

# Appendix 3

## Capital Strategy 2018-19 to 2022-23

### 1. Introduction

1.1 The Capital Strategy forms a key part of the council's overall corporate planning framework. It provides the mechanism by which the council's capital investment and financing decisions can be aligned with the council's overarching corporate priorities and objectives over a medium term, five years, planning horizon.

1.2 The strategy sets the framework for all aspects of the council's capital expenditure; including planning, prioritisation, management and funding. The strategy has direct links to the council's corporate Asset Management Plan (AMP) and forms a key part of the council's Medium Term Financial Strategy (MTFS).

1.3 The key aims of the Capital Strategy are 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 vision, aims, approaches and actions;
- Deliver projects that focus on delivering revenue benefits in the form of spend to save, spend to earn or generate growth in revenue income;
- Set out how the council identifies, programmes and prioritises capital requirements and proposals arising from business plans, service plans, the AMP and other related strategies;
- Consider options available for funding capital expenditure and how resources may be maximised, to generate investment in the area, to determine an affordable and sustainable funding policy framework whilst minimising the ongoing revenue implications of any such investment;
- Identify the resources available for capital investment over the MTFS planning period; and

- Establish 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 Underlying the Capital Strategy is the recognition that the 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 the last few years, along with these reductions is the recognition that the council must rely on internal resources and find 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.
- 2.2 Against the background of limited central government support the AMP identifies the total capital investment needed to support the Council's aims and objectives such as housing and economic development.
- 2.3 Significant investment in council housing over the last few years has succeeded in producing a property portfolio generally at or above the decent homes standard and, the delivery of a new build programme with the first 61 new properties being completed by December 2017. Government proposals to reduce property rentals by 1% for 4 years from April 2016 have impacted the Council's ability to continue this level of programme in the longer term, necessitating a strategic review of assets, service delivery and financing. In the short to medium term a new build programme can be maintained by utilising resources previously ear-marked for potential debt redemption, but this does mean that the authority will need to re-finance its housing debt when it matures.
- 2.4 As the majority of the council's assets are housing there are limited opportunities to raise capital receipts through disposals, therefore the limited capital resources available through grant, capital receipts and private sector contributions are prioritised to maximise outputs with minimum ongoing future revenue costs.
- 2.5 Capital investment in the council's wholly owned subsidiary, Ermine Street Housing (ESH), offers the opportunity to realise interest receipts which will contribute to the council's revenue funding.

2.6 Cambridgeshire is an area of growth with the Greater Cambridge Partnership (formerly City Deal) offering financial support to deliver infrastructure to facilitate the delivery of homes and business space, as set out in the draft local plans for Cambridge City and South Cambridgeshire council areas. This will in turn contribute towards council funding in the longer term in the form of additional council tax and business rates receipts.

2.7 Another opportunity is the designation of Enterprise and Development Zones, including sites at Cambourne Business Park, Cambridge Research Park and Northstowe, which have the potential to offer incentives to enable the creation of new businesses and employment.

2.8 In detail:

- **Economic Investment:** The council will continue to seek investments that generate longer term growth. These projects will yield a combination of revenue generation (business rates or interest), jobs and capital infrastructure investment, based on sound business cases.
- **Existing Housing:** Significant investment has been made in recent years to raise the standard of council dwellings to meet the government's decent homes standard, In addition to the decent homes investment the authority invests in energy conservation projects such as external wall insulation, solar energy initiatives and renewable heating sources. Some planned energy conservation programmes will continue but within the changed and challenging restrictions resultant from future reductions in rental income.
- **New Housing Supply and Housing Partnerships:** South Cambridgeshire District Council are no longer formerly part of the joint venture with Cambridge City Council to deliver a shared governance Housing Development Agency, but continue to work closely with the authority on strategic housing delivery issues. South Cambridgeshire District Council are now managing a new build programme in-house, which is anticipated to deliver between 25 and 50 new homes per annum to meet local housing need. Opportunities to work with the Combined Authority to deliver new affordable homes in the district are also being fully explored.
- **Corporate Property:** To manage its maintenance liability the council is rationalising its office accommodation through sub-let of office space, providing a contribution

to ongoing revenue savings. A process of on-going reviews will identify potential alternative use of office buildings and car park for capital investment to generate long term revenue savings.

- ICT: The council's ICT service is shared with Cambridge City and Huntingdonshire District Councils, appropriate investment into ICT hardware and software will be undertaken on a case by case basis, the primary focus being improved technologies on a spend to save basis.
- Refuse and Recycling Collection: A shared trade and domestic waste collection service with Cambridge City Council supported by capital investment will achieve long term revenue savings through service rationalisation and vehicle efficiencies.
- Community Projects: Capital grants to other organisations where the council incurs no staff or other recurring costs; these organisations are expected to raise additional capital resources from the National Lottery, Sports Council, etc. The council has a funding toolkit on its website to assist organisations seeking funding.

### **3. Governance**

3.1 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.

3.2 An integrated service and financial planning process is followed. Within this framework all proposals for capital investment are required to demonstrate how they contribute to the council's aims and objectives. The evaluation process for investment proposals aligns corporate objectives with costs and benefits ensuring delivery of efficiency and value for money. Investment appraisal forms and the criteria for prioritising capital bids are available to managers on the Council intranet.

3.3 Specific governance processes include:

- 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, Cabinet receiving quarterly monitoring reports;
  - The Scrutiny and Overview Committee which is responsible for scrutiny of the Capital Strategy and capital programme.
- Officer groups which bring together a range of service interests and professional expertise. These include:
    - The Executive Management Team which has overall responsibility for the strategic development, management and monitoring of the capital programme;
    - Corporate Management Team, providing service manager review and monitoring of key areas;
    - Specific project boards with wide ranging membership, for example the Greater Cambridge Partnership Board;
    - Management teams which overview reports for investments prior to Executive Management Team and Cabinet approval;
    - Management groups, created to oversee significant capital projects as required.

3.4 Council assets are kept under review, valuations of land and property being undertaken by a professionally qualified valuer every five years, with an annual review at year end to ensure material changes in asset value are accounted for. The Corporate Asset Management Plan, Housing Revenue Account Business Plan and capital programme ensuring a comprehensive forward plan of maintenance and improvement work is maintained and delivered.

#### **4. Funding strategy**

4.1 In general terms, the major source of capital funding available to the council has been grant approvals allocated by central government to specific or non-specific projects. This is a diminishing resource and where a priority is identified alternative funds need to be sourced.

4.2 There are a range of other potential funding sources which may be generated locally either by the council or in partnership with others. Each project or programme will be

subject to the approval process to include funding and lifetime costings of the asset going forward.

4.3 New sources of funding are being identified in partnership with neighbouring authorities and organisations, for example the Greater Cambridge Partnership.

4.4 Unallocated capital receipts received prior to April 2012 are available for general use and as such will be used for GF and/or HRA capital expenditure. Capital receipts received after April 2012 primarily relate to HRA property and land sales, the use of which is subject to detailed national regulations and associated guidance. The HRA Business Plan and council capital programme provide details of anticipated capital receipts and the proposed use of these within the constraints imposed.

4.5 The council sets aside a Minimum Revenue Provision (MRP) for debt repayment in accordance with its MRP policy as set out in the Treasury Management and Investment Strategy presented alongside this Capital Strategy.

4.6 The Capital Strategy considers all potential funding options open to the council and aims to maximise the financial resources available for investment in service provision and improvement within the framework of the MTF5. The main sources of capital funding are summarised below:

- Central government
  - Grants are allocated in relation to specific programmes or projects and the council would seek to maximise such allocations, developing appropriate projects which reflect government and partnership led initiatives and agendas while addressing the needs of the district.
  - A significant amount of current funding is in the form of the New Homes Bonus (NHB) part of which is allocated to fund future capital infrastructure through the Greater Cambridge Partnership.
  
- Third party funding
  - Capital grants represent project specific funding for capital projects, in addition to those from central government, more usually received from quasi-government sources or other national organisations. In developing capital proposals, the council will seek to maximise such external contributions, subject to any related grant conditions being consistent with the council's policy, aims and outcomes.

- Private contributions
  - The council will also seek to implement the new Community Infrastructure Levy to support on-going investment.
  - The council will continue to work with the private sector to utilise or re-purpose redundant assets to facilitate regeneration and employment creation.
  
- Locally generated funding
  - The council has discretion to undertake prudential 'unsupported' borrowing under the Prudential Code. This discretion is subject to compliance with the Code's regulatory framework which requires any such borrowing to be prudent, affordable and sustainable.
  - Given the pressure on the council's revenue budget in future years, prudent use will be made of this discretion in cases where there is a clear financial benefit such as invest to save, spend to earn or regeneration schemes which do not increase expenditure in the longer term.
  
- Capital receipts from asset disposal
  - The majority of disposals relate to dwellings sold under the government right to buy scheme, the scheme allows the retention of some of the receipts subject to certain conditions i.e. used to fund the delivery of new social housing to a maximum of 30% of any dwelling funded through this method, the balance being funded from the council's own resources or through borrowing.
  - Capital receipts from asset disposal are 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.
  
- Lease finance
  - where alternative funding is not available for vehicles or minor equipment and the revenue budget does not allow for a full capital repayment and there is a robust business case then the option of leasing may be considered.
  
- Revenue
  - Capital expenditure may be funded directly from revenue as specific budget provision, however, the general pressures on the council's revenue budget and council tax levels limits the extent to which this may be exercised as a source of capital funding.

4.7 Council resources will be allocated to programmes based on asset values to manage long term yield and revenue implications. Where possible capital receipts will be focussed on those assets with short term life span, e.g. vehicles and equipment, and the unsupported borrowing on long term assets e.g. land and buildings.

## **5. Capital programme**

5.1 The council's capital programme and its funding for 2018/19 to 2022/23 is summarised below. The detailed capital programmes for the GF and HRA can be found in the relevant Budget Setting Report (BSR).



## Capital Programme 2017/18 to 2021/22

Capital Programme	Estimate 2018/2019 £	Estimate 2019/2020 £	Estimate 2020/2021 £	Estimate 2021/2022 £	Estimate 2022/2023 £
General Fund	21,626,600	17,719,900	22,581,250	18,206,050	18,334,300
Housing Revenue Account <sup>1</sup>	22,873,000	19,801,000	16,768,000	14,050,000	13,121,000
<b>Total Capital Expenditure</b>	<b>44,499,600</b>	<b>37,520,900</b>	<b>39,349,250</b>	<b>32,256,050</b>	<b>31,455,300</b>
<sup>1</sup> – HRA capital expenditure excludes the contribution to corporate ICT and therefore differs from totals in the HRA BSR.					
Financed by :					
Capital Receipts	(8,593,500)	(7,814,500)	(4,875,250)	(3,231,250)	(2,916,500)
Other Grants and Contributions	(4,898,100)	(1,686,000)	(1,698,000)	(1,709,000)	(1,720,000)
HRA Depreciation Reserve	(9,902,000)	(10,076,000)	(10,159,000)	(10,203,000)	(10,243,000)
Reserves	(699,000)	(620,400)	(609,000)	(1,144,800)	(1,261,800)
Housing Revenue Account (Revenue Contribution)	(2,926,000)	(2,289,000)	(1,973,000)	(933,000)	(279,000)
General Fund (Revenue Contribution)	(35,000)	(35,000)	(35,000)	(35,000)	(35,000)
Internal Borrowing re Commercial vehicles	(335,000)	0	0	0	0
Internal Borrowing re other projects	0	0	0	0	0
External Borrowing	(16,850,000)	(15,000,000)	(15,000,000)	(15,000,000)	(15,000,000)
New Homes Bonus Infrastructure Reserve	0	0	(5,000,000)	0	0
Earmarked Reserves	(261,000)	0	0	0	0
	<b>(44,499,600)</b>	<b>(37,520,900)</b>	<b>(39,349,250)</b>	<b>(32,256,050)</b>	<b>(31,455,300)</b>