

CAPITAL STRATEGY 2024/25 – 2027/28

REPORT OF: **DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT**

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Wards Affected: All

Key Decision: No

Report to: Audit Committee
28 November 2023

Purpose of Report

1. The purpose of this report is to present the Capital Strategy 2024/25 to 2027/28 for approval by the Committee.

Recommendations

2. **The Committee is asked to consider the draft Strategy, provide any feedback it feels is appropriate and recommend the Strategy for approval by Council at the meeting of 28th February 2024.**
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Background

3. The Council approves a Capital Strategy each year, following best practice as set out in the CIPFA Prudential Code. The Strategy supports the Capital Programme by setting out the context, showing the level of investment and how it is financed.
4. Appendix A contains the 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 within the available resources.

Policy Context

5. Adopting a Capital Strategy fulfils the Council's statutory duties.

Financial Implications

6. There are no financial implications outside of those contained within the Strategy.

Risk Management Implications

7. Adoption of the Strategy does not bring forward any significant risk.

Equality and Customer Service Implications

8. None

Other Material Implications

9. None.

Sustainability Implications

10. None.

Appendices

- Appendix A – Capital Strategy to 2027/28

Background Papers

11. None.

Capital Strategy to 2027/28

1.0 Overview

- 1.1 The purpose of the Capital Strategy is to drive the authority's capital investment ambition whilst also ensuring appropriate capital expenditure, capital financing and treasury management within the context of the sustainable, long-term delivery of services.
- 1.2 The Capital Strategy supports the prioritisation of investment in assets that support the objectives of the Council while helping to ensure that all elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.
- 1.3 The Capital Strategy is framed within the following statute and guidance:

Legislation

Local Government Act 2003 as updated by subsequent amendments by Parliament, specifically, Chapter 1:

- Section 1 The power to borrow;
- Section 3 Duty to determine Affordable borrowing limit;
- Section 12 Power to invest;
- Section 15 Regard to guidance issued.

Professional Codes CIPFA Professional Codes

- The Prudential Code for Capital Finance 2021
 - Treasury Management In The Public Services Code of Practice 2021
 - Guidance on Minimum Revenue Provision (Fourth Edition) 2018
 - Local Government Investments 2018
- 1.4 The Strategy is completed in line with best practice as outlined within The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2023.

2.0 Member approval and review

- 2.1 The Treasury Management Code allows authorities to delegate the detailed management of Treasury Management and the Capital Strategy, to a sub-committee and this responsibility is delegated to the Audit Committee.

3.0 Governance Framework

- 3.1 The programme is dynamic in support of the Council's investment need, its sustainability and long-term service delivery. The Council's 5-year rolling programme (current year plus 4) is profiled based on best estimates and is required to be regularly reviewed and reprofiled to ensure the programme is current and can support decision-making.

3.2 To support the dynamic nature of the programme, the Council's constitution, in particular the Financial Procedure Rules set out at Part 4(iv), financial regulations and Capital Strategy govern the capital programme as set out below:

- All capital expenditure must be carried out in accordance with the financial regulations and the Council's constitution.
- The Capital Strategy and Programme is approved by Full Council as part of the Council's annual Corporate Plan and Budget report.
- The Audit Committee scrutinises the Treasury Management Strategy and this Strategy for recommendation to Council,
- Internal and External audit scrutiny as and when agreed by audit plans.
- The programme approved as part of the annual corporate plan and budget will only be added to, or removed from, with the agreement of the AD Corporate Recourses by an approved variation that is in accordance with Financial Regulation B.3.2 (e). and:
 - where budget provision is transferred to capital expenditure financed from revenue account (CERA) or another project in accordance with Financial Limits.
 - where earmarked grants or other specific funding are spent for the purpose they were received, provided that capital resources are enhanced by the amount received. And that the capital receipts are received either before the payments are made, or within the same financial year.
 - Where reprofiling into future years occurs on a project and there is no effect on the availability of capital resources, these should be reported to Cabinet as part of monitoring and equivalent adjustments will be made to the following year's programme.
 - Any request outside of this process would have to be approved by Cabinet;
- Officers are not authorised to commit expenditure without prior formal approval as set out in the financial regulations and the Capital Strategy.
- The Council will put in place an officer led Major Projects Board (MPB) to oversee the development, delivery and reporting of the Council's capital programme.

4.0 Capital Funding

4.1 Capital expenditure can be funded in a variety of ways:

- Grants - contributions are generally used to fund specific capital schemes linked to the conditions imposed by the relevant grant.
- Section 106 contributions - contributions are generally used to fund specific capital schemes linked to the conditions imposed by the relevant Section 106 contribution.
- Capital receipts - Capital receipts are derived from the sale of the Council's assets.
- Direct Revenue contributions (CERA)- Revenue contributions from service budgets within financial limits.
- Reserves and Revenue Set Aside – The Council can use its general fund balance to fund capital projects, specific reserves, and payback from invest to save schemes.
- Borrowing - 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.

- 4.2 Project feasibility works are funded through specific reserves until such a time as the Business Case can be proposed for approval.
- 4.3 The method of funding for any particular scheme will depend on a number of factors and the combination will be reviewed by the S151 officer on an ongoing basis to ensure the best long-term options are achieved.
- 4.4 The Council has historically used funds set aside in the General Reserve to fund both Capital and Revenue project expenditure. A review of the General Reserve has identified £1,200k that should be set aside in a new Earmarked Reserve, to be called the Capital Reserve. A further £500k, funded from treasury activities will be added to the new Capital Reserve to fund a contingency and the delivery of Capital Schemes. Additionally, the Estates Services annual revenue contribution (for Major Capital Renewals) will be paid to the capital reserve to support the cost of ongoing capital maintenance in the programme.

5.0 Whole life costing for capital schemes

- 5.1 To ensure that the full implications on any ongoing revenue costs and income for the Council whole life costing methodology is used. This method allows members and officers to understand any potential pressures or savings for the revenue budget, when a decision to make a capital investment is made.
- 5.2 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.

6.0 Scheme Evaluation and Risk

- 6.1 The Major Projects Board (MPB) will have an overview of any feasibility works and the proper reporting of capital schemes via appropriate project documentation and will as necessary, include a full evaluation of risk and have regard to the whole life costing methodology set out above.

7.0 Monitoring of approved Capital Schemes

- 7.1 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 to MPB in accordance with Financial Procedure Rules.

Capital Programme to 2027/28

8.0 Core Programme

- 8.1 Capital expenditure can be defined as expenditure that results in the acquisition, construction, or enhancement of an asset (e.g., land, buildings, plant, and equipment), that continues to benefit the Council for a period of more than one financial year. The definition of ‘capital’ will be determined by the AD Corporate Resources, having regard to government regulations and accounting requirements. Within the programme, there will be elements of expenditure that for accounting purposes will be defined as revenue.

8.2 To ensure that the Council meets the requirements, it will:

- Ensure expenditure included in the capital programme contributes to the achievement of the Council's Priorities. The programme is considered annually as part of the corporate plan and budget which underpins the financial planning process.
- Ensure investment decisions make best use of resources.
- Have a clear framework for making capital expenditure decisions.
- Ensure access to sufficient long-term assets to provide services.

8.3 The Council has a core programme comprising: -

- Asset Management and Temporary Accommodation (all owned or leased assets) which allows assets to be maintained in a condition fit for purpose and to ensure access to these assets to provide services.
- Information Technology, the overarching principle of the IT&D strategy is to ensure that our Information and Communications Technology (ICT) is fit for purpose for delivering modern council services in a digital era, whilst protecting any data held and maintaining appropriate security standards.
- Disabled Facilities Grants (DFGs) that pay for essential adaptations to help people with disabilities stay in their own homes and is fully funded by Government grant.

8.4 To this end asset management and Temporary Accommodation and information technology programmes are funded by capital receipts in the first instance where available and then general reserve if no receipts are available or capitalisation is not appropriate.

8.5 In addition to the core annual programme other schemes will be considered subject to the criteria set out below. As detailed above it is important that any new schemes have a clear benefit to ensure that limited resources are used in the most effective possible way to support the Council's priorities.

9.0 Prioritising new schemes

9.1 In common with other local authorities Mid Sussex is facing a challenging financial climate and it is therefore essential that governance procedures are in place to ensure that scarce resources are allocated in the most effective possible way.

9.2 Business Cases for 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

9.3 Business Cases (BC) will be required to set out the key factors. BC's will be considered by the MPB before being proposed for inclusion within the programme in line with the financial regulations with appropriate information being presented to Cabinet in line with financial procedure rules.

10.0 Links to other Council Strategies

- 10.1 A requirement under the Chartered Institute for Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services is to prepare a Treasury Management Policy and Strategy setting out the Council's policies for managing investments and borrowing. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Prudential Code and to set Prudential Indicators to ensure that the Council's capital investment plans are affordable, prudent, and sustainable.
- 10.2 Although the Council's policy is that no borrowing will be undertaken and that all capital schemes will only be undertaken when specific funding has been identified, i.e., capital receipts, Government grants, S106 payments, contributions the Local Government Act 2003 permits local authorities to borrow to finance capital expenditure.
- 10.3 The Act allows borrowing only if the plans are affordable, prudent, and sustainable in the long term. Borrowing creates charges upon the revenue budget: the interest payable on the borrowing and; a charge each year over the term of the loan, to provide for the repayment of the loan at the end of its life (also known as Minimum Revenue Provision or MRP).
- 10.4 The Treasury Management Policy and Strategy and the Capital Programme identify a borrowing need. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet the capital expenditure plans.
- 10.5 Under the Prudential Code and Treasury Management Code, the Council is required to set parameters around its borrowing and treasury activity, including an authorised borrowing limit for each year which cannot be breached. Additionally, when funding capital expenditure through borrowing, the Council is required to set aside a sum from revenue each year to repay the debt, known as the Minimum Revenue Provision (MRP).
- 10.6 To ensure the separation of the core treasury function under security, liquidity and yield principles (SLY), and the policy and commercialism investments usually driven by expenditure on an asset, the Capital Strategy is reported separately from the Treasury Management (TM) Strategy. Therefore, the debt related to the activity and the associated interest costs, payback period, Minimum Revenue Provision policy or for non-loan type investments, the cost against the current market value and the financial risks are part of the Treasury Management Policy and Strategy.
- 10.7 The proposed capital programme investment has consideration directly to the Treasury Management Strategy. A specific model developed for this purpose continues to be used and updated to remain current so that it remains responsive to any treasury management risks, such as interest rate volatility. Any borrowing required is within the limits set by the Treasury Management Strategy, which sets out the acceptable limits on ratings, investment periods, amounts to be invested and the borrowing strategy.

11.0 Asset Management

- 11.1 As outlined in 8.3 above, there is a core annual programme to cover capitalised repairs and improvements for all the Council's assets. Asset management planning 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.

12.0 Proposed Programme of Capital and Revenue Projects

12.1 The proposed programme is shown at Table 1 below and Table 2 shows how the programme will be financed.

Oaklands Wifi Refit	6	-	6	-	-	-	-	-	-	-	-	-	-	6		
Office 365 (Phase II) (RP)	50	-	50	-	-	-	-	-	-	-	-	-	-	50		
Research and Innovation Fibre Ring (RIFR)	89	-	89	-	-	-	-	-	-	-	-	-	-	89		
Rural Connectivity Programme	238	-	238	-	-	-	-	-	-	-	-	-	-	238		
Telephony System replacement (hardware) (RP)	194	-	194	-	-	-	-	-	-	-	-	-	-	194		
Workstation replacement programme (future years)	79	-	79	50	-	50	50	-	50	50	-	50	-	229		
Corporate Resources & Digital	775	-	775	50	-	50	50	-	50	50	-	50	-	925		
Bedelands Gypsy and Traveller site (RP)	489	(489)	-	-	489	489	-	-	-	-	-	-	-	489		
Capital Maintenance	-	-	-	146	(71)	75	133	(58)	75	133	(58)	75	75	300		
Intruder Alarm Upgrade	33	-	33	-	-	-	-	-	-	-	-	-	-	33		
Oaklands Staff Room and Remodelling and Refurbishment	44	-	44	-	-	-	-	-	-	-	-	-	-	44		
Oaklands Replacement Windows	2	-	2	-	-	-	-	-	-	-	-	-	-	2		
Estates Services & Building Control	568	-	(489)	79	146	418	564	133	(58)	75	133	(58)	75	868		
Temporary Accommodation	2,809	-	2,809	-	-	-	-	-	-	-	-	-	-	2,809		
Temporary Accommodation (Local Authority Housing Fund (LAHF)- Phase 1)	-	3,365	3,365	-	-	-	-	-	-	-	-	-	-	3,365		
Temporary Accommodation (Local Authority Housing Fund (LAHF)- Phase 2)	-	2,020	2,020	-	-	-	-	-	-	-	-	-	-	2,020		
Temporary Accommodation	2,809	-	5,385	8,194	-	-	-	-	-	-	-	-	-	8,194		
Electric Vehicle fast charging points	11	-	11	-	-	-	-	-	-	-	-	-	-	11		
About the Place Public Arts Project (RP)	86	-	86	-	-	-	-	-	-	-	-	-	-	86		
Burgess Hill Place and Connectivity Programme	984	(492)	492	-	492	492	-	-	-	-	-	-	-	984		
Keymer Brick & Tile Community Building improvement works (RP)	2	-	2	-	-	-	-	-	-	-	-	-	-	2		
Planning Policy & Sustainable Economy	1,083	-	(492)	591	-	492	492	-	-	-	-	-	-	1,083		
Contingency				-	500	500	-	-	-	-	-	-	-	500		
Grand Total	9,032	635	2,710	12,377	1,135	9,175	10,310	1,122	1,132	2,254	1,112	(58)	1,054	975	975	26,970

Table 2 Financing of the programme in £000.

Capital Receipts	General Reserve	TA - General Reserve (New Homes Bonus)	Revenue Contribution – Capital Maintenance	S106 Received	S106 Agreed - not yet received	Grant & Contributions	Proposed Contingency (TM receipts)	Total Financed
3,407	1,152	3,332	302	8,540	285	9,452		26,470
							500	500