

## **Capital and Investment Strategy 2023/24 to 2025/26**

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### **1. Introduction**

- 1.1 This Strategy gives a high-level overview of how capital expenditure, capital financing, treasury management and investment activity contribute to the provision of local public services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability.

### **2. Governance arrangements for capital investment**

- 2.1 The County Council's Medium Term Financial Strategy (MTFS) ensures that it continues to invest wisely in its existing assets and to deliver a programme of new ones in line with overall priorities, need and affordability. This is kept under review by the Corporate Management Team and reported through Cabinet for approval by the County Council. The MTFS is closely linked to the 'Serving Hampshire – Strategic Plan 2021 – 2025' and directorate service plans.
- 2.2 Risk management is an integral part of determining and delivering a capital programme. Given the impact of high inflation alongside wider economic uncertainty within the UK, in planning and monitoring the capital programme and MTFS, the County Council has introduced additional measures to mitigate risk. This includes additional detailed analysis of financial exposure for projects most sensitive to price uncertainty. The County Council also introduced a capital inflation underwrite during 2022, with Cabinet then agreeing to the creation of a capital risk reserve in December 2022.

- 2.3 In accordance with the MTF5, each year the Cabinet sets cash limit guidelines for a three-year capital programme funded by local resources. Executive Members propose capital programmes within these cash limits together with schemes funded by government grants and other external sources. The proposed programmes are scrutinised by the relevant Select Committee. The final Capital Programme is then presented to Cabinet and to County Council in February each year as part of the formal budget approval. Once a defined scheme has been included in the approved capital programme, approval to spend must be granted either by the relevant Chief Officer in consultation with the Executive Member for schemes up to £500,000 or by the Executive Member for schemes of higher values, in line with the County Council's financial regulations.
- 2.4 Before a major capital project can be committed, the relevant Chief Officer must ensure it has undergone an appropriate project appraisal. This appraisal should be proportionate to scheme value and complexity including the options considered, appropriate financial analysis of capital and revenue implications, and conclusions setting out why the option proposed is the best use of available resources.
- 2.5 The County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

### 3. Capital expenditure, capital financing and asset management

- 3.1 Capital expenditure is spending by the County Council on assets, such as land, property, the highway network, or vehicles, that will be used for more than one year. In local government this includes relevant spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy or enhance assets.
- 3.2 The County Council considers estimates for the timing of capital expenditure and the availability of financial resources when determining the capital programme.
- 3.3 There are a number of ways that capital expenditure can be funded:
- A large proportion of the programme is typically funded from **external sources**, predominantly capital grants and contributions from the Government and other bodies, including developers.
  - **Capital receipts** secured through the sale of assets owned by the County Council are also used to fund expenditure, although capital

receipts can vary significantly from year to year and each asset can only be sold once.

- The remaining expenditure is funded through the County Council's own **local resources**, comprising prudential borrowing, contributions from the revenue budget, and the use of reserves. **Reserves** can only be spent once, and **prudential borrowing** creates a future pressure on the revenue budget through interest and repayment of principal (Minimum Revenue Provision) costs. Similarly, pressures on the revenue budget limit the extent to which **planned revenue contributions** can be used as a source of funding.

### Capital expenditure

- 3.4 Table 1 provides details of the County Council's capital programme. As parts of the capital programme are managed on a 'starts' basis, the programme years do not fully reflect when capital expenditure is expected to take place. This is therefore shown separately in the second half of the table and is one of the required Prudential Indicators
- 3.5 Some of the most significant areas in which the County Council is investing in its assets include:
- the investment in new and extended school buildings to ensure there is a school place for every child in Hampshire
  - structural maintenance and improvement of roads and bridges;
  - Integrated Transport Plan schemes including schemes specifically focused on walking and cycling improvements
  - proposed recycling infrastructure including a new materials recovery facility, two fibre processing plants and upgrades to 11 waste transfer stations
  - condition improvements to the schools' estate
- 3.6 Further details can be found in the February 2023 Capital Programme Report.

**Table 1: Capital programme and forecast expenditure flows****Capital programme**

<b>Prior years starts*</b>	<b>Directorate programme</b>	<b>Revised 2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Total</b>
<b>£'000</b>		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
34,451	Adults' Health & Care	35,176	14,733	14,733	14,733	113,826
16,019	Children's Services	47,339	34,437	100,691	85,954	284,440
249,067	Universal Services	199,437	125,833	138,342	115,858	828,537
<b>299,537</b>	<b>Total</b>	<b>281,952</b>	<b>175,003</b>	<b>253,766</b>	<b>216,545</b>	<b>1,126,803</b>

\* schemes started in prior years that have not yet completed

**Forecast Capital Expenditure Flows (Prudential Indicator 1)**

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Future years</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Forecast Expenditure	226,259	296,655	281,486	229,601	192,802	1,226,803

**Capital financing**

- 3.7 All capital expenditure must be financed, either from external sources, the Authority's own resources, or debt. Debt is only a temporary source of funding and is replaced over time by other financing, usually from revenue through annual Minimum Revenue Provision (MRP) charges. External debt will also incur interest costs. The County Council's borrowing strategy is summarised in Section 6 and forms part of its Treasury Management Strategy.
- 3.8 The resources to fund the capital expenditure flows set out in Table 1 are shown in Table 2.

<b>Table 2 – resources to fund capital expenditure</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Future</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Prudential borrowing	24,923	41,771	49,330	22,582	32,367
less repayments from capital	(6,950)	(12,881)	(21,686)	(11,225)	(53,738)
Capital grants	123,514	132,232	142,032	115,260	103,419
Contributions from other bodies*	51,620	82,087	69,823	71,922	71,863
Capital receipts	2,848	7,523	19,140	11,662	27,554
Dec 22 cash limit guidelines	3,669	3,669	3,669	3,669	0
Other revenue contributions	4,470	4,378	2,672	564	2,385
Use of the capital reserve	17,414	36,126	16,506	15,167	8,952
Use of revenue reserves	1,077	1,750	0	0	0
<b>Total planned use of resources</b>	<b>222,585**</b>	<b>296,655</b>	<b>281,486</b>	<b>229,601</b>	<b>192,802</b>

\* including developers

\*\* difference of £3.6m to Table 1 is a timing difference

## **Asset management and disposals**

- 3.9 The new 5-year Strategic Asset Management Plan (SAMP) for the **County Council's estate** was presented to [Cabinet](#) on 13 December 2022. This followed previous SAMPs published in 2011 and 2015.
- 3.10 The report sets out the context and drivers for the SAMP, its structure, and the key themes providing direction to the management of the County Council's property assets through a set of strategic actions. The SAMP itself was included as an appendix to the report and is a key enabler of the County Council's corporate strategy to ensure that its large and diverse estate continues to meet corporate priorities and objectives, providing a strategic framework for decision making based on a clear set of principles and mechanisms through which the future use of land and property assets will be considered, together with a high-level action plan to enable the effective management and re-shaping of the estate.
- 3.11 The SAMP sets out the vision to achieve the optimal financial return and commercial opportunities from the rationalisation and disposal of surplus land and buildings. The plan includes the objective to rationalise the operational estate, achieving reduction through co-location, new ways of working and maintenance optimisation, with an action plan for disposals to:
- Promote appropriate land assets as strategic development sites
  - Identify and dispose of strategic sites where multiple benefits can be achieved
  - Rationalise and reduce the overall size of the County Council's built estate, starting with office accommodation.

- 3.12 The County Council also applies asset management principles in relation to its **infrastructure assets** in developing a needs based programme of structural maintenance for its highways assets, developed based on various factors including condition, remaining life and lifecycle planning including whole life costs.

### **Capital receipts**

- 3.13 The County Council's capital programme is supported by the appropriate use of capital receipts. These receipts vary from year to year and in 2021/22 accounted for about 5% of the funding applied to capital expenditure.
- 3.14 Capital receipts are generated when a capital asset is identified as surplus to requirements and is then sold. The proceeds from these asset sales may be used to fund new capital assets or to repay debt. The repayment of capital grants, loans and investments will also count as capital receipts, with the same restrictions on future use of the proceeds.
- 3.15 Capital receipts are fully retained to fund corporately agreed priorities, except where an appropriate business case for alternative use is agreed in advance.

## **4. Prudence and affordability**

- 4.1 The County Council is required to ensure that capital expenditure, investment and borrowing decisions are prudent, sustainable and affordable. There are a number of prudential indicators that must be set and monitored to help with this requirement, which are set out in the Prudential Code. Actual figures for the prudential indicators at the end of each quarter will be included in regular reporting to Members. The prudential indicators cover:
- Capital expenditure (Tables 1 and 3)
  - External debt (Tables 3 and 5)
  - Affordability (Tables 6 and 7).
- 4.2 The Prudential Code sets out that certain acts and practices are not prudent activity for a local authority and incur risk to the affordability of local authority investment. The County Council will not therefore:
- Borrow to invest primarily for financial return
  - Make investment or spending decisions that increase the CFR unless directly and primarily related to the functions of the authority (any financial returns should either be related to the financial viability of the project or incidental to the primary purpose).

## **Prudential borrowing**

- 4.3 Capital financing costs associated with prudential borrowing must be financed by the County Council from its own resources. It is therefore important that the use of prudential borrowing is very closely controlled and monitored. The County Council will only use prudential borrowing where there is a clear financial case to support doing so, although it will not borrow to invest primarily for financial return and therefore retains full access to the Public Works Loan Board (PWLB).
- 4.4 The County Council operates within a framework for the use of prudential borrowing, as updated by Cabinet in February 2006. This includes:
- Borrowing for which loan charges are financed by virement from the Executive Member's revenue budget, including invest-to-save schemes that will generate revenue savings or additional revenue income.
  - 'Bridging' finance that will be repaid by eventual capital receipts, capital grants or contributions, provided that the cost of interest and the statutory minimum revenue provision is met by services in the years that such costs are incurred.
  - Capital investment by business units, to be funded by business unit reserves.
  - Temporary borrowing to accommodate shortfalls in general capital resources.

## **Ensuring borrowing is only for capital purposes**

- 4.5 The Capital Financing Requirement (CFR) is the cumulative outstanding amount of debt finance. The CFR increases with new debt-funded capital expenditure and reduces through annual Minimum Revenue Provision (MRP) charges to the revenue budget and any capital receipts or other contributions used to replace debt.
- 4.6 The Prudential Code states that a local authority must ensure that gross debt is only for capital purposes over the medium term, which means that gross external debt must not exceed the total of the CFR from the preceding year plus the estimates of any additional CFR for the current and next two financial years, except in the short term. This is a key indicator of prudence and is shown in Table 3.

**Table 3: Ensuring Borrowing is Only for Capital Purposes (Prudential Indicator 2)**

	31/03/23 Revised £M	31/03/24 Estimate £M	31/03/25 Estimate £M	31/03/26 Estimate £M
<b>CFR</b>	<b>771</b>	<b>768</b>	<b>777</b>	<b>752</b>
<b>Debt</b>				
Borrowing	221	213	203	200
PFI Liabilities	125	117	109	100
Leases	-	-	15	14
<b>Total Debt</b>	<b>346</b>	<b>330</b>	<b>327</b>	<b>314</b>

- 4.7 Total debt is expected to remain below the CFR during the forecast period. External debt is expected to remain below the CFR because of the County Council's borrowing strategy, whereby it has used internal borrowing (the temporary use of internal cash balances) to fund capital expenditure in place of borrowing money from external sources. Further details are in the County Council's Treasury Management Strategy.

#### **Affordable borrowing limit**

- 4.8 The County Council is legally obliged to set an Authorised Limit for the maximum affordable amount of external debt. In line with statutory guidance, a lower 'Operational Boundary' is also set as a warning level should debt approach the limit. The Operational Boundary is based on the County Council's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the County Council's estimates of capital expenditure, the CFR and cash flow requirements, and is a key management tool for in-year monitoring.

**Table 4: Affordable Borrowing Limits (Prudential Indicators 3 and 4)**

	2022/23 Revised £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
<b>Authorised Limit:</b>				
Borrowing	785	780	770	790
PFI and Leases	150	140	150	135
<b>Authorised Limit</b>	<b>935</b>	<b>920</b>	<b>920</b>	<b>925</b>
<b>Operational boundary:</b>				
Borrowing	750	745	735	755
PFI and Leases	145	135	140	130
<b>Operational Boundary</b>	<b>895</b>	<b>880</b>	<b>875</b>	<b>885</b>



## Affordability of financing costs

- 4.9 Capital expenditure is not charged directly to the revenue budget, however the interest payable on loans and the annual MRP are charged to revenue, as are other financing costs. The impact of these costs needs to be well understood prior to making capital investment decisions and then closely monitored.
- 4.10 Table 5 shows the proportion of the County Council's net revenue stream (Council Tax, business rates and general government grants) required to meet financing costs. This is an indicator of the affordability of the County Council's capital programme.

**Table 5: Ratio of Capital Financing Costs to Net Revenue Stream (Prudential Indicator 5)**

	<b>2022/23 Revised</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
Ratio	4.4%	3.7%	3.5%	3.2%

- 4.11 A low proportion is forecast, demonstrating that the cost of financing is minimised and the proportion of the revenue budget available for delivering services is maximised.

## Reliance on income from commercial and service investments

- 4.12 The update to the Prudential Code in 2021 introduced a new prudential indicator intended to show how reliant a local authority is on income from commercial and service investments, and therefore how exposed the authority is to the loss of this income. Table 6 compares the income from these investments with the net revenue stream (Council Tax, business rates and general government grants) and demonstrates the County Council does not place a significant reliance on this income to balance its revenue budget.

**Table 6: Net Income from Commercial and Service Investments to Net Revenue Stream (Prudential Indicator 6)**

	<b>2022/23 Revised</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
Ratio	0.1%	0.1%	0.1%	0.1%

## 5. Minimum Revenue Provision (MRP) Statement

- 5.1 Where the County Council finances capital expenditure by debt, statutory guidance requires it to put aside revenue resources to repay that debt in later years, known as MRP. There are four options provided by the [MHCLG guidance on MRP](#), however other options may also be considered:

- Option 1: Regulatory Method
- Option 2: CFR Method (4% of the CFR)
- Option 3: Asset Life Method
- Option 4: Depreciation Method

- 5.2 Prior to 2015/16 the County Council calculated MRP for supported borrowing<sup>1</sup> on a 4% reducing balance basis (Option 2). It was agreed by Cabinet in December 2015 that the calculation of MRP from 2015/16 onwards would change to a straight-line basis over 50 years. This is Option 3 from the range provided by the guidance. To be more prudent the 50 years was assumed to have started from 2008, however had the County Council been applying the new policy of a 50-year straight line calculation starting in 2008 it would have made £67m less in MRP payments by 31 March 2016. As agreed in 2016/17 the County Council paused making MRP payments on supported borrowing until it had realigned with the total amount of MRP payments under the new policy, which was during 2021/22 when payments recommenced. No new supported borrowing has occurred since 2013/14 and all MRP payments on pre-existing supported borrowing will cease by 2063/64 when the outstanding CFR balance is fully exhausted.
- 5.3 The County Council will continue to apply the Asset Life Method (Option 3) in respect of unsupported capital expenditure funded from borrowing. MRP will therefore be determined by charging the expenditure in equal annual instalments over an appropriate useful life for the asset.
- 5.4 MRP in respect of leases and Private Finance Initiative (PFI) schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability i.e. the element of rent or charge that goes to write down the balance sheet liability.
- 5.5 The mandatory adoption of the new accounting standard for leases (IFRS 16) has been delayed until April 2024 and the County Council will not be implementing the standard before this date. When the standard is introduced, it will mean that former operating leases will be brought onto the balance sheet on 1 April 2024. Where this is the case annual MRP charges will be set so that the total charge to revenue remains unaffected by the new accounting standard.
- 5.6 MRP is not charged until the year after the capital expenditure takes place, e.g. capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25.

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<sup>1</sup> Borrowing or use other forms of credit to finance capital expenditure, for which central government previously provided a revenue stream to support repayment of principal and interest.

- 5.7 Based on the Authority's latest estimate of its CFR on 31 March 2023, the budget for MRP has been set as follows:

**Table 7: MRP Budget**

	<b>31/03/2023 Estimated CFR £M</b>	<b>2023/24 Estimated MRP £M</b>
Supported Capital Expenditure	439	11
Unsupported Capital Expenditure After 31/03/2008	181	13
Leases and PFI	125	8
Transferred Debt	26	1
<b>Total General Fund</b>	<b>771</b>	<b>32</b>

## **6. Treasury Management**

- 6.1. The Treasury Management Strategy Statement (TMSS) supports the Capital and Investment Strategy in setting out the arrangements for the management of the County Council's cash flows, borrowing and investments, and the associated risks.
- 6.2. The County Council has potentially large exposures to financial risks through its investment and borrowing activity, including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy (TMS).
- 6.3. The County Council's TMS, included as Appendix 8 to this report, is scrutinised by the Audit Committee and approved by the County Council each year. Actual performance is reviewed by the Audit Committee and reported to Cabinet and County Council.

### **Treasury management borrowing strategy**

- 6.4. The County Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans, should the County Council's long-term plans change, is a secondary objective.

### **Treasury management investment strategy**

- 6.5. The CIPFA Code requires the County Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The County Council's objective

when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- 6.6. The contribution that these investments make to the objectives of the County Council is to support effective treasury management activities.
- 6.7. The County Council's actual and forecast treasury management investment balances are shown in Table 8 with further detail in the TMS. The large reduction in total balances in the year to 31/3/24 assumes the County Council pays its Local Government Pension Scheme employer pension contributions in advance for the 3 year period from April 2023.

**Table 8 – treasury management investments**

	<b>31/3/22 actual</b>	<b>31/3/23 forecast</b>	<b>31/3/24 forecast</b>	<b>31/3/25 forecast</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Short term investments	462	478	170	110
Long term investments	15	27	50	50
Higher yielding strategy	205	205	240	240
<b>Total</b>	<b>682</b>	<b>710</b>	<b>460*</b>	<b>400</b>

\*reduction in investments reflects the decision to pre-pay employer pension contributions for three years on 1 April 2023.

### **Pooled fund investments**

- 6.8. The County Council holds reserves for a number of purposes, which are explained in more detail in the Reserves Strategy (Appendix 5). Where the County Council holds surplus cash, it is invested until it is required, in accordance with the TMS. This includes allocating a proportion to investments in pooled funds and other long term investments appropriately targeting a higher yield of around 4%.
- 6.9. To date, the County Council has made investments in pooled property, equity and multi-asset funds, as well as long term investments with other local authorities and as part of the Manydown programme.

- 6.10. Pooled fund investments present a number of risks which must be carefully managed, including the risk of loss of capital, illiquidity, entry and exit fees, and volatility of returns. The initial selection of investments targeting higher yields and their ongoing suitability is carefully managed with the assistance of Arlingclose, the County Council's treasury management advisor. Arlingclose provide advice on the investment strategy, individual investments and the mitigation of risk.
- 6.11. The principal mitigation for risk is ensuring that investments in non-cash assets are held as long-term investments. This will enable the initial costs of any investment and any periods of falling capital values to be overcome. In order to be managed as long-term investments, the amounts invested need to be taken from the County Council's most stable cash balances. The existing allocation of £250m was based on a prudent assessment of the Council's investment balances and liquidity requirements and it is now recommended that the earmark be increased to £320m.
- 6.12. The County Council is aware of the risks involved with investing in pooled funds and has an Investment Risk Reserve in place to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve is currently £6.25m. This equates to 2.5% of the existing earmark of £250m. The recommended increase to £320m would require the reserve to increase by £1.75m to £8m.
- 6.13. Pooled funds allow the County Council to invest in a diversified 'basket' of individual investments and to benefit from the expertise of specialist external investment managers rather than having to employ its own specialists.

## 7. Investment Strategy

- 7.1. Government issued statutory guidance on local government investments in 2018 and requires an investment strategy to be produced, which may be included alongside the capital strategy and/or treasury management strategy.
- 7.2. The term 'investments' within the Prudential Code covers all financial investments of the authority as well as other assets held primarily for financial return, such as commercial property. The Government definition goes slightly further in including all non-financial assets that the organisation holds primarily or partially **to generate a profit**. The Government guidance states that assets that generate revenue income solely through fees and charges for discretionary services levied under Section 93 of the Local Government Act 2003 should not be classified as non-financial investments for this purpose.
- 7.3. The County Council invests its money for three broad purposes:
- Because it holds surplus cash in advance of need (treasury management)

- To support local public services (service investments)
  - To generate a financial return (commercial investments)
- 7.4. Investments are categorised in accordance with the primary purpose of the investment. The majority of the County Council's investments are defined as **treasury management investments** and therefore covered by Section 6 of this document and in more detail in the Treasury Management Strategy.
- 7.5. This Investment Strategy therefore focuses on **service and commercial investments**. The County Council operates a Commercial Board at officer level to consider the development of commercial opportunities. Opportunities for investment are reported to the appropriate Member meetings and, if additional capital schemes are proposed, approval is sought to add them to the Capital Programme in accordance with the County Council's Financial Regulations.
- 7.6. The County Council's [commercial strategy](#) was presented to Cabinet and County Council in the autumn of 2021 as part of the wider Medium Term Financial Strategy (MTFS) and outlined the County Council's approach to commercialisation.
- 7.7. There are four main areas where the County Council has sought to generate additional income to help close the budget deficit:
- a. Charging users for the direct provision of services.
  - b. Investing money or using assets to generate a return.
  - c. Expanding traded services to other organisations.
  - d. Developing Joint Ventures (JVs) that yield additional income or generate a return
- 7.8. The second and fourth approaches listed above directly relate to this Investment Strategy, although it is the first and third approaches that contribute the most income on an annual basis to support the County Council's financial position.
- 7.9. This approach is part of the County Council's desire to **manage and mitigate risk**, through the pursuit of a range of initiatives targeting increased income generation but without overexposing the Council to excessive risk or considering radical changes that take the County Council into areas that are not its core business, or indeed pursuing more niche opportunities that simply do not offer with any confidence anything like the scale of income to merit the effort and upfront investment.
- 7.10. As part of its commercial strategy the County Council is currently actively pursuing becoming even more active and influential in the market of delivering

homes across the county on some of its key sites. Where the County Council does undertake such activity, the categorisation of the investment will be dependent on an assessment of the individual scheme. The largest site to date is Manydown in Basingstoke, a joint venture arrangement between Hampshire, Basingstoke and Deane Borough Council, and a private sector partner (Urban and Civic).

- 7.11. The County Council holds reserves for a number of purposes and invests cash balances as part of normal treasury management activity until they are required for service objectives. As set out in Section 6 of this document, the County Council has been able to earmark an appropriate proportion of this balance to investments (including pooled funds) targeting a higher yield than would have been available from traditional cash investments.
- 7.12. **Investments for commercial purposes** are undertaken primarily for financial return but without being linked to treasury management activity or being part of service delivery. They are therefore additional investments taken voluntarily with the primary objective of generating a net financial return or profit. They will usually constitute capital expenditure. The income generated helps the County Council to deliver its service objectives.
- 7.13. The County Council has a small number of legacy arrangements that generate income from commercial tenants that would be considered commercial investments under the definitions of the MHCLG guidance. It also holds a number of further assets classified as investment properties within its Balance Sheet
- 7.14. All investment properties included within Table 9 are revalued on an annual basis at fair value based on market conditions. In accordance with government guidance, the Authority considers property investments to be secure where the accounting value is higher than the purchase cost including taxes and transaction costs. The most recent valuations are significantly higher than the purchase cost meaning the underlying assets provide security for the original capital investment.
- 7.15. These commercial investments generated just over £1m of income in 2021/22 and therefore covered less than 0.1% of the gross expenditure of the County Council. The strategic land holdings are primarily not held to generate income but to generate future financial benefits and the County Council is not heavily reliant on income from its commercial investments to balance its revenue budget.

<b>Table 9 – investment properties at 31/3/22</b>	<b>Purchase cost</b>	<b>Gain/(loss) in fair value</b>	<b>Value in accounts at 31/3/22</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Legacy arrangements generating income from commercial tenants	13,777	1,626	15,403
Legacy arrangements generating income from residential (secure) tenants	304	431	735
Legacy arrangements generating income from other legal agreements	165	102	267
Strategic land holdings	11,751	117,146	128,897
<b>Total investment properties in accounts</b>	<b>25,997</b>	<b>119,305</b>	<b>145,302</b>

The [Strategic Asset Management Plan](#) (covered in more detail in Section 3) was recently updated. The vision and objectives identified in the SAMP reflect the role that land and property assets can play in achieving the strategic priorities of the County Council. This includes enabling and contributing to economic regeneration and growth in Hampshire, in line with the Hampshire 2050 strategy, as well as enabling the further transformation of County Council services and maximising the financial return from assets in the context of the significant financial challenges the County Council faces to 2025.

- 7.16. The SAMP identifies a desire to explore **commercial opportunities** from assets, including through acquisition, with a change in the organisational risk appetite and an agile approach, to achieve commercial advantage. Any activity that constitutes commercial investments will be considered and reported appropriately in accordance with the requirements of the Prudential Code and the Government investment guidance. This will include consideration of the contribution the investment will make to the County Council, the security of the amount invested, an assessment of the risks involved, and an understanding of the impact of the potentially illiquid nature of the assets involved.
- 7.17. **Investments for service purposes** are those undertaken primarily and directly for the delivery of public services or in support of joint working with others to deliver such services. They will normally constitute capital



expenditure and it may be appropriate to borrow to finance these investments. They may or may not deliver financial returns, but this will not be the primary purpose of the investment. The County Council holds a limited number of service investments.

- 7.18. With the primary aim of improving economic prosperity and related infrastructure within Hampshire, the County Council has granted loans totalling £4.5m at market rates of interest to Farnborough International Ltd. This amount is part of a total of £9.5m including £5m from the Enterprise M3 Local Enterprise Partnership (EM3 LEP), where the County Council is the accountable body. A further £7.9m of loans for other projects have also been granted by the EM3 LEP.
- 7.19. In [May 2022](#), the County Council approved the creation of a £250,000 Revolving Community Energy Fund (RCEF) from the Climate Change budget. This RCEF will invest in community energy projects with the primary objectives of helping to meet the County Council's climate change target and enabling the County Council to provide leadership and support to communities. Individual investments made through the RCEF will be of a value of up to £25,000 and will typically be made through direct investments in share offerings of small local entities. These investments will bring a greater degree of risk than the County Council would accept for treasury management investments, but it understands and accepts these risks given the way that these investments will help achieve the County Council's service objectives on climate change. Risk is mitigated by the RCEF being a very small proportion of the County Council's overall budget and by a defined due diligence process. The County Council may also in future consider other service investments to help meet its climate change objectives.
- 7.20. Accounting standards require local authorities to set aside loss allowances for loans, with a greater percentage loss allowance for loans with a greater chance of not being repaid. The loss allowances calculated are not material to the County Council.
- 7.21. The details of the County Council's service loans at the time of writing are set out in Table 10. This shows separately loans made by the EM3 LEP where the County Council is the accountable body. These amounts appear within the County Council's accounts but the risk of loans not being repaid lies with the LEP.

<b>Table 10 – investments for service purposes</b>	<b>Amount approved £'000</b>	<b>Amount invested £'000</b>	<b>Loss allowance £'000</b>	<b>Approved amount as % of net revenue stream</b>
Farnborough International Ltd (Loan)	4,500	4,500	4	0.5%
Andover Skills Centre – Test Valley BC (Loan)	343	343	0	0.0%
Community energy projects through RCEF (Equity)	250	0	0	0.0%
<b>Total Hampshire County Council</b>	<b>5,093</b>	<b>4,843</b>	4	0.6%
On behalf of EM3 LEP (Loans)	12,906	12,906		
<b>Total including EM3 LEP</b>	<b>17,999</b>	<b>17,749</b>		

7.22. At the beginning of 2019, the County Council entered into a joint venture with Commercial Services Kent (CSK – owned by Kent County Council) to set up an arms-length trading company that supplies agency staff to the County Council. The arrangement was set up utilising existing expertise, knowledge and legal arrangements and not only saves money compared to other private agencies but should also ensure better quality. The loan made to the company was repaid during 2021/22, however the County Council does continue to benefit from the receipt of dividends from the joint venture.

### **Investment indicators**

7.23. In addition to setting Prudential Indicators required by the Prudential Code, the County Council has also set the following quantitative investment indicators in accordance with the requirements of the MHCLG investment guidance.

<b>Table 11 – Total Investment Exposure (£m) and net rate of return (%)</b>	<b>31.03.2022</b>		<b>31.03.2023</b>		<b>31.03.2024</b>	
	<b>Actual</b>		<b>Forecast</b>		<b>Forecast</b>	
	<b>Invested £m</b>	<b>Return %</b>	<b>Invested £m</b>	<b>Return %</b>	<b>Invested £m</b>	<b>Return %</b>
Treasury management (long term)	220.6	4.0%	232.0	4.0%	290.0	4.0%
Service investments (loans)	4.5	4.0%	4.5	4.0%	4.5	4.0%
Service investments (equity)	0	n/a	0	n/a	0.1	5.0%
Commercial investments	26.0	4.4%	26.0	4.4%	26.0	4.4%
<b>Total investments</b>	<b>251.1</b>	<b>4.0%</b>	<b>262.5</b>	<b>4.0%</b>	<b>320.6</b>	<b>4.0%</b>

7.24. This shows that the County Council expects the majority of its investments to continue to be for treasury management purposes. The commercial investments will continue to be legacy arrangements and strategic land holdings and in the table are forecast to be unchanged, although this position may evolve as set out in the recent Strategic Asset Management Plan update. None of these investments are funded by borrowing. Figures shown are the amounts invested not the current market value where these amounts vary.

7.25. The figures above exclude invested on behalf of the EM3 LEP (£12.9m) and the Thames Basin Heaths Joint Strategic Partnership Board (£10.7m) where these investments are held on the County Council's balance sheet due to operational arrangements but where risks associated with these investments do not belong to the County Council.

## **8. Knowledge and skills**

8.1. The County Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions in accordance with the approved strategies. This includes the Chief Executive, Director of Corporate Operations (S151 officer) and Assistant Director Finance (Deputy S151 officer) all being longstanding members of the Chartered Institute of Public Finance and Accountancy

(CIPFA). Performance against targets and learning and development needs are assessed annually as part of the staff appraisal process across the County Council, and additionally when the responsibilities of individual members of staff change.

- 8.2. Staff attend training courses, seminars and conferences provided by CIPFA, Arlingclose and other providers. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.
- 8.3. CIPFA's Code of Practice requires that the County Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All Members were invited to a workshop presented by Arlingclose in November 2022, which gave an update of treasury matters. A further Arlingclose workshop is planned for 2023.

### **Investment Advisers**

- 8.4. The County Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Director of Corporate Operations, their staff, and Arlingclose.

## **9. Chief Financial Officers Conclusion on the Affordability and Risk Associated with the Capital and Investment Strategy**

- 9.1. This Capital and Investment Strategy has been developed alongside the TMS (Appendix 8) and the Reserves Strategy (Appendix 5). Together, they form an integrated approach adopted by the County Council to balance the need for capital investment to support service priorities with consideration of affordability and the consequent impact on the revenue budget, whilst recognising and managing risk to an acceptable level.
- 9.2. The forward planning of capital investment and its funding, including being in a position to maximise the use of external grants, contributions and capital receipts, together with the process of regular monitoring of actual income, expenditure, and project progress, provides assurance to the Director of Corporate Operations that the proposed Capital Programme is prudent, affordable and sustainable.

## 10. Links to Statutory Guidance and Other Information

10.1. The Local Government Act 2003, Section 15(1) and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] require Local Authorities to have regard to the following guidance:

- Statutory Guidance on Local Government Investments\* [Government Guidance Investment](#).
- Statutory Guidance on Minimum Revenue Provision (MRP)
- CIPFA's Prudential Code
- CIPFA's Treasury Management Code

(\*Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, and a TMS in line with the requirements of the Treasury Management Code, the Investment Strategy can be published in those documents instead of as a separate document).

10.2. The County Council includes its non-treasury management Investment Strategy within this Capital Strategy. The TMS is a separate document reported to Cabinet and County Council, (Appendix 8).

10.3. The CIPFA Prudential Code was revised in December 2021 to reflect developments since it was last updated in 2017 and became applicable with immediate effect, however an exception was made to allow the deferral of revised reporting requirements until 2023/24. The revised reporting requirements relate to the capital strategy, prudential indicators and investment reporting. The Treasury Management Code was also revised at the same time.

10.4. The proposed Capital Programme is a separate document presented to Cabinet and County Council in a separate report elsewhere on this Agenda.