

Capital Strategy 2018/19

1. Introduction

- 1.1 This Capital Strategy sets out the Council's priorities and approach to capital investment. It provides a mechanism by which the Council's capital investment and financing decisions can be aligned with the Council's corporate priorities over a medium term (five year) planning timeframe.
- 1.2 The Strategy sets the corporate framework within which capital investment is planned, procured, prioritised, managed and funded. The Strategy has direct links to the Council's Asset Management Strategy and forms an integral part of the Council's Medium Term Financial Strategy.
- 1.3 The aim of this Capital Strategy is to provide a clear context within which proposals for new capital expenditure are evaluated to ensure that all capital investment is targeted at meeting the Council's priorities.
- 1.4 Capital projects will focus on the delivery of long term economic growth and or financial return benefits to the District in the form of:-
 - Spend to save
 - Spend to earn income or other financial returns
 - Attracting significant third party or private resources to the District
 - Addressing major infrastructure investment
- 1.5 The Strategy sets out how the Council identifies, programmes and prioritises capital requirements and proposals arising from business plans, the Planned Preventative Maintenance (PPM) Schedule and other related strategies.
- 1.6 The Strategy also considers options available for funding capital expenditure and how resources may be maximised to generate investment in the area and to determine an affordable and sustainable funding policy framework, whilst minimising the ongoing revenue implications of any such investment and to identify the resources available for capital investment over the MTFS planning period.
- 1.7 The Strategy establishes effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, and the achievement of Value for Money.

2. CAPITAL PROGRAMME NEEDS AND PRIORITIES

- 2.1 Capital expenditure involves the acquisition, creation or enhancement of fixed assets with a long term value to the Council.
- 2.2 Fixed assets shape the way services are delivered in the long term and create financial commitments for the future, including capital financing and ongoing revenue costs. The classification of assets are as follows:

| Category | Asset Type |
|-------------------------------------|---|
| Intangible Assets | ICT Software |
| Property, Plant and Equipment (PPE) | Land and Buildings |
| | Vehicles, Plant and Equipment |
| | Infrastructure Assets (eg. housing paths) |
| | Community Assets (eg. country parks or historic buildings) |
| | Surplus Assets |
| | Assets Under Construction |
| Investment Assets | Investment Properties - ie. held for income earning or capital appreciation |
| Assets Held for Sale | Assets actively marketed for Disposal |
| Heritage Assets | Assets held that contribute to the knowledge and history of the area |

- 2.3 The Council applies a de-minimus level of £10,000 for individual items to be charged as capital expenditure. Items below this limit are charged to revenue in the year that it is incurred.
- 2.4 Financial resources available to meet corporate priorities are constrained in the current economic and political climate. Central government support for capital investment has reduced significantly over recent years, and the Council now recognises that it must rely more on internal resources and seek ways in which investment decisions can be either self-sustaining or generate positive returns both in terms of meeting corporate objectives and producing revenue savings.
- 2.5 The 5 year 2018/19 – 2022/23 General Fund capital programme totals £29,699,159. The programme is funded by a combination of Section 106 developer contributions, Government grants, capital receipts, revenue and internal and external borrowing.
- 2.6 The Council's PPM identifies the total capital investment need in relation to the Council's asset portfolio. The PPM includes significant backlog maintenance issues across the Councils property portfolio.
- 2.7 The approach to developing the capital programme is based upon the following:
- 2.7.1 **Economic Investment** – The Council will continue to seek investments that generate longer term growth in projects that yield a combination of revenue generation (business rates, rent or interest), jobs and capital infrastructure

investment. Based on sound business cases the Council will assist in acquiring strategic sites for the delivery of major investment projects.

- 2.7.2 **Self-Sufficiency** – The Council will seek to invest in assets that support self-sufficiency for the Council.
 - 2.7.3 **Corporate Property** – To reduce its backlog maintenance liability the Council will rationalise its asset base. This is either in the form of the sales of surplus assets or the outsourcing of management arrangements. These will contribute to ongoing revenue savings and / or capital receipts respectively.
 - 2.7.4 **Decent Homes** – The Council will continue to invest in its council housing to maintain the Government’s Decent Homes standard.
 - 2.7.5 **Car Parks** – The Council owns and manages 28 car parks within the District. The Council will continue to minimise the ongoing delivery costs, whilst seeking to maximise income. More details with regards to car parks can be found in the Council’s Car Parking Strategy.
 - 2.7.6 **Culture & Tourism** – The Council owns two scheduled monument assets: Moira Furnace, a tourist museum operated by an external third party; and the War Memorial Tower, a listed war memorial in the centre of Coalville.
 - 2.7.7 **ICT** – The Council will undertake appropriate investment into ICT hardware and software on a case by case basis. The primary focus is to improve technologies on a spend to save basis.
 - 2.7.8 **Leisure** – The Council currently owns 2 leisure centres, Hood Park Leisure Centre in Ashby and Hermitage Leisure Centre in Whitwick, Coalville. In November 2017, the Council decided to outsource the provision of its leisure centres, to include the closure of the Hermitage site and the building of a new replacement facility in Coalville (funded by the Council), as well as the ongoing maintenance of Hood Park. At the time of writing this Strategy, a procurement exercise is underway to secure an operator. The Council will retain ownership of both the existing and new assets, however from inception of the contract (anticipated April 2019), the new operator will be responsible for all capital improvement works.
- 2.8 The following material investments will be undertaken between the period of 2018 and 2023:
- 2.8.1 **New Leisure Centre** – As detailed in 2.7.8 above, a new facility will be delivered through the outsourcing of the Council’s Leisure Centre services. The agreed maximum value of the new facility is £19.475m and will be funded through a mixture of internal and external borrowing and capital receipts arising on the disposal of a Cropston Drive, one of the Council’s remaining significant land holdings.

3. RESOURCING

- 3.1 The Capital Programme is resourced as follows:

- 3.1.1 **Central government** – Grants are allocated in relation to specific programmes or projects. An example of a Government Grant in the current programme is the Disabled Facilities Grant.
- 3.1.2 **Third Party funding** - Capital grants represent project specific funding for capital projects, in addition to that from Central Government, which is more usually received from quasi-government sources or other national organisations. In developing capital proposals the Council will always seek to maximise such external contributions, subject to any related grant conditions being consistent with the Council's policy aims and targeted outcomes. Frequently such funding, which enhances the Council's investment capacity, will also be linked to match funding arrangements.
- 3.1.3 **Developer contributions** – these represent contributions from developers towards the provision of public assets or facilities. Sometimes these are to mitigate the impact of their development on communities and often referred to as Section 106 contributions. These contributions are usually earmarked for specific purposes in planning agreements and often related to infrastructure projects.
- 3.1.4 **Unsupported borrowing** – under the Prudential Code the Council has discretion to self-finance the capital programme by undertaking borrowing to fund capital projects with the full cost of that borrowing being funded from within Council resources, as identified in the MTFs and annual budgets. This discretion is subject to complying with the Code's regulatory framework which essentially requires any such borrowing to be prudent, affordable and sustainable. Unsupported borrowing does provide an option for funding additional capital development but one which has to be funded each year from within the revenue budget or from generating additional ongoing longer term income streams
- 3.1.5 **Capital receipts from property asset disposal** – the Council has a substantial property estate, mainly for operational service requirements and administrative buildings. This estate is managed through the PPM which identifies property requirements and, where appropriate, properties which are surplus to requirements and which may be disposed
- 3.1.6 Capital Receipts from Vehicle, Plant and Equipment disposal – the Council has reduced its leasing commitments on vehicles and plant over a number of years and currently all Vehicle, Plant and Equipment is owned by the Authority. The rolling programme of fleet replacement generates capital receipts which are then utilised against future purchases of fleet equipment.
- 3.1.7 **Revenue and Reserves** – Capital expenditure may be funded directly from an in-year revenue contribution (RCCO – Revenue Contribution to Capital Outlay) or by specific revenue funds previously set aside, such as repairs and renewal funds. However, the general pressures on the Council's revenue budget and Council Tax levels limit the extent to which this may be exercised as a source of capital funding.
- 3.1.8 How the Capital Programme is Financed over 2018/19 to 2022/23

| | Government Grant | Developer Contributions | Borrowing | Capital Receipts | Revenue or Reserves | Total |
|----------------|-------------------------|--------------------------------|-------------------|-------------------------|----------------------------|-------------------|
| 2018/19 | 572,989 | - | 2,290,000 | 30,000 | 244,264 | 3,137,253 |
| 2019/20 | 572,989 | 181,000 | 10,701,500 | 2,775,000 | 50,000 | 14,280,489 |
| 2020/21 | 572,989 | - | 8,989,450 | - | 50,000 | 9,612,439 |
| 2021/22 | 572,989 | - | 1,138,000 | - | 50,000 | 1,760,989 |
| 2022/23 | 572,989 | - | 285,000 | - | 50,000 | 907,989 |
| Total | 2,864,945 | 181,000 | 23,403,950 | 2,805,000 | 444,264 | 29,699,159 |

- 3.2 Utilising unsupported borrowing impacts on the revenue budget from ongoing costs to finance the debt. This is both the interest cost of the borrowing and the Minimum Revenue Provision that is set aside to repay the debt. Given the pressure on the Council's revenue budget in future years, investment will be limited to cases where there was a clear financial benefit, such as "invest to save", "spend to earn" or major regeneration schemes which provide a net return over and above the borrowing cost. Such schemes will focus on the Council's priorities and generate revenue benefits in future financial years in the form of income such interest on loans, rents, council tax or business rate yield will be favoured.
- 3.3 The Council will continue to consider on a cautious and prudent basis the extent to which prudential borrowing may be undertaken to fund new capital investment, which generates returns over and above the revenue costs of the debt.
- 3.4 Capital receipts from asset disposal represent a finite funding source and it is important that a planned and structured manner of disposals is created to support the priorities of the Council. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment as and when received.

4. GOVERNANCE AND MONITORING OF THE CAPITAL PROGRAMME

- 4.1 The Council reviews its capital requirements and determines its Capital Programme within the framework of the MTFS and as part of the annual budget process. Resource constraints mean that the Council continually needs to prioritise expenditure in the light of its aims and priorities and consider alternative solutions.
- 4.2 The Council's capital investment falls within, and needs to comply with, the "Prudential Code for Capital Finance in Local Authorities" (The Code). Under the Code local authorities have greater discretion over the funding of capital expenditure to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver their capital plans and programmes.
- 4.3 To ensure that available resources are allocated optimally, capital programme planning is determined in parallel with the service and revenue budget planning process within the framework of the MTFS.
- 4.4 The main forum for reviewing financial, risk and governance aspects of the capital programme is the Asset Management Group. This group reviews the strategic direction of the programme, ensures outcomes are aligned with the Council's priorities, significant projects have a viable Business Case and that Value for Money is delivered for the Council. It also monitors the expenditure and funding requirements of the capital programme and subsequent revenue impacts.
- 4.5 The Council has various mechanisms in place which seek to ensure that there is an integrated approach to addressing cross-cutting issues and developing and

improving service delivery through its capital investment in pursuance of the Council's over-arching aims. These include:

4.5.1 Democratic decision-making and scrutiny processes which provide overall political direction and ensure accountability for the investment in the capital programme. These processes include:

- The Council which is ultimately responsible for approving investment and the Capital Programme;
- The Cabinet which is responsible for setting the corporate framework and political priorities to be reflected in the Capital Programme; The Cabinet will continue to receive quarterly monitoring reports.
- The Audit and Governance Committee which is responsible for scrutiny of the Council's statement of accounts and can make recommendations to Cabinet and full Council.

4.5.2 Officer Groups which bring together a range of service interests and professional expertise. These include:

- Departmental Senior Management Teams (SMT's), responsible for development of investments;
- The Asset Management Group, responsible for overseeing and approving reports for investments prior to Cabinet approval;
- The Corporate Leadership Team which has overall responsibility for the strategic development, management and monitoring of the capital programme;

4.5.3 An integrated service and financial planning process where all proposals for capital investment are required to demonstrate how they contribute to the achievement of the Council's aims and priorities.

4.6 Quarterly reports will continue to be submitted to Cabinet that identify changes to this programme to reflect;

- New resource allocations
- Slippage in programme delivery
- Programmes reduced or removed
- Virements between schemes and programmes to maximise delivery.
- Revisions to spend profile and funding to ensure ongoing revenue costs are minimised.