other documents:

- Asset Management Strategy - https://centralbeds.moderngov.co.uk/documents/s65051/Appendix%20A%20-%20Corporate%20Asset%20Management%20Strategy.pdf
- Treasury Management Strategy – (Include on the Agenda)
- Investment Strategy - (Included on the Agenda)
- Housing Asset Management Strategy: http://www.centralbedfordshire.gov.uk/housing/policies/overview.aspx