

Capital Strategy

Havant Borough Council

2019/20 to 2023/24

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 approved by Council on 7th November 2018, 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.

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.

1.2 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.

1.3 **Evaluation and Monitoring of Capital Projects**

The Council has a Programmes and Projects Board whose purpose is:

- to act as the Corporate Board for strategic//key corporate projects contributing to the delivery of the Corporate Strategy;
- to monitor the progress of the council's strategic/key corporate projects; including governance arrangements;
- to review and consider resourcing issues on projects.

The function of the board is to be accountable for the success of the key projects which contribute to the delivery of the Corporate Strategy. A “Strategic Project (also known as a “Key Corporate Project”) is defined as – any project which Executive Board have deemed to require strategic oversight and is tracked on the “Strategic Project” list maintained by the Board.

Project Board will be responsible for ‘live’ projects. Any Corporate Project that requires approval will go through the usual mechanism of Executive Board – Cabinet – and/or Council. Once a Corporate Project is approved (including funds) then a decision will be made by Executive Board on whether the project should be managed through Project Board.

In line with Prince 2 management standards, the Programmes and Project Board will:

- Consider recommendations from the projects and provide strategic oversight to ensure continued fit with the business strategy for the Council
- Approve major plans and any major changes on key projects including invocation of Exception status where projects are not progressing to plan
- Allocate corporate funding and resources to key projects
- Ensure corporate-wide communication relating to key projects is relevant and timely
- Ensure appropriate governance and project assurance is in place for key projects and risks are being appropriately monitored and escalated where necessary.

The Programmes and Projects Board will link with the project management structures for each key project. The Business Solutions Unit will ensure appropriate and complementary project governance structures are in place, in line with Prince 2 management standards, to avoid confusion regarding roles and responsibilities. Prince 2-based templates for projects and programmes will be the standard reporting tools for all projects.

The Programmes and Project Board will comprise of ‘Accountable’ and ‘Supporting’ Officers. Supporting Officers attend to offer support and guidance in their respective areas, but will have no voting rights as part of the decision making process. Decisions will only be agreed by Accountable officers, being:

Chief Executive

Chief Finance Officer and Director of Corporate Services

Service Director for Operations and Neighbourhoods

Service Director for Regeneration and Place

1.4 **Current Asset Portfolio**

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 2017/18 the value was £1.475M which represents a gross yield of 6.3% on the value of the assets held.

Asset Category	Valuation 31/03/18 £000	Rental Income £000
Investment Property	22,476	1,475
Land and Buildings	50,949	} 537
Vehicles, Plant and Equipment	454	
Infrastructure	1,570	
Community Assets	3,472	
Intangible Fixed Assets	226	
TOTAL	79,147	2,012

The rental income it receives is used to support Council services and represents 7% of the total income it receives.

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

Infrastructure (Operational)

These assets include bridges and footpaths.

Community Assets (Operational)

These assets include parks and open spaces.

Vehicles, Plant and Equipment (Operational)

These assets are used in the delivery of Council services and include all Council owned vehicles, IT equipment, play equipment and green spaces equipment.

The assets held on the balance sheet are offset by the long-term debt currently held on the balance sheet. As at 31 March 2018, this totalled £3.786million, which represents a debt cover ratio of 4.8%.

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 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 a sum of £50,000 or more 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);
- 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 2019/20 proposed capital programme does not currently include the projects outlined in the Regeneration Strategy approved at Council in November 2018 as they are subject to further business cases.
- The Strategy covers key regeneration areas in the borough:
 - Town Centre Redevelopments
 - Havant Strategic Employment Sites
 - Hayling Island Seafront

- The indicative investment cost is estimated at £235M over four years with funding coming from Reserves, Capital Receipts, Grants, Developer Contributions and Borrowing.

2.3 **Havant Borough Council Corporate Strategy and Other Council Strategies, Plans and Policies**

The Corporate Strategy forms part of the Policy and Budgetary Framework for the Council. These frameworks work together to create the strategic framework.

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.

The Capital Strategy takes account of other Council Plans and Strategies of the Council, 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.
- Local Plan/Local Development Framework.
- Regeneration Strategy.
- There are also a number of strategies, which set out policy direction for other key Council priority areas.
- Service Business Plans will be used to inform the budget setting process and identify key strategic and operational objectives and the resources required to deliver those.

3.0 Capital Expenditure

3.1 Capital Investment Priorities

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.

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.

The capital programme does not currently include provision for investment to progress the regeneration in the Havant borough as it will be subject to individual business case approval. However, 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.

In recognition of the Council's prioritisation of regeneration, staff resources to deliver the approved programme will be strengthened through the establishment of a new team to deliver the Council's Regeneration Strategy (subject to Budget Council approval). More generally, resources will need to be reviewed on an ongoing basis, to ensure successful delivery.

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.

3.2 Capital Expenditure Forecasts

The Council's forecasts for the period 2018/19 to 2023/24 are shown below. Note that this does not include new capital bids for 2019/20 onwards which are still subject to approval at Budget Council.

Project	2018/19 Revised Forecast £000's	2019/20	2020/21	2021/22	2022/23	2023/24
		£000's	£000's	£000's	£000's	£000's
Housing						
DFG's - Full Allocation	1,628	1,628	1,628	1,628	1,628	1,628
IT Equipment						
Replacement of Noise Monitoring Equipment	22					
Processing and Management System	-	204				
Asset Maintenance management system	-	35				
Building Control - software	18	32				
Southern Coastal	20	20				
Vehicles and Equipment						
Pest Control vehicles	-	30				
Neighbourhood Quality Fleet Replacement	17					
New allotments	-	135				
Refurbishment of HBC equipped play areas	75					
Land and Buildings						
Front Lawn	114					
HBC Plaza Development Phase 1	-	3,600				
Barton Green Pavillion - Grant & S106	80					
Redevelopment Front Lawn - Grant & S106	54					
Brock	200					
TOTAL GROSS PROGRAMME	2,228	5,684	1,628	1,628	1,628	1,628

3.3 Current Resource Forecasts

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 table below shows the proposed capital financing at this time.

	2018/19 Revised Forecast £000's	2019/20	2020/21	2021/22	2022/23	2023/24
		£000's	£000's	£000's	£000's	£000's
Funding:						
External Grants & Contributions	1,971	5,248	1,628	1,628	1,628	1,628
Use of Specific Reserves	218	271	-	-	-	-
Use of Capital Receipts	39	165	-	-	-	-
Borrowing Requirement	-	-	-	-	-	-
Revenue Funding		-	-	-	-	-
TOTAL FUNDING	2,228	5,684	1,628	1,628	1,628	1,628

3.3.1 Capital Grants

The Council receives one primary capital grant from central government to support its role in providing Disabled Facilities Grants; for 2018/19 the Council has been allocated £1.628m. There have been changes to the way the grant

is now distributed with the funding being provided to the County Council as the Better Care provider who then allocate funding to the District Councils. Future year's allocations may therefore be subject to change as part of this change in procedure.

3.3.2 Revenue Contributions and Reserves

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

3.3.3 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. Capital receipts totalled £1.4M as at 31 March 2018.

3.3.4 Borrowing Requirement

The borrowing requirement was updated in 2018/19 to reflect the potential financing needs to support the Regeneration Strategy. However, as previously mentioned, progression of the individual projects will be subject to approval of business cases.

4.0 Treasury Management Strategy

4.1 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 on 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.

6.3 **Finance**

The Section 151 Officer and Deputy Section 151 Officer are professionally qualified to advise the Council on all financial aspects of capital decisions. They also have the 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. Capita Local Government Business Services are contracted to provide a full range of financial services to the Council including treasury management services, financial management and technical accounting support and advice.

6.4 **Property**

The City 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.

6.5 **Legal**

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 to deal with the particular matter with which they are dealing. All staff are aware of the operational structure of the Council. They maintain knowledge and skills through regular technical updates from appropriate bodies. The Council will also use external specialist legal advice on more complex transactions as and when required.

6.6 **External Advice**

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. The main advisors the Council uses are as follows:

- **Link Asset Services** – Treasury Management, including Cash investments, borrowing and capital financing