

CAPITAL STRATEGY 2022/23 to 2025/26

REPORT OF: HEAD OF CORPORATE RESOURCES
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Wards Affected: All
Key Decision: No
Report to: Audit Committee
Date of Meeting: 1 March 2022

1. Purpose of Report

- 1.1 To present the Capital Strategy 2022/23 to 2025/26 for approval by the Committee.

2 Recommendations

- 2.1 The Committee is recommended to forward the draft Strategy for approval by Council at the next appropriate meeting.**

3. Background

- 3.1 Each year the Council is required to approve a corporate plan and budget that shows how it will deliver its services and spend its financial resources in the following financial year. This includes publishing a Capital Programme which sets out the level of investment in the Council's assets and the financing of that investment.
- 3.2 Our Corporate Plan has in the past included a Strategy designed to guide such investment but this good practice has now been formalised through a revision to the CIPFA Prudential Code. Authorities need therefore to present and have adopted a Capital Strategy each year.
- 3.3 Appendix 1 contains a draft Capital Strategy to fulfil the requirements of the Code. It sets out the principles by which we will make capital investment and aims to balance needs and expectations with available resources.
- 3.4 Members are invited to scrutinise the Strategy and satisfy themselves that it represents their collective view.
- 3.5 This policy would be formally adopted by Council on 2nd March if Members are agreeable.

4. Policy Context

- 4.1 Adopting a Capital Strategy fulfils the Council's statutory duties:

5. Risk Management Implications

- 5.1 None. It is not considered that adopting this strategy brings forward any significant risk. All expenditure decisions are assessed individually.

6. Legal Implications

- 6.1 None.

7. Financial Implications

7.1 This report has no financial implications.

8. Equality and customer service implications

8.1 None.

9. Sustainability implications

9.1 None

10. Background Papers

10.1 None

Appendix 1

2. Capital Strategy to 2025/26

2.1 Overview

The Capital Strategy is a requirement for authorities following the publication of the revised 'Prudential Code for Capital Finance in Local Authorities' in 2017. This strategy forms the framework for capital investment decisions over the next three years and will inform the detailed annual capital budgets over this period. It is closely linked to the Treasury Management Strategy, the Investment Strategy and the Borrowing Strategy. The strategy aims to balance capital expenditure needs and expectations (e.g. replacement of business critical IT systems) with the availability of resources.

2.2 Member approval and review

The Treasury Management Code allows authorities to delegate the detailed management of Treasury Management, including the Capital Strategy, to a sub-committee and this responsibility is delegated to the Audit Committee. This delegation will facilitate more active discussion of the Capital Strategy and its implementation, though overall responsibility will, at all times, remain with the full Council.

2.3 Governance Framework

Given the size of the expenditure and risk in a capital programme, it is important that appropriate governance arrangements are in place. For Mid Sussex these encompass:

- The Strategy itself which is approved annually by full council
- The Cabinet which approves all capital schemes not in the corporate plan,
- The Audit Committee which scrutinises the Treasury Management Strategy and this Strategy,
- The Management Team has overall responsibility for managing and monitoring the Programme,
- The Constitution sets out the responsibilities and powers of the Executive in relation to capital expenditure,
- Monitoring reports each municipal cycle with more detail at the half-year,
- The Financial reporting framework which sets out the 'rules' for capitalisation of expenditure,
- Internal and External audit scrutiny as part of normal practice.

2.4 Strategic Direction of the Council

A key driver of the Capital Strategy is the Council's Statement of Main Purpose 'To be an effective Council delivering value for money services and helping to create a strong economy, environment and community' and the accompanying priorities:

- Effective and responsive services
- Sustainable economic growth
- Strong and resilient communities
- Financial independence

This statement gives a strategic direction to the Council to enable it to meet the demands of the future.

2.5 Capital Expenditure

Capital expenditure, defined in accordance with the Council's approved

accounting policies and procedures, can be funded in a variety of ways:

- Grants
- Section 106 contributions
- Capital receipts
- Direct Revenue contributions
- Borrowing

The method of funding for any particular scheme will depend on a number of factors and this is covered in more detail below. It should be noted that the Council has limited resources for the funding of capital expenditure, with balances having reduced significantly over recent years due to the use of reserves for property investment, earmarking for certain specific projects and financing the overall capital programme.

2.6 **Whole life costing for capital schemes**

Whole life costing can be defined as “the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset.” In practical terms this means that any appraisal of a proposed capital project will need to consider not just the initial capital cost but all costs and income streams associated with the project that are likely to occur in future years, including possible replacement or disposal costs. This is vital to ensure that the Council is not committing itself to future liabilities that are unsustainable.

2.7 **Scheme Evaluation and Risk**

Any appraisal of proposed new capital schemes should include a full evaluation of risk, having regard to the whole life costing methodology set out above. This is set out in the Justification Statement that is completed for all new schemes. Consideration should be given to sustainability issues as part of that appraisal.

2.8 **Monitoring of approved capital schemes**

For approved capital schemes it is the responsibility of the relevant budget holder to manage costs and to provide explanations for any variations from the approved budget, in accordance with Financial Procedure Rules. Budget monitoring statements are presented to Corporate Management Team and Cabinet on a roughly quarterly basis.

3. GENERAL FUND PROGRAMME

3.1 Core annual programme

The Council has a core annual programme comprising asset management (all owned or leased assets), Information Technology and Disabled Facilities Grants (DFGs). DFGs pay for essential adaptations to help people with disabilities stay in their own homes. The DFG programme is entirely funded by Government grant. Asset management and Information technology programmes are funded by capital receipts where available or general reserve if no receipts are available or capitalisation is not appropriate.

3.2 Land and Property Revenue Reserve

A property investment fund has been established with the aim of acquiring properties to generate a return for the Council. Property acquisitions have been funded from earmarking a proportion of the Council's general reserve but in the future we will prioritise the use of receipts from land and property disposals. Acquisitions can only be made once a full business case has been completed and the risks fully understood and evaluated. Presently the reserve is not adequately financed and will require more funding in the future.

3.3 Other Schemes

In addition to the core annual programme other schemes will be considered subject to the criteria set out below. However, the key issue here is the modest funding, as reflected in the Council's medium term financial strategy which envisages only a modest programme with only minor impacts on the revenue account through payment of minimum revenue provision (MRP). It is therefore particularly important that any new schemes have a clear benefit to ensure that limited resources are used in the most effective possible way.

3.4 Prioritising new schemes

In common with other local authorities Mid Sussex is facing a challenging financial climate and it is therefore essential that systems are in place to ensure that scarce resources are allocated in the most effective possible way. New schemes will be assessed against the following criteria:

- Link to the Council's strategic direction
- Availability of specific external funding
- Demonstration of a sound business case
- Whole life cost implications (see 2.6 above)
- Value for money

New schemes will have a Justification Statement that sets out the key factors considered prior to approval by Members.

3.5 Affordability and available resources

In addition to considering the merits of individual schemes the Council will need to assess the overall affordability of any new programme, having regard to the availability of resources, existing financial commitments and the projected level of balances forecast in the medium-term financial plan. As outlined in 2.5 above, possible sources of funding for capital schemes are:

- Grants
- Section 106 contributions
- Capital receipts
- Direct Revenue contributions
- Borrowing

3.6 **Specific resource issues**

Grants and Section 106 contributions are generally used to fund specific capital schemes linked to the conditions imposed by the relevant grant or section 106 contribution. There is little, if any, latitude in the way this funding can be applied. Capital receipts are derived from the sale of the Council's assets. It is the Council's policy to use these receipts to support the General Fund capital programme. A proportion of these receipts may be earmarked for the purchase of land and property (see 3.2 above).

Revenue contributions are a flexible source of funding but they put an immediate strain on the General Fund balance and can therefore only be used to a limited extent. Borrowing spreads the cost over a number of years but loan servicing costs (MRP) and the overall level of debt exposure both need to be considered and clearly flagged in a business case. Guidance on assessing and calculating MRP is set to change as a result of consultation which has been driven by the huge surge in commercial property investment undertaken by councils using relatively cheap finance from the PWLB.

3.7 **Major schemes already approved and committed**

The existing capital programme includes a number of schemes which the Council is fully committed to delivering, although these are not individually significant. It is however likely that until capital receipts become available, the scale of approval for new schemes will be limited.

4. **LINKS TO OTHER COUNCIL STRATEGIES**

4.1 **Treasury Management Strategy**

The capital strategy is closely linked to the Treasury Management Strategy and it is essential that any investment decisions are informed by both strategies. In particular the assessment of affordability outlined in 3.5 above will need to have regard to the relevant elements of the Treasury Management Strategy including:

- The incremental impact of capital investment on council tax levels
- The borrowing strategy
- The authorised limit for external debt

4.2 **Property Investment Strategy**

The landscape around property investment has recently changed with the amendments to the rules around using the Public Works Loans Board, and the forthcoming changes to the MRP regime. The strategy needs to take this fundamental shift into account but while this is being worked up we are working to the general principles outlined in the 2016/17 Corporate Plan and the approval process contained therein; *'Individual transactions would need concurrent agreement by a variety of key Members, i.e. appropriate Cabinet Portfolio Holders and the Chairs of the Scrutiny Committee for Leader and Service Delivery and the Audit Committee.'*

4.3 **Asset Management Strategy**

As outlined in 3.1 above, there is a core annual programme to cover capitalised repairs and improvements for all the Council's assets. The asset management strategy establishes the priorities for this programme having regard to the condition of the various assets and their respective priorities in terms of delivering Council services or generating rental income.

4.4 The adoption of the foregoing principles results in a modest proposed Capital Programme for 2022/23, as detailed further in the paragraphs below.

5. Proposed Projects for 2022/23

5.1 In light of the comments above, the capital and revenue projects that have come forward are as follows:

i) ICT (Capital Projects)

These relate to a workstation replacement programme at £50k, and projects designed to upgrade our capabilities whilst moving us towards being infrastructure free in the longer term.

ii) Other Capital Schemes

This project relates to the purchase of Rubbish and Recycling Service Wheelie Bins over two years.

iii) Major Capital Renewals (Capital Projects)

This is the cost of maintaining our assets and includes phase V of the Oaklands Window Replacements programme. This is part of the ongoing commitment to improve the thermal efficiency of the Oaklands Campus and is a need highlighted within the Corporate Sustainability Strategy and will be a focus of the forthcoming Sustainable Economy Strategy.

iv) Disabled Facility Grants

This is a mandatory scheme and is currently fully funded from a WSCC grant contribution.

v) Housing

Affordable Housing schemes are funded wholly or mainly from S106 contributions.

5.2 The proposed capital and revenue projects to be included in the 2022/23 Capital Programme of Capital and Revenue Projects are set out on the next page.

Proposed New Projects - Capital Programme and Revenue Projects 2022/23 - 2025/26						
	Project Justification	Total 2022/23	Total 2023/24	Total 2024/25	Total 2025/26	Revenue Implications
		£'000s	£'000s	£'000s	£'000s	£'000s
Capital Projects						
Digital & Technology Projects						
PC Replacement Programme IV	Yes	50	50	50	50	
Total Digital & Technology Projects funded from Capital Receipts:		50	50	50	50	0
Others:						
Replacement Wheelie Bin Puchase	Yes	117	117	0	0	
Total Others:		117	117	0	0	0
Major Capital Renewals						
Oaklands:						
Oaklands Replacement Windows Phase V	Yes	95				
Heating works Phase IV	Yes	65				
Oaklands Staff Room and Remodelling and Refurbishment	Yes	44				
Unallocated Funding for future years	n/a		130	146	133	
Total Major Capital Renewals	n/a	204	130	146	133	0
Housing						
Affordable Housing	n/a	650	656			
Total Housing		650	656	0	0	0
Environmental Health						
Disabled Facility Grants	n/a	900	900	900	900	
Total Environmental Health		900	900	900	900	0
Total New Capital Projects		1,921	1,853	1,096	1,083	0
Financed By:						
Grant Contributions WSCC		900	900	900	900	
S106 Housing - non time limited		650	510	0	0	
S106 Housing - time limited		0	146	0	0	
Met from Revenue Contributions (for MCR)		95	130	146	133	
General Reserve		65	0	0	0	
Capital Receipts		211	167	50	50	
Total Financed:		1,921	1,853	1,096	1,083	0

Revenue Projects		£'000s	£'000s	£'000s	£'000s	£'000s
Major Capital Renewals						
Car Parks:						
Resurfacing Heath Road Car Park, Haywards Heath	Yes	41				
Resurfacing of Muster Green Car Park, Haywards Heath	Yes	16				
Unallocated	n/a	10				
Total Major Capital Renewals	n/a	67	0	0	0	0
Other						
<u>Playground Improvements:</u>						
Dolphin Leisure Centre Play Area Haywards Heath	Yes	30				
Hollands Way Play Area, East Grinstead	Yes	62				
<u>Parks Improvement Programme</u>						
Hemsleys Meadow and Finches Field, Pease Pottage Masterplan	Yes	900				
Victoria Park, Haywards Heath Masterplan	Yes	326	tbd	tbd		
Mount Noddy, East Grinstead Masterplan	Yes	180	196	319		
St. John's Park, Burgess Hill Masterplan	Yes	tbd	tbd	tbd		
Total Landscapes	n/a	1,498	196	319	0	0
Total New Revenue Projects		1,565	196	319	0	0
Financed By:						
Met from Revenue Contributions (MCR (£67k))		67	0	0	0	0
S106s (time limited / non-time limited		1,055	96	200		
General Reserve		443	100	119	0	
Total Financed:		1,565	196	319	0	0

- 5.3 Each project (excluding Affordable Housing and Disabled Facility Grants) has a full accompanying justification statement and has been the subject of Ward and Cabinet Member consultation. The justification proformas for all service projects are included at the end of this section.

Background Papers

Report to Scrutiny Committee for Leader, Finance and Performance on 13 January 2021.

Draft Corporate Plan and Budget for 2021/22 report to Cabinet 8 February 2021.

Budget working papers.