Capital Strategy

Introduction

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a Capital Strategy to demonstrate how capital expenditure, capital financing and treasury management activity contribute to the provision of desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability.
2. The Strategy forms part of the framework for financial planning and is integral to both the Medium Term Financial Plan (MTFP) and the Treasury Management Strategy (TMS). It sets out how capital investment will play its part in delivering the ambitious long term strategic objectives of the Council, how associated risk is managed and the implications for future financial sustainability. The strategy is also in line with the Ministry of Housing, Communities and Local Government's (MHCLG) 2018 statutory guidance on local government investments, particularly as regards non-financial investments.

Scope

3. This Capital Strategy includes all capital expenditure and capital investment decisions, not only as an individual local authority, but also those entered into under group arrangements. It is currently an outline strategy and will be developed further as the One City Plan and other strategies, including asset management, are progressed and refreshed annually in line with the MTFP and TMS.

Capital Investment

4. In contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services, capital investment seeks to provide long-term solutions to Council priorities and operational requirements that yield benefits to the Council generally for a period of more than one year. Expenditure for capital purposes therefore gives rise to new assets, increases the value or useful life of existing assets or, generates economic and social value and an income stream to the Council via non-treasury investments.
5. The five aims of the Capital Strategy are:

   i. To take **a long term perspective on capital investment** and to reflect the Council’s wider place-making and inclusive growth agenda. This will ensure the Capital Strategy is aligned to Bristol’s ambitious Local Plan. The Capital Strategy at the same time brings together the investment requirements of Bristol’s Corporate Strategy and its Asset Management Plan

   ii. To ensure investment is **prudent, affordable, and sustainable over the medium term.** The Council will ensure that any borrowing in advance of need for commercial investment is commensurate with the resources of the authority in accordance with the CIPFA Statement issued October 2018.

   iii. To strengthen the arrangements and **governance for investment decision-making**

   iv. To make the **most effective and appropriate use of funds available** - including capital receipts and housing right-to-buy receipts – in order to deliver the Council’s strategic aims.

   v. To establish **a clear methodology to prioritise capital proposals**. The methodology aims to strike a balance between the resourcing principles set out in the MTFP and highlighted below.

- Investing for inclusive growth
- Invest to save and to generate returns
- Investment to improve and maintain Council assets

These principles are more fully defined below. Principles for commercial investment are set out in 28 and 29 below.

6. The Council will ensure that all of its investments types are covered in its Capital Strategy, and will set out, where relevant, the Council's risk appetite and specific policies and arrangements for its non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.
7. The Council will compile a schedule setting out a summary of its existing material investments and liabilities including financial guarantees together with the Council's associated risk exposure

Policy Context

8. The Council like many other local authorities faces a challenging financial climate, and the Capital Strategy therefore emphasises affordable and sustainable solutions and income generation including maximising external funding opportunities.
9. The **Corporate Strategy** 2018-23 sets out the Council's vision and priorities for the City and the activities based around the following four themes:
    - **Empowering and Caring** – Working with the City to empower communities and individuals, increase independence and help support those who need it. Give children the best possible start in life.
    - **Fair and inclusive** - Improve economic and social equality, pursuing economic growth that includes everyone and making sure people have access to quality learning, decent jobs and homes they can afford.
    - **Well connected** - Take bold and innovative steps to make Bristol a joined up city, linking up people with jobs and with each other.
    - **Wellbeing** - Create healthier and more resilient communities where life expectancy is not determined by wealth or background.
10. Aligned to the Corporate Strategy are a number of complementary plans and strategies in development. Examples include:
    - **One City Plan** - The Council recognises that it is one organisation in a hugely complicated system, where everyone has a role to play. Because of this we are a partner in an emerging One City Plan. This is being developed by many different partners covering almost every aspect of life in Bristol; all have a role in making Bristol a thriving, healthy and more equal city in the future. It is an ambitious, collaborative approach to reach a shared vision for Bristol.
    - The Council is finalising its **Inclusive & Sustainable Economic Growth Strategy**. It is recognised Bristol's successful local economy has not always delivered prosperity evenly across citizens. Increasing economic inclusion will provide a boost to local economic growth and provide sustainability and resilience.
    - With other local authorities the Council has prepared the **West of England Joint Spatial Plan**. This includes a requirement for new and affordable homes to be delivered in Bristol by 2036. The Council is currently reviewing its **Local Plan**. The Core Strategy of the Local Plan was adopted back in 2011. The Council is now

considering how Bristol will develop up to 2036. The Local Plan will be updated to set out how the proposed homes will be delivered and show how the Council could exceed current expectations.

- The **West of England's Joint Transport Study (JTS)** sets out an ambitious vision for transport to 2036. A **Joint Local Transport Plan** (JLTP4) of transport packages that will transform the travel choices available to residents and visitors is being taken forward by the Council and partners. The Council is a key contributor to schemes set out in the JTS. This will provide transformational infrastructure that responds both to the existing transport challenges, and our Core Strategy growth.
- It is expected that the Council's **Asset Management Plan** will be developed in 2019/20 and as a result this outline Capital Strategy will be refreshed as appropriate to ensure alignment.

Principles for Capital Planning

11. The Council will operate a clear and transparent corporate approach to the prioritisation of all capital spending.
12. Delivery of the Strategy will be overseen by a joint member/ officer executive delivery board, chaired by the Deputy Mayor Finance, Governance & Performance. These effective governance arrangements will ensure the Capital Programme is effectively managed and for companies that are wholly owned or the Council has a material interest these extend to the Shareholder group.
13. Investment principles are set out in Table 1 below:

Table 1 Investment principles	
Investing for inclusive growth	The Council will expand its capacity to grow the economy, whilst delivering whole systems solutions to demographic, social and environmental challenges sustainably across the City
Invest to save and to generate returns	The Council will invest in projects which will • reduce running costs • avoid costs (capital or revenue) that would otherwise arise • invest to generate a financial return (invest to invest).
Investment to improve and maintain Council assets	The Council will improve and maintain the condition of core assets to extend their life where appropriate. The Council will make provision for lifecycle investment to maintain infrastructure to a standard that effectively supports service delivery
Risk aware	The risks of the project have been fully assessed, consulted, communicated, and are at an acceptable level.

14. Where appropriate the Council will invest in Smart Technology in order to stay at the forefront of service delivery.
15. The Council owns freehold land across the City where it has granted long leases to Developers and Investors, and from whom we take ground rents of various kinds as investment income. This portfolio generates a revenue return. The return is not a significant element of the net revenue budget and therefore the scale of investment is proportionate and the risk is at a manageable

level. In addition to the revenue return the Council receives capital receipts in exchange for restructuring existing lease terms.

16. Investment properties are regularly revalued to market level under a rolling programme. The top 150 properties by value have a formal valuation report annually. Other properties are valued over a 5-year cycle. In between valuations property indices are used for the lower value properties.
17. Where appropriate the Council will invest in wholly or partly owned companies where this is the most appropriate means to deliver strategic objectives. The Council will also make Parent Company Guarantees (PCG) in appropriate circumstances. It will also make third party loans where this is appropriate. These arrangements will be monitored through the Governance arrangements set out in Section 8. Appropriate disclosures will be made in the statement of accounts, including the fair value of such investments.
18. When entering into non-financial investments the Council considers the balance between security, liquidity and yield based on its risk appetite. It also considers the contribution of the non-financial investment to a range of outcomes including City growth, redevelopment and income.
19. Bristol has not borrowed for outright investment purposes.
20. The Council is not overly dependent on profit generating investment activity to achieve a balanced revenue budget. Any shortfall in investment income would be reconsidered as part of the MTFP. The quality of the long term and secure investments minimises the income risk.

Funding Capital Investment

21. The Council's capital programme is reviewed annually as part of the budget setting process, and approved by the Cabinet and the Council.
22. The Council funds its General Fund capital investment from a range of sources, which are principally
    - Prudential Borrowing
    - Grants
    - Capital Receipts
    - S106 / Community Infrastructure Levy (CIL)
    - Revenue and Reserves
23. The **HRA Capital and Revenue Investment Programme** is entirely funded from the ring fenced HRA. It is a rolling 5 year outlook based on stock condition and planned projects. Key areas of housing investment set out in the Capital and Revenue Investment Programme include planned and cyclical works; mechanical and electrical and heating; accessible homes and repairs. The programme also includes development and special projects. The HRA capital programme is funded from:
    - HRA Self Financing (The Major Repairs Reserve (MRR))
    - Capital Receipts (HRA)
    - Revenue and Reserves (HRA)
24. The Council's TMS sets out how the Council will fund its capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow

surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Capital Financing Policies

25. This section sets out in more detail how the Council will ensure its investment decisions are consistent with its investment principles and MTFP.

Table 2 MTFP **Affordability Principles** for Prudential Borrowing	
The Council's Prudential Borrowing Commitment	The Prudential Borrowing Commitment is not expected to increase over the envelope outlined in the capital programme and will only be increased where there is an appropriate cashable return based on robust evidence
Substitute schemes	Schemes financed by prudential borrowing may be replaced on a like-for-like basis provided the successor scheme has no additional cost not already provided in the MTFS
Evidence based	Projects and their delivery will be validated against economic reality. A clear statement of the benefits to be realised by projects will be required
Calculating the return on investment	The business case for a project funded by prudential borrowing must • Include the cost of servicing the debt • Demonstrate the ability to achieve a 6% discounted rate of return over a 7-year period. In appropriate circumstances a different discount rate or payback period will be used for the calculation. • The payback criteria will be reviewed in 2019/20.
Invest to save projects	• Cashable cost reductions or increased income must exceed the financing costs of borrowing over the pay-back period.
Invest to grow projects	• Increased income must exceed the financing costs of borrowing over the pay-back period. • For major developments the increased business rates income may be taken into account • The pay-back calculation should reflect proposed capital receipts

26. The first priority for capital investment is Essential Schemes. These are defined in the Table below. Only schemes that meet at least two of the essential criteria will be defined as essential

Table 3 Criteria for Essential Projects	
Statutory Obligations	The Council would • fail to meet its statutory obligations if the scheme did not proceed • all other mechanisms for funding the project have been exhausted
Key Corporate Strategy Commitments	The scheme can directly deliver on one or more of the key Corporate Strategy commitments for the next 5 years • It is to be 100% funded from external resources (ring-fenced grants or other outside contributions)

	• It is to be funded by capital receipts which exceed the investment and will only be generated if the project proceeds.
Self-financing	The ongoing revenue implications of the project are generated • through external funding • result in a reduction in revenue costs contributing to overall MTFP savings targets.

27. Non-essential projects may be prioritised depending on their goodness of fit to the six criteria set out in Table 4. The scores will be indicative and provide a guide for decision making.

Table 4 Criteria for Non-essential Projects	
Criterion	Definition
Levering in additional funding	• The project levers in external support, or attracts additional funding into Bristol. • This may be either financial resources directed to the Council or the Council working in partnership with other bodies
Cashable savings	The project will bring about future cashable revenue savings (or cost avoidance where the pressure is built into the MTFP
Corporate Strategy	The project meets a key service objective, that aligns to corporate strategy
Sustainable economic growth and regeneration	The proposal can be shown to support the delivery of sustainable economic growth and regeneration
Asset Management Plan or Transport Asset Management Plan	A need for the proposal has been identified in these plans
Maintaining priority service levels	Failure to provide the project would result in a significant reduction of the Council's stated level of priority service
Community Infrastructure Levy	CIL or S106 will be directed to the delivery of the project

28. Loans and Investments in companies which we have material shareholdings are assessed differently, as these are prioritised based on delivery of strategic objectives. When considering these investments the Council will examine the Business Plans available to ensure that the plan and the investment is sound, facilitates the delivery of the long term strategy and wider social, economic and or financial benefits will be received back to the Council and residents in the short, medium or longer term.

29. Due to the nature of the assets or for valid service reasons, such investments do not always give priority to security and liquidity over yield. In these cases, such a decision will be explicit, with the additional risks set out and the impact on financial sustainability identified and reported. The appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered and the Chief Finance Officer will ensure affordability

and the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.

30. The council will be required to monitor company operations and this will take the form of regular performance and financial monitoring reports to Shareholders.

Governance of the Capital Strategy

31. The Capital Programme will be agreed by full Council as part of the annual budget setting process. Variations to the Capital Programme or in-year additions – subject to delegation – will be agreed by Cabinet.
32. A joint member/ officer Executive Delivery Board, chaired by the Deputy Mayor for Finance, Governance & Performance will oversee delivery of the Strategy.
33. The formal scrutiny process will be used to ensure effective challenge.
34. The Chief Finance Officer should report explicitly on the affordability and risk associated with the capital strategy. Where appropriate the Chief Finance officer will have access to specialised advice to enable them to reach their conclusions and ensure sufficiency of reserves should risk or liabilities be realised.
35. The Executive Delivery Board's role will be to monitor and assess the effectiveness of the capital programme in delivering the Council's strategic objectives. It will also monitor the Council's non-financial investments. It will monitor the appraisal of new investments, ensuring appropriate techniques are used.
36. Growth and Regeneration Board will review all infrastructure projects prior to escalation to the Executive Delivery Board.
37. ICT capital investment proposals, along with Transformation and other Short-Life Assets will in the first instance be reviewed through a specific officer working group
38. Terms of Reference will be produced for these groups

Risk Management

39. One of the Council's key investment principles is that all investment risks should be understood with appropriate strategies to manage those risks. All projects are required to maintain a risk register and align reporting to the Council's reporting framework.
40. No project or investment will be approved where the level of risk - determined by the Cabinet or Chief Financial Officer as appropriate - is unacceptable.

Skills and Knowledge

41. Appropriate training will be provided to all charged with investment responsibilities, including members of the Executive Delivery Group. Training will be provided either as part of meetings or by separate ad hoc arrangements.
42. When considering commercial investments, the Council will ensure that appropriate specialist advice is taken. If this is not available internally it will be commissioned externally.
43. Appropriate use will be made of the Council's Treasury Management advisers

Delivering the Strategy

44. The Capital Programme is revised annually as part of the budget setting process, and approved by Cabinet and the Council. Any significant in-year variations to the programme required Cabinet approval.
45. Performance of the Capital Programme is part of the monthly financial monitoring process.
46. Arrangements will be made to align delivery of key milestones to the financial monitoring, and reported to Cabinet on a quarterly basis.

Review

47. The Capital Strategy will be reviewed annually to ensure it remains fit for purpose and enables the Council to make the investments necessary to deliver its strategic aims.