

# MID SUSSEX DISTRICT COUNCIL

## CAPITAL STRATEGY 2019/20 to 2021/22

### 1. INTRODUCTION

#### 1.1 Overview

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 scarcity of available resources.

#### 1.2 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.

#### 1.3 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.

#### 1.4 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.

### **1.5 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.

### **1.6 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.

### **1.7 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.

## **2. GENERAL FUND PROGRAMME**

### **2.1 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 whereas the asset management and Information technology programmes are funded by revenue contributions.

### **2.2 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. Further details are set out in Corporate Plan 2017/18 which will be restated as a Property Investment Strategy and Process during the next year.

### **2.3 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. 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.

## **2.4 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 1.5 above)
- Value for money

High priority will be given to the replacement of business critical IT systems for which we have created an ICT reserve to reduce the possibility of funding being unavailable.

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

## **2.5 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 strategy. As outlined in 1.4 above, possible sources of funding for capital schemes are:

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

## **2.6 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 Reserve (see 2.2 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 and the overall level of debt exposure both need to be considered and clearly flagged in a business case.

## **2.7 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.

### **3. LINKS TO OTHER COUNCIL STRATEGIES**

#### **3.1 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

#### **3.2 Property Investment Strategy**

This Strategy will set out the policies relating to the Land and Property Reserve (see above). 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.'*

#### **3.3 Asset Management Strategy**

As outlined in 2.1 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.

**Proposed New Projects - Capital Programme 2019/20 - 2022/23**

		Total	Total	Total	Total	Revenue
	Project	2019/20	2020/21	2021/22	2022/23	Implications
	Justification					
Project		£'000s	£'000s	£'000s	£'000s	£'000s
<b>ICT Projects/ CenSus ICT</b>						
Workstation Replacement	Yes	50	50	50	50	
Relocation of IDOX Uniform and Northgate software to Oaklands	Yes	37				5
Firewall replacement	Yes	25				
Supporting Infrastructure Refresh	Yes	30				
Telephony System Replacement	Yes	120				
<b>Total ICT Projects:</b>		<b>262</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>0</b>
<b>Others:</b>						
Oaklands Window Replacement	Yes	183	177	234		
<b>Total Others:</b>		<b>183</b>	<b>177</b>	<b>234</b>	<b>0</b>	<b>0</b>
<b>Major Capital Renewals</b>						
<b>Oaklands:</b>						
Refurbish West Wing Grd Floor Gents W011	n/a	20				
Refurbish East Wing Kitchen E104	n/a	15				
Refurbish East Wing Gents	n/a	20				
Refurbish IT Suite	n/a	20				
Intruder Alarm Upgrade	n/a	30				
<b>Pavilions:</b>						
Cuckfield Rec Pavilion Refurbishment - Capital	n/a	57				
<b>Car Parks:</b>						
Tolgate Car Park Upgrade - Lindfield	n/a	22				
Trinity Road Car Park Upgrade- Hurstpierpoint	n/a	45				
Unallocated funding for future years	n/a		179	271	444	
<b>Total Major Capital Renewals</b>	n/a	<b>229</b>	<b>179</b>	<b>271</b>	<b>444</b>	<b>0</b>
<b>Housing</b>						
Affordable Housing	n/a		1,083			
<b>Total Housing</b>		<b>0</b>	<b>1,083</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Environmental Health</b>						
Disabled Facility Grants	n/a	900	900	900		
<b>Total Environmental Health</b>		<b>900</b>	<b>900</b>	<b>900</b>	<b>0</b>	<b>0</b>
<b>S106 Partly Funded Schemes:</b>						
<b>Pavilions:</b>						
Cuckfield Rec Pavilion Refurbishment -community funding	n/a	27				
<b>Total S106 Partly Funded Schemes:</b>		<b>27</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total New Capital Projects</b>		<b>1,601</b>	<b>2,389</b>	<b>1,455</b>	<b>494</b>	<b>0</b>
<b>Financed By:</b>						
Grant Contributions WSCC		900	900	900	0	
S106 Agreements -time limited		27	0	0	0	
S106 Agreements -non time limited		0	0	0	0	
S106 Housing - non time limited		0	1,083	0	0	
Met from Revenue Contributions (for MCR)		229	179	271	444	
General Reserve		183	177	234	0	
Specific Reserve		262	50	50	50	
<b>Total Financed:</b>		<b>1,601</b>	<b>2,389</b>	<b>1,455</b>	<b>494</b>	<b>0</b>