ARUN DISTRICT COUNCIL

CAPITAL STRATEGY – 2020/21 to 2022/23

1.0 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 Property and Investment Strategy and the Asset Management 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 now delegated to the Audit and Governance 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 Vision programme – "working together for a better future". This programme provides strategic direction to help the Council become more effective and sustainable and to enable it to meet the demands of the future. The strands of the Vision programme are:

- Offering a better customer experience
- Strengthening external relationships
- Providing more digital online services
- Becoming smaller and more effective

1.4 Strategic Council Targets for the Period 2019-2023

The Capital Strategy will also be informed by the additional Strategic Council Targets for the period 2019-2023, agreed by Council on 16 November 2019, which are:

- Environment and Climate Change
- Equality and Diversity
- Local Plan
- Regeneration
- Governance

In agreeing to these targets, the Council noted the associated financial impact and sought to establish financial viability through future Medium-Term Financial Strategies.

1.5 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 scheme will depend on several factors and this is covered in more detail below. It should be noted that the Council has extremely limited resources for the funding of capital expenditure, with the capital receipts balance having reduced significantly over recent years due to the planned use of these receipts for the delivery of the Littlehampton Wave project (Littlehampton's new sports and leisure facility) and for the Housing Revenue Account acquisition/new build programme.

1.6 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 costs, 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.

1.7 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.

1.8 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. Budget monitoring statements are presented to Corporate Management Team on a monthly basis and to Cabinet quarterly.

1.9 Separate capital programmes for the Housing Revenue Account and the General Fund

The capital programmes for the Housing Revenue Account (HRA) and the General Fund are considered in detail below. The HRA is a statutorily ring-fenced account covering income and expenditure relating to the Council's rented stock and the General Fund covers all other Council services. The ring-fence means that the HRA and the General Fund are separate entities, each having their own budget and financial model. For these reasons the HRA and General Fund capital programmes are considered separately.

2.0 HOUSING REVENUE ACCOUNT (HRA) PROGRAMME

2.1 Acquisition of new dwellings

The HRA capital programme for 2020/21 to 2022/23 will be driven by the updated HRA Business Plan, approved by Council in March 2019. One of the key priorities of this plan is the provision of a significant number of new dwellings (250 to 275) over the 10-year life of the plan, the acquisition/building of these dwellings to be funded from a mix of "1 for 1" Right to Buy receipts* and borrowing.

*The receipts retained by agreement with the Government subject to these receipts being used for the provision of new social housing.

These receipts can be used to fund up to 30% of the cost of acquisition/new build schemes. Several acquisition/new build schemes have been completed and there is a pipeline of new schemes, some of which are currently progressing.

2.2 Other capital expenditure

The updated HRA Business Plan reflects the detailed information provided by the recently completed stock condition survey. This has led to a substantial increase in the levels of investment required in the existing housing stock. Additional capital expenditure will be required for regenerating the sheltered stock.

2.3 Affordability and borrowing

The HRA capital programme will need to be regularly reviewed to assess affordability. Consideration will need to be given to the loan servicing costs of any new borrowing to ensure that these costs, together with the costs associated with existing (self-financing) debt can be sustained. This is particularly important in the light of the significant reduction in the number of right-to-buy disposals. The "1 for 1" Right to Buy receipts being used to part-

fund current acquisition/new build schemes are not being replaced by new receipts and there will, therefore, be insufficient receipts to support future schemes. The Council will thus be required to fund up to 100%, rather than just 70%, of these future schemes resulting in additional loan servicing charges.

3.0 GENERAL FUND PROGRAMME

3.1 Core annual programme

The Council has a core annual programme comprising asset management (all non HRA assets), Information Technology and Disabled Facilities Grants (DFG's). DFG's 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 generally funded by revenue contributions.

3.2 Asset management

A recent review of the condition of the Council's General Fund assets revealed that they require significant funding to ensure that they are maintained at an acceptable standard. This will require supplementing the current core programme and using capital receipts and/or S.106 contributions.

3.3 Property Investment Fund

A property investment fund has been established with the aim of acquiring properties to generate a return for the Council. Property acquisitions are funded by earmarking a proportion of the Council's capital 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 the Arun District Council Property Investment Strategy 2017–2022.

3.4 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 uncertainty with regard to future funding levels. The Council's Medium-Term Financial Strategy (MTFS) assumed that £2m would be available in 2020/21 and £1m for each of the following two years. The MTFS recognised that this level of funding would not cover everything and that it was essential that capital investment was carefully prioritised.

3.5 Prioritising new schemes

In common with other local authorities Arun 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 (the Council's Vision programme)
- Availability of specific external funding
- Demonstration of a sound business case
- Whole life cost implications (see 1.6 above)
- Value for money

High priority will be given to the replacement of business-critical IT systems and to the maintenance requirements of the Council's assets.

3.6 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 1.5 above, possible sources of funding for capital schemes are:

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

3.7 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 grant funding can be applied.

Capital receipts are derived from the sale of the Council's assets, including council houses sold under the Right to Buy. It is the Council's policy to use these receipts (except for "1 for 1" Right to Buy receipts which can only be used for the provision of new social housing) to support the General Fund capital programme. A specified proportion of these receipts will be earmarked for the Property Investment Fund (see 3.3 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 demonstrated in a business case.

4.0 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 3.6 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 and housing rent levels
- The borrowing strategy
- The authorised limit for external debt

4.2 Property Investment Strategy

This Strategy sets out the policies relating to the Property Investment Fund (see 3.3 above).

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 non HRA 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. The core annual programme will need to be supplemented in the light of the recent review of the Council's General Fund assets.