Appendix A

ARUN 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 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 2020 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 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 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).

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

1.8 **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 completely separate entities, each having their own budget and financial model. For these reasons the HRA and General Fund capital programmes are considered separately.

2. HOUSING REVENUE ACCOUNT (HRA) PROGRAMME

2.1 **Acquisition of new dwellings**
The HRA capital programme for 2019/20 to 2021/22 will be driven by the approved HRA Business Plan. One of the key priorities of this plan is the acquisition of 250 new dwellings over the 10 year life of the plan, the acquisition to be funded from a mix of "1 for 1" Right to Buy receipts* (30%) and borrowing (70%). However, a recently published Government consultation paper proposed a number of changes to the way that retained Right to Buy receipts can be used and this could have significant implications for the planned programme.

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

2.2 **Other capital expenditure**

The HRA Business Plan identified the need for significant investment in the existing housing stock as one of the primary concerns for the Housing Service. The two key issues in the short to medium term will be

- undertaking a reappraisal of the current improvements/capitalised repairs programme in the light of the outcome of the stock condition survey; and
- establishing and implementing a programme of improvements to some of the sheltered schemes

2.3 **Affordability, borrowing and the abolition of the HRA debt cap**

The HRA capital programme will need to be constantly reviewed to assess affordability. In particular, 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. It is worth noting that due to Arun's policy of making prudent debt redemption provision the (recently abolished) HRA debt-cap has never been a barrier to additional borrowing.

3. 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 funded by revenue contributions.

3.2 **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.

3.3 **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 lack of 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.

3.4 **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 2020 Vision programme)
- 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.

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 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

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, including council houses sold under the Right to Buy. It is the Council's policy to use these receipts (with the exception of "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 3.2 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.

3.7 **Major schemes already approved and committed**

The existing capital programme includes two major schemes which the Council is fully committed to delivering. These schemes will take priority over any others in terms of the allocation of resources. These schemes are "The Wave" – Littlehampton's new sports and leisure facility – and the Pavilion Park at Bognor Regis. It is extremely likely that these schemes will absorb the bulk of any available funding and, given that the schemes are the Council's stated priorities, it is vital that resources are not allocated to other non-priority schemes.

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 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 3.2 and 3.6 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.

Capital, Asset Management and other projects budget 2019/20

General Fund

	£'000
Asset management	800
Disabled facilities grants	1,500
Information & Communications Technology	370
Keystone Centre	250
Pavilion Park	300
Play Areas	100
Public Toilets	200
Total General Fund	**3,520**

Housing Revenue Account

	£'000
Aids and adaptations	410
Boiler Room Improvements	350
Domestic Heating Programme	600
Fire Precaution Works	300
Kitchen & Bathroom Replacement Programme	600
Rewiring	250
Reroofing Programme	643
Sheltered Schemes Programme	600
Windows and Doors	1,074
Other works	596
Total Housing Revenue Account	**5,423**

Total 2019/20 Budget 8,943

3 year Investment programme (General Fund)

General Fund

	2019/20 £'000	2020/21 £'000	2021/22 £'000
Public Toilets (phase 5 of 5)	200		
Play Area Investment (phase 5 of 5)	100		
Keystone Centre (CAB Nov 18)	250		
Firewalls	65		
Mimesweeper	25		
Secure file transfer system/Office Upgrade etc.	80		
Digital Strategy (Eforms & Middleware)	200		
Pavilion Park	300	2,790	
SAN		350	
VMWare DR servers (x6) & Production servers (x9)		80	
Cisco Nexus 10Gb switches		35	
Civic Centre wireless network		50	
Log Management System		30	
Cisco edge switches			50
NetVault Back-up solution			70
Future Schemes			880
Total	**1,220**	**3,335**	**1,000**

Notes :

1 All the 2019/20 schemes in the New Investment programme have been included in the 2019/20 budget.

2 Housing Revenue Account, £15m was included in the 2018/19 budget for the initial stages of the acquisitions/new build programme. This programme is subject to continual review in light of "1 for 1" receipts and the affordability of The Council's contribution (70% of cost)