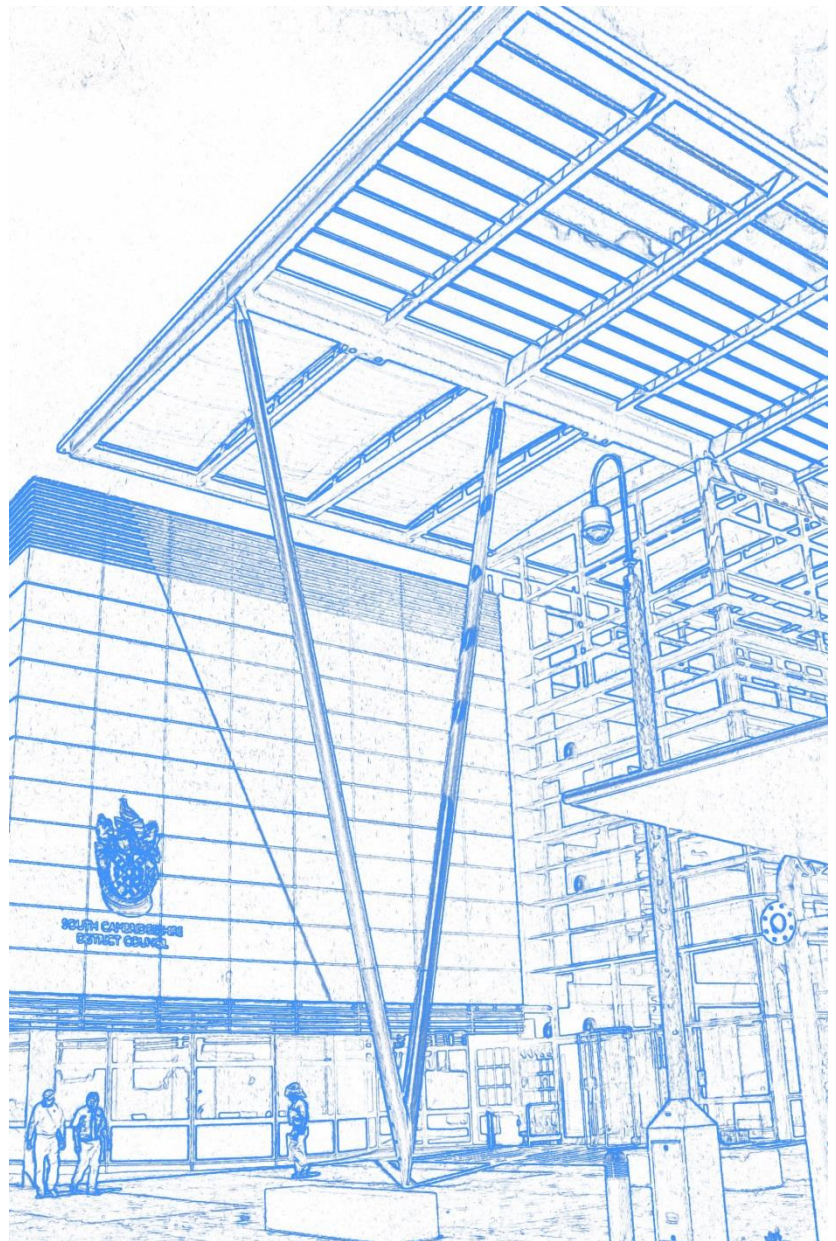




Appendix D4 Capital Strategy 2016/17 to 2020/21



CAPITAL STRATEGY 2016/17 – 2020/21

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 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 Asset Management Plan (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 Asset Management Plan identifies the total capital investment need 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. Recent government proposals to reduce property rentals will impact on the Council's ability to continue this level of programme necessitating a strategic review of assets, service delivery and financing.
- 2.4 Given the majority of the Council's assets are housing there is limited opportunities to raise capital receipts through disposal of assets, 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, offers the opportunity to realise interest receipts which will contribute to Council revenue funding.
- 2.6 Cambridgeshire is an area of growth with the Government's City Deal offering financial support, together with capital investment from the Council, to local partners to deliver additional infrastructure to facilitate the delivery of the homes and business space set out in the draft local plans for the Cambridge City and South Cambridgeshire District 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 under consideration is the designation of Enterprise and Development Zones which have the potential to offer incentives to enable the creation of new businesses and employment.
- 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.
 - Housing
Significant investment has been made in recent years to raise the standard of council dwellings to above the Government's decent homes standard, planned programmes will continue but within the changed and challenging restrictions resultant from future reductions in rental income.

Housing Partnerships
 - A joint venture with Cambridgeshire County Council and Cambridge City Council to deliver a shared governance Housing Development Agency will pool resources to complement the market driven housing development process, and provide an opportunity to support delivery of an additional 1,000 dwellings on exception sites by 2031, approximately 2,000 homes through new build strategies and, to act on land and funding opportunities proposed by the County Council and the University and Colleges meeting aspirations to retain a long term stake in any development and the draw down of revenue stream incomes.
 - Corporate Property
 - To manage its maintenance liability the Council is rationalising its office accommodation through sub-let of office space so providing a contribution to ongoing revenue savings.

In addition a process of on-going reviews will identify potential alternate 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 Council, 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 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.

2.8 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 especially the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver their capital plans and programmes.

2.9 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:

- 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;
 - Specific project boards with wide ranging membership, for example the City Deal Board;
 - Management teams overview of reports for investments prior to Cabinet and Executive Management Team approval;
 - Management groups are also created to oversee significant capital projects as required.

- An integrated service and financial planning process; 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 aligning corporate objectives with costs and benefits ensuring delivery of efficiency and value for money.

3. FUNDING STRATEGY

- 3.1 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 alternate funds need to be sourced.
- 3.2 There are a range of other potential funding sources which may be generated locally either by the Council itself 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.
- 3.3 New sources of funding are being identified in partnership with neighbouring authorities and organisations, for example City Deal.
- 3.4 Unallocated capital receipts received prior to April 2012 are available for general use and as such will be used for General Fund and/or Housing Revenue Account capital expenditure. Capital receipts received after April 2012 primarily relate to HRA property and land sales, the use of which is detailed in the Housing Revenue Account Business Plan and Council capital programme.
- 3.5 **Minimum revenue provision**
 The Council's policy on the minimum revenue provision, being a provision for debt repayment to be set aside each year regardless of when debt repayment is actually made, will be either the asset life method calculated by dividing the cost of an asset by its estimated useful life, or an agreed percentage. Where a loan is made to a wholly owned subsidiary of the Council, the loan is deemed to be secured on the assets of the company and, supported by the business plan, evidence of the ability to repay the loan, in which case no minimum revenue provision will be made. The Council will review the loan and business plan annually, where there is evidence which suggests the full amount of the loan will not be repaid it will be necessary to reassess the charge to recover the impaired amounts from revenue.
 Exceptionally, where capital expenditure is part of a loan agreement to other than a wholly owned subsidiary, the Council may register a fixed and floating charge over the counterparty assets to secure the Council interest in the investment, or alternately an equity share interest in an asset with value. The impact on HRA Self-financing is excluded from the calculation of the minimum revenue provision under statutory guidance issued by the Department of Communities and Local Government.
- 3.6 The Capital Strategy, the outcomes of which inform the Medium Term Financial Strategy, is intended to consider all potential funding options open to the Council and to maximise the financial resources available for investment in service provision and improvement within the framework of the Medium Term Financial Strategy. The main sources of capital funding are summarised below:

4. Central Government

- 4.1 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 part of which is allocated to fund future capital infrastructure investment and City Deal funding, any reduction in this grant will have a direct effect on the delivery of these initiatives.

5. Third Party Funding

- 5.1 Capital grants; these 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 seek to maximise such external contributions, subject to any related grant conditions being consistent with the Council's policy, aims and outcomes.
- 5.2 The Council will seek opportunities to bid for future resource allocations using innovative service delivery vehicles for example through enterprise zones.

6. Private Contributions

- 6.1 The Council will also seek to implement the new Community Infrastructure Levy to support on-going investment.
- 6.2 The Council will continue to work with the private sector to utilise or re-purpose redundant assets to facilitate regeneration and employment creation.

7. Locally generated funding

- 7.1 Prudential 'unsupported' borrowing: under the Prudential Code the Council has discretion to undertake borrowing to fund capital projects with the full cost of that borrowing being funded from within Council resources as identified in the Medium Term Financial Strategy and annual budgets. This discretion is subject to compliance with the Code's regulatory framework which requires any such borrowing to be prudent, affordable and sustainable.
- 7.2 Historically, the main source of funding for local authorities has been the Public Works Loans Board; an alternate source for future funding is the Local Government Agency's vehicle the Local Capital Finance Company.
- 7.3 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.
- 7.4 Such schemes will focus on the Council's Aims and Objectives with investment generating revenue benefits in future financial years, in the form of interest, income, council tax or business rate yield.
- 7.5 The Council will continue to consider on a 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.
- 7.6 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.

- 7.7 Government proposals suggest local authorities should be required to sell high value properties on the open market at the point the property becomes void, a payment being due to Central Government in respect of a sum derived from an estimate of the high value properties becoming vacant in the year, thereby reducing the capital receipt available to the authority.
- 7.8 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.
- 7.9 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. The financing of expenditure by lease needs to take into account;
- Value of expenditure
 - Residual value
 - Life span of equipment matching funding proposed
 - Equipment to be replaced is part of a rolling programme that covers the whole service area or by type of equipment
- 7.10 The Council has a programme of vehicle replacement currently funded internally, historic vehicles hire contracts are replaced as capital purchases as contracts expire.
- 7.11 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
- 7.12 REFCUS or revenue expenditure funded from capital under statute describes transactions that would not be capitalised under proper accounting practice, but are defined as capital expenditure under the Local Government Act 2003 and its associated regulations. Examples of Council REFCUS expenditure are disabled facilities grants or community grants where the asset does not belong to the Council and which are funded from external grants, capital receipts or revenue.
- 7.13 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.

8. RESOURCES

- 8.1 The Capital Programme for 2016/17 to 2020/21 is attached as Appendix A and is included in the revenue and capital estimates report to Cabinet and Council.

9. GOVERNANCE OF THE CAPITAL PROGRAMME

- 9.1 The Council reviews its capital requirements and determines its capital programme within the framework of the Medium Term Financial Strategy and as part of the annual budget process. Resource constraints mean the Council continually needs to prioritise expenditure in the light of its aims and objectives and consider alternate solutions. Investment appraisal forms and the criteria for prioritising capital bids are shown as Appendices B to D.
- 9.2 To ensure that available resources are optimally allocated capital programme planning is determined in parallel with the service and revenue budget planning process within the framework of the MTFS. The Council's budget cycle is given at Appendix E. New programmes and projects will be appraised to determine affordability and alignment with the Council's Aims and Objectives.
- 9.3 Quarterly reports will continue to be submitted to Cabinet that identify:
- New resource allocations
 - Slippage in programme delivery
 - Programmes reduced or removed
 - Virement between schemes and programmes to maximise delivery
 - Revisions to spend profile and funding to ensure minimisation of ongoing revenue costs
 - Projected outturn
- 9.4 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 (Appendix F), Housing Revenue Account Business Plan and capital programme ensuring a comprehensive forward plan of maintenance and improvement work is maintained and delivered.

Capital Programme 2016/17 to 2020/21

Capital Programme	Estimate 2016/2017 £	Estimate 2017/2018 £	Estimate 2018/2019 £	Estimate 2019/2020 £	Estimate 2020/2021 £
General Fund	34,492,250	26,612,400	46,611,100	2,829,950	7,491,200
Housing Revenue Account	14,436,330	13,751,170	13,044,540	13,277,670	10,464,330
Total Capital Expenditure	48,928,580	40,363,570	59,655,640	16,107,620	17,955,530
Financed by :					
Capital Receipts	(3,986,353)	(3,803,337)	(3,485,129)	(3,579,495)	(3,277,500)
Housing & Planning Delivery Grant	(84,600)	(84,600)	(84,600)	(36,755)	0
Other Grants and Contributions	(742,000)	(740,000)	(619,000)	(619,000)	(619,000)
HRA Depreciation Reserve	(6,332,970)	(10,213,060)	(9,073,180)	(8,554,700)	(8,533,070)
Reserves	(330,000)	(509,400)	(673,100)	(444,700)	(444,700)
Housing Revenue Account (Revenue Contribution)	(5,691,200)	(140,000)	(70,000)	(118,750)	(22,500)
General Fund (Revenue Contribution)	(150,000)	0	0	0	0
Cash Overdrawn re Commercial vehicles	(712,000)	(2,502,000)	(180,000)	0	0
Cash Overdrawn re GF Equity Share Properties	0	0	0	0	0
Borrowing	(30,732,000)	(21,206,000)	(43,409,000)	0	0
New Homes Bonus Infrastructure Reserve	0	0	0	0	(5,000,000)
Financing Adjustment	0	0	0	0	0
Total Capital Financing	(48,761,123)	(39,198,397)	(57,594,009)	(13,353,400)	(17,896,770)

HOUSING REVENUE ACCOUNT	Estimate 2016/2017 £	Estimate 2017/2018 £	Estimate 2018/2019 £	Estimate 2019/2020 £	Estimate 2020/2021 £
Repurchase of HRA Shared Ownership Homes	300,000	300,000	300,000	300,000	300,000
Reprovision of Existing Homes	447,470	1,789,900	0	0	0
Provision of New Homes	3,756,190	1,906,120	3,549,230	3,782,100	0
Grants to Registered Providers for New Homes	390,600	962,700	487,800	441,300	1,500,000
Improvement of Housing Stock	9,328,320	8,652,450	8,637,510	8,635,520	8,641,830
HRA share of Corporate ICT Development	213,750	140,000	70,000	118,750	22,500
Housing Revenue Account Capital Expenditure	14,436,330	13,751,170	13,044,540	13,277,670	10,464,330
GENERAL FUND	Estimate 2016/2017 £	Estimate 2017/2018 £	Estimate 2018/2019 £	Estimate 2019/2020 £	Estimate 2020/2021 £
ICT Development:	580,000	235,000	340,000	525,000	90,000
less: HRA share of Corporate ICT Development	(213,750)	(140,000)	(70,000)	(118,750)	(22,500)
Communications - Website Development	25,000	25,000	0	0	0
South Cambridgeshire Hall	75,000	0	0	0	0
Advance funding for Housing Company	30,732,000	21,206,000	43,409,000	0	0
City Deal: Contribution towards A14 upgrade	0	0	0	0	5,000,000
Refuse Collection Service	687,000	2,409,400	344,100	14,700	14,700
Awarded Watercourses	0	100,000	0	0	0
Street Cleansing	75,000	197,000	179,000	0	0
Air Quality Monitoring Equipment	0	50,000	0	0	0
Housing General Fund Share of HRA Capital Expenditure	10,000	10,000	10,000	10,000	10,000
Repurchase of General Fund Sheltered Properties	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
Refurbishment of General Fund Equity Share Properties	200,000	200,000	200,000	200,000	200,000
Grants for the provision of Social Housing	402,000	400,000	279,000	279,000	279,000
Empty Homes Grants	50,000	50,000	50,000	50,000	50,000
Improvement Grants/Loans	770,000	770,000	770,000	770,000	770,000
General Fund Capital Expenditure	34,492,250	26,612,400	46,611,100	2,829,950	7,491,200

Investment Appraisal: Proposals for Capital Projects less than £25,000

(For inclusion in the draft Capital Programme for the financial years 2016/17 – 2020/21)

1	Service						
2	Service Manager						
3	Brief Details of Proposal						
4. Costs (All £000s)		2016/17	2017/18	2018/19	2019/20	2020/21	Total gross cost
Financial Year in which expenditure is expected to be incurred							
5	What is the estimated life expectancy of the asset related to the proposal?						
6	What benefit will service users or residents experience as a result of the expenditure?						
7	How many individuals/properties will benefit from the expenditure?						
8	What evidence is there of public, tenant and/or user support for the proposal?						
9	Which of the 2016/17 priorities will the proposal address and how?						
10	How will performance indicators be affected?						
11	Is this expenditure required to enable the Council to meet a statutory requirement? If so, please give a description of the relevant requirement.						
12	What will be the implications for the Council of not proceeding with the proposed investment?						

13	How could the same outcome be achieved without the proposed expenditure?							
14	Is there likely to be any external funding contribution? If so, from where? (Please attach a copy of any written confirmation)							
15. Contribution (£000s)		2016/17	2017/18	2018/19	2019/20	2020/21	Total contribution	
Financial Year in which contribution is expected to be received								
16. Revenue impact (£000s)		Reason		2016/17	2017/18	2018/19	2019/20	2020/21
Estimated consequential financial impact on net revenue expenditure of the proposal		Additional: income expenditure						
		Reduction in: income expenditure						
		Total for year						
17	Are any revenue changes likely to continue after 2020/21? If so, please complete the attached schedule?							
18	Brief description of the reasons for any revenue changes shown in 16							

REVENUE IMPACT OF THE PROPOSAL FOR FINANCIAL YEARS 2021/22 to 2038/39
 To be completed if appropriate

Financial Year	Estimated Addition to:		Estimated Reduction in:	
	Income £(000)	Expenditure £(000)	Income £(000)	Expenditure (£000)
2021/22				
2022/23				
2023/24				
2024/25				
2025/26				
2026/27				
2027/28				
2028/29				
2029/30				
2030/31				
2031/32				
2032/33				
2033/34				
2034/35				
2035/36				
2036/37				
2037/38				
2038/39				
2039/40				
2040/41				
2041/42				
2042/43				
2043/44				
2044/45				
2045/46				
2046/47				

Investment Appraisal: Proposals for Capital Projects Greater than £25,000

(For inclusion in the draft Capital Programme for the financial years 2016/17–2020/21)

1	Service						
2	Service Manager						
3	Brief Details of Proposal						
4. Costs (All £000s)		2016/17	2017/18	2018/19	2019/20	2020/21	Total gross cost
Financial Year in which expenditure is expected to be incurred							
5	What is the estimated life expectancy of the asset related to the proposal?						
6	What benefit will service users or residents experience as a result of the expenditure?						
7	How many individuals/properties will benefit from the expenditure?						
8	What evidence is there of public, tenant and/or user support for the proposal?						
9	Which of the 2016/17 priorities will the proposal address and how?						
10	How will performance indicators be affected?						
11	Is this expenditure required to enable the Council to meet a statutory requirement? If so, please give a description of the relevant requirement.						
12	What will be the implications for the Council of not proceeding with the proposed investment?						

13	How could the same outcome be achieved without the proposed expenditure?							
14	Is there likely to be any external funding contribution? If so, from where? (Please attach a copy of any written confirmation)							
15. Contribution (£000s)		2016/17	2017/18	2018/19	2019/20	2020/21	Total contribution	
Financial Year in which contribution is expected to be received								
16. Revenue impact (£000s)		Reason		2016/17	2017/18	2018/19	2019/20	2020/21
Estimated consequential financial impact on net revenue expenditure of the proposal		Additional: income expenditure						
		Reduction in: income expenditure						
		Total for year						
17	Are any revenue changes likely to continue after 2020/21? If so, please complete the attached schedule?							
18	Brief description of the reasons for any revenue changes shown in 16							

REVENUE IMPACT OF THE PROPOSAL FOR FINANCIAL YEARS 2021/22 to 2038/39

To be completed if appropriate

Financial Year	Estimated Addition to:		Estimated Reduction in:	
	Income £(000)	Expenditure £(000)	Income £(000)	Expenditure (£000)
2021/22				
2022/23				
2023/24				
2024/25				
2025/26				
2026/27				
2027/28				
2028/29				
2029/30				
2030/31				
2031/32				
2032/33				
2033/34				
2034/35				
2035/36				
2036/37				
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2039/40				
2040/41				
2041/42				
2042/43				
2043/44				
2044/45				
2045/46				
2046/47				

Investment Appraisal: Criteria for Prioritising Financial Bids

The following are suggested

		Score	Scoring Guide
1	Statutory Requirement?	8	Statutory requirement – high risk that non-compliance will have substantial legal or reputational implications
		5	Statutory requirement – medium risk from non-compliance
		3	Statutory requirement – low risk from non-compliance
		3	Not statutory – but high expectation from KLOEs/audit etc.
		0	Non statutory
2	Support for Corporate Aims	6	High relevance/essential to one of service priorities – will have substantial quantifiable impact on a key performance indicator
		3	Relevant to one of service priorities, with quantifiable impact – but not measurable by PI
		2	Will have some impact on a service priority – but not measurable
		1	Relevance to one of Corporate Aims
		0	Not related to Corporate Aims
3	Impact on the public - number	3	Bid will benefit all or most people in the district
		2	Bid will benefit a significant number of people across the district
		1	Effect of bid is confined to relatively small number of people or a particular locality
		0	No impact on public
4	Impact on public – extent of impact	3	Will make major impact on the lives of public who benefit
		2	Will make moderate impact on people's lives
		1	Will make relatively small impact on people's lives and their quality of life
		0	No direct impact on people's lives or quality of life
5	Value for money		Divide the cost of the bid (2016/17 cost in thousands) by the total from questions 1-4 – then score as follows:-
		4	If the result is <1
		3	If the result is 1-2
		2	If the result is 2.1 –5
		1	If the result is 6-10
		0	If the result is > 10

SOUTH CAMBS DISTRICT COUNCIL BUDGET CYCLE

