

Capital Strategy

Havant Borough Council

2024/25 to 2028/29

1.0 Introduction

1.1 The Capital Strategy is a key policy document for the Council and provides guidance on the Capital Programme and the use of capital resources and Asset Management Plans. The strategy reflects the links to other Council plans, in particular the Regeneration Strategy as well as the Medium-Term Financial Strategy (MTFS). The Capital Strategy is written following guidance included in the Prudential Code (2018) and is required to be approved by Full Council.

1.2 The objectives of the Capital Strategy are to:

- Provide an overview of the governance process for approval and monitoring of capital expenditure;
- Provide a longer-term view of capital expenditure plans;
- Provide an overview of asset management planning;
- Provide expectations around debt and use of internal borrowing to support capital expenditure;
- Define the authority's approach to commercial activities including due diligence and risk appetite;
- Defines the available knowledge and skills to the authority in relation to capital investment activities.

1.3 Capital spending is strictly defined and is principally incurred in buying, constructing or improving physical assets such as buildings, land and vehicles, plant and machinery. It also includes grants and advances to be used for capital purposes. The Council's policy on capitalisation is included in the Accounting Policies of the Statement of Accounts. The policy states that only assets with a value over £15,000 will be capitalised and therefore expenditure under these limits is deemed to be a revenue cost.

Current Asset Portfolio

1.4 The Council holds assets split across two categories as detailed below:

- **Investment Property (Non-Operational)**

These assets include Industrial Estates, land held for capital appreciation and rental income.

- **Property, Plant & Equipment**

These are operational properties, land, vehicles, infrastructure and community assets that are used to deliver council services and include Council.

- 1.5 The Council holds an investment portfolio that supports both its operational activities and non-operational activities from which it receives an element of rental income. For the year ended 31 March 2023 the value of investment property rental income £1.5m which represents a gross yield of 3.8% on the value of the investment property assets held.

Asset Category	Valuation 31/03/23 £000	Rental Income 31/03/23 £000
Investment Property	38,100	£1,448
Property Plant and Equipment	68,531	
Assets Under Construction	346	
TOTAL	106,977	

2.0 Financial Principles supporting the Capital Strategy

- 2.1 Capital expenditure is to be incurred in line with Financial Procedure Rules as follows:

- The Chief Finance Officer is responsible for ensuring that a capital programme is prepared for consideration by the Cabinet before submission to Full Council. New Capital projects should be identified by Executive Heads of Service to the Chief Finance Officer, as part of the Budget Planning Process, for inclusion in the Capital Programme.
- Capital schemes may only be committed after:
 - An assessment in the agreed standard format including an estimate of the associated revenue expenditure and income has been approved by the Cabinet; and
 - Appropriate finance has been made available.
- Where it appears that any scheme in the capital programme will be overspent by 10% or £50,000, whichever is the greater, a report shall be made to the Cabinet. The Chief Finance Officer will advise the Cabinet whether or how requests for additional capital finance can be achieved within the overall capital programme. The Chief Finance Officer is authorised to approve virements within the capital programme as outlined in Standing Order 63.

2.2 The key principles to be applied to the Capital Strategy are set out below:

- Capital resources are held corporately and are allocated according to the priorities set out in the Corporate Strategy (i.e. there is no automatic ring-fencing of resources for specific purposes other than Disabled Facilities Grants);
- Capital receipts will be allocated in accordance with Council priorities;
- The Council will seek to maximise the use of grants and external funding;
- The Council is committed to deliver capital investment with partners to maximise benefits where this fits with Council priorities;
- Redirection of capital resources from one project to another will be contained within existing budgets, unless increases can be justified through the budget process;
- Capital budgets are generally cash-limited i.e. no provision is made for inflation which effectively means that over time there is a real reduction in the value of resources allocated to specific capital projects;
- Review of capital financing decisions which will likely have a revenue budget impact due to lack of capital resources (e.g. through reprofiling of capital receipts and borrowing);
- Revisit the Asset Management Plan to see if any asset can be sold;
- In order to reduce the exposure of the council to a borrowing requirement the following steps should continue to be examined:
 - Fundamental review of existing capital programme to ensure that schemes are still required and are accurate;
 - Maximisation of the use of grants and contributions from external sources;
 - Providing a recurring revenue contribution to the capital programme;
 - Invest to save schemes that can repay the capital investment over a period of time.

Capital Investment Assumptions:

- The current capital programme uses a combination of financing including capital receipts, grants & contributions, reserves and borrowing.
- The proposed Capital programme includes some key projects as outlined below:

- Purchase of Temporary Accommodation
 - Waterlooville Leisure Centre Development
 - Local Authority Housing fund for Homelessness
 - Bulbeck Road Redevelopment
 - Disabled Facilities Grant
 - Langstone FCERM (Stage 2)
 - South Hayling Beach Management Plan
 - Broadmarsh Coastal Defense
 - Southwest Hayling Seafront - West Beach
 - Various drainage and improvements
- 2.3 The Corporate Strategy forms part of the Policy and Budgetary Framework for the Council. These frameworks work together to create the strategic framework.
- 2.4 The Capital Strategy must both support and inform the Council's vision for the Havant area and the strategic direction set out in the Corporate Strategy. This is to enable resources to be matched against the agreed priorities and any other supporting needs.
- 2.5 The Capital Strategy takes account of other Council Plans and Strategies which have a potential impact on the use of resources by the Council. Particularly consideration is given to the following key strategies:
- The Medium-Term Financial Strategy, which provides information on the proposed revenue budget and considerations that will impact on future budgets.
 - The Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision Strategy, which sets out the assumptions for financing requirements and interest rates and their effect on the revenue budget.
 - The Local Plan and supporting Infrastructure Delivery Plan.
 - Regeneration Strategy
 - There are also a number of other strategies, which set out policy direction for other key Council priorities.

3.0 Capital Expenditure

Capital Investment Priorities

- 3.1 The Capital Strategy needs to ensure that any capital investment decisions are both affordable and achieve the priorities as set out in the Havant Corporate Strategy; any such investment in assets is likely to have implications on the revenue budget.

- 3.2 The Capital Strategy must therefore recognise the implications of capital investment decisions and ensure that they are in line with Council priorities and financing requirements are robustly evaluated and understood.
- 3.3 The capital programme does not currently include all provisions for investment to progress the regeneration in the Havant borough as it will be subject to individual business case approval. Other capital investment opportunities may present themselves over the lifetime of the MTFS, and each will be subject to further business cases on investment opportunities and the benefits that could be made from those investments.
- 3.4 All business cases will be subject to the usual due diligence to ensure that they afford the best value for money for the Council, align with its core priorities and do not expose the Council to unnecessary risk that could put future delivery of services in jeopardy.

Capital Expenditure Forecasts

- 3.5 The Council's forecasts for the period 2024/25 to 2028/29 are shown below, the more detailed Capital Programme can be found as an Appendix D with the Council's approved Capital Budget.

Summary of Capital Programme	2024/25	2025/26	2026/27	2027/28	2028/29
Service area/Amount	£'000	£'000	£'000	£'000	£'000
Executive Head of Housing and Communities	15,649	330	330	330	60
Executive Head of Regeneration, Economic Development and Preventative Services	3,608	490	100	100	100
Executive Head of Commercial	430	184	186	204	191
Executive Head of Internal	207	0	0	0	0
Executive Head of Place	1,993	1,993	1,993	1,993	1,993
Coastal Schemes	3,566	8,878	8,944	1,096	4,165
Total Capital Programme	25,454	11,875	11,553	3,723	6,509

Current Resource Forecasts

- 3.6 The Council's capital programme will be financed (or paid for) through a variety of sources and the Chief Finance Officer will make recommendations on the most effective way of financing the Capital programme to optimise the overall use of resources. The Capital Programme is detailed at Appendix D.

Capital Grants

- 3.7 The Council receives one primary capital grant from central Government to support its role in providing Disabled Facilities Grants; for 2024/25 the Council has

been allocated £1.993m. The grant is distributed through the County Council as part of the wider Better Care Fund and, as such, future year's allocations may therefore be subject to change.

Revenue Contributions and Reserves

- 3.8 The capital programme can also be financed through the use of reserves (both capital and revenue) although revenue contributions will have an overall effect on the General Fund revenue budget.

3.9 Capital Receipts

Capital receipts arise principally from the sale of Council capital assets. The sales of assets are utilised to support the Capital programme in the Capital Strategy. The usable capital receipts reserve contains a current balance of £10.321m as at 31/03/2023 of which £8.9m is earmarked for regeneration reserve.

Community Infrastructure Levy (CIL)

- 3.10 The Council has put in place a separate spending protocol to guide CIL spending decisions. As well as detailing the process and operation of CIL spending decisions it ensures that any proposals are considered as part of the Council's annual capital budget setting process.
- 3.11 CIL is mainly collected on new housing developments and some retail where there is not an exemption given under the CIL Regulations 2010 (as amended).
- 3.12 The Council has put in place a separate spending protocol to guide CIL spending decisions. As well as detailing the process and operation of CIL spending decisions it ensures that any proposals are considered as part of the Council's annual capital budget setting process.
- 3.13 We are faced with falling CIL receipts, consequent upon the wider economic climate impacting the housing market, causing fewer sites to be commenced. It is anticipated that gross CIL receipts for the financial year ending 31/3/24 will be over £1,000,000 less than the gross CIL receipts for the financial year ending 31/3/23 which were £2,727,048. We are currently unable to forecast when the housing market will recover so may be faced with this reality for a number of years to come. This is likely to have a short to medium term impact on the provision of infrastructure.

Strategic CIL Funding

- 3.14 We received 15 'Expressions of Interest' in respect of Infrastructure related Capital Projects that could be eligible for Strategic CIL Funding.

- 3.15 Funding requests totaled in excess of £7,500,000 and the 'pot' available to spend is £5,979,239.
- 3.16 Decisions on Strategic CIL Funding recommended in the Capital Spending Strategy are in accordance with the CIL Spending Protocol 2024. These are reiterated below for clarity:

Description	Amount
Langstone FCERM	£2,500,000
Changing Places	£150,000
Northney Drainage	£184,000
Hayling Seafront Signage	£50,000
Hayling Seafront Boardwalks	£30,000
TOTAL	£2,914,000

To respond to falling CIL receipts we have therefore taken a prudent approach to this year's allocation of Strategic CIL Funds so there remains a suitable pot for commitment to future infrastructure provision likely to arise from the Corporate Strategy and its supporting strategies.

Neighborhood Portion CIL Funding

- 3.17 The total spending 'pot' for Neighborhood Portion CIL is as follows:

Item	%	Amount
Parks, play, open spaces, sport and leisure	50%	£309,283
Public spaces and facilities	25%	£154,642
Community Centres	12.50%	£77,321
Walking and cycling routes, paths and facilities	12.50%	£77,321
	Sub total	
Additional Neighbourhood Portion for Emsworth		£11,926
	Grand total	£630,493

Funding decisions on Neighborhood Portion CIL allocation are delegated to the Head of Place in consultation with the Cabinet Lead for Communities and Housing. A report on CIL expenditure, project progress and performance will be submitted to Cabinet on a quarterly basis alongside the exist wider quarterly finance and performance reports.

Borrowing Requirement

- 3.18 The borrowing requirements have been updated to reflect the potential financing needs to support the HBC Corporate and Regeneration Strategies. The current Capital Programme (Appendix D) shows an Unsupported Borrowing requirement of £7.6m. At present it is anticipated this will be funded by Internal Borrowing while there are available resources, any External Borrowing required will be done in line with our Treasury Management Strategy detailed in Appendix F.

4.0 Treasury Management Strategy

The Capital Strategy is an accompaniment to the Treasury Management Strategy. The latter sets out the required Prudential Indicators for Treasury Management and Capital Expenditure and includes a Policy Statement for the Minimum Revenue Provision (MRP) for borrowing.

5.0 Commercial activity

- 5.1 Whilst the Council does currently receive income from investment properties it does not actively seek to generate additional revenue income through the purchase of investment properties.

6.0 Knowledge and Skills

- 6.1 The Council utilises the knowledge and skills of its internal officers when considering capital investment decisions and where necessary it also relies on the expert knowledge of specialist external advisors.
- 6.2 The Council employs professionally qualified legal, finance and property officers who are able to offer advice and guidance when considering any capital investment decisions.

Finance

- 6.3 The Section 151 Officer and Head of Corporate Finance (Deputy S151) are professionally qualified to advise the Council on all financial aspects of capital decisions. They also have numerous years of experience of how Councils work, and also undertake Continuous Professional Development. In addition, they maintain knowledge and skills through regular technical updates from appropriate bodies.

Property

- 6.4 The Council's in-house property team is made up of a number of Chartered Surveyors who advise the Council on all property matters. They are all members of the Royal Institution of Chartered Surveyors (RICS) and comply with the RICS's rules in relation to Continuing Professional Development. The Property Services Manager is also an RICS Registered Valuer.

Legal

- 6.5 Legal Staff are professionally qualified as either solicitors or legal executives and are regulated by their respective professional bodies (Solicitors Regulation Body/Institute of Legal Executives). The staff undertake Continuing Professional Development and their rules of conduct require that they have an appropriate level of skill and expertise. All staff are aware of the operational structure of the Council. The Council will also use external specialist legal advice on more complex transactions as and when required.

External Advice

- 6.6 The Council uses external advisors where necessary in order to complement the knowledge its own officers hold. Some of these advisors are contracted on long term contracts or are appointed on an ad-hoc basis when necessary.