

MID SUSSEX DISTRICT COUNCIL

CAPITAL STRATEGY 2021/22 to 2023/24

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 capital receipts where available or revenue contributions if not, or not appropriate to be capitalised.

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. This reserve is presently only minimally funded and no investments can therefore be made.

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 although these are increasingly being delivered as a SaaS (software as a service) model, requiring annual revenue only.

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 consider 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 (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 2.5 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). The landscape for commercial property investment has changed with the recent new guidance on borrowing from the PWLB; this needs assimilating and working up into any new policy. In the meantime, 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, Finance and Performance 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 and Revenue Projects 2021/22 - 2024/25						
	Project Justification	Total 2021/22 £'000s	Total 2022/23 £'000s	Total 2023/24 £'000s	Total 2024/25 £'000s	Revenue Implications £'000s
Capital Projects						
ICT Projects						
Workstation Replacement - Phase III	Yes	50	50	50	50	
Oaklands Wifi Refit	Yes	50				
Total ICT Projects funded from Capital Receipts:		100	50	50	50	0
Others:						
Garden Waste Bins	Yes	30				30 *
Total Others:		30	0	0	0	30
Major Capital Renewals						
<u>Oaklands:</u>						
Oaklands Window Replacement Phase IV	Yes	145				
Partial Resurfacing of Oaklands Car Park	Yes	34				
Heating works Phase 3	Yes	106				
Unallocated funding for future years	n/a		162	130	146	
Total Major Capital Renewals	n/a	285	162	130	146	0
Housing						
Temporary Accommodation	Yes	2,800				
Affordable Housing	n/a	1,000	846			
Total Housing		3,800	846	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		5,115	1,958	1,080	1,096	30
Financed By:						
Grant Contributions WSCC		900	900	900	900	
S106 Housing - non time limited		1,000	371	0	0	
S106 Housing - time limited			475	0	0	
Met from Revenue Contributions (for MCR)		285	162	130	146	
Capital Receipts		2,930	50	50	50	
Total Financed:		5,115	1,958	1,080	1,096	0
* PYE in 21/22. Additional income of £47k from 2022/23 onwards						

Revenue Projects		£'000s	£'000s	£'000s	£'000s	£'000s
ICT Projects						
Network Infrastructure Maintenance Project	Yes	20				
Total ICT Projects funded from General Reserve:		20	0	0	0	0
Total New Revenue Projects		20	0	0	0	0
Financed By:						
General Reserve		20	0	0	0	
Total Financed:		20	0	0	0	0