

Crawley Borough Council

Report to Overview and Scrutiny Commission 4 February 2019

Report to Cabinet 6 February 2019

Capital Strategy 2019/2020

Report of the Head of Corporate Finance – FIN/467

1. Purpose

- 1.1 The CIPFA revised 2017 Prudential and Treasury Management Code require all local authorities to prepare a Capital Strategy which will provide the following:
- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - the implications for future financial sustainability

This Capital Strategy sets out how the Council will manage the investment and financing of capital resources to contribute towards the achievement of its key objectives and priorities. This includes the appraisal process for determining investment decisions and the process for identifying and prioritising funding requirements

2. Recommendations

- 2.1 To the Overview and Scrutiny Commission:

That the Commission consider the report and decide what comments, if any, it wishes to submit to the Cabinet.

- 2.2 To the Cabinet

The Cabinet is recommended to:

- a) Request Full Council to approve the Capital Strategy

3. Reasons for the Recommendations

- 3.1 The Council's financial regulations, in accordance with the CIPFA Code of Practice for Treasury Management, requires a Capital Strategy to be approved for the forthcoming financial year. This report complies with these requirements.

4. Background

- 4.1 The requirement to produce a Capital Strategy was introduced by the revised CIPFA Prudential Code in December 2017. The Strategy should demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.
- 4.2 The purpose of the Capital Strategy is to tell a story that gives a clear and concise view of how the Council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It should provide enough detail to ensure that all members understand how the Council is delivering stewardship of the Council's resources, prudence and sustainability and meeting the Council's reporting requirements.
- 4.3 The Ministry of Housing, Communities and Local Government (MHCLG) has also revised its Investment Guidance and the (Minimum Revenue Provision) MRP Guidance. Local authorities are increasingly investing in non-financial assets, and this revised guidance brings these investments into scope.

5. Objectives of the Capital Strategy

5.1 The objectives of the Capital Strategy are to:

- Prioritise and deploy capital resources in advancement of the Corporate Objectives and the criteria within the Budget Strategy which are –

Items for the Capital Programme are driven by the need for the upkeep of council assets and environmental obligations and schemes will also be considered that are spend to save or spend to earn, but that such prioritisation should not preclude the initial consideration of capital projects that could deliver social value.

There is no annual target of expenditure for capital purposes as the programme will be based on the criteria above.

The council is also committed to building affordable housing for local people. This can be through the Housing Revenue Account by building Council Housing; or through enabling Registered Social Landlords through the General Fund, where the council would have nomination rights for this housing.

- 5.2 The Capital Strategy considers all aspects of the Council's capital expenditure and extends to areas where the Council is able to influence others through the use of its capital resources (for example housing enabling with Registered Social Landlords). It forms part of the Council's integrated revenue, capital and balance sheet planning.
- 5.3 The Strategy covers capital expenditure, capital financing and asset management and is one of the key strategies alongside the more operational strategies and policies for these and other areas including Treasury Management, Property Investment and service areas such as housing and other spending areas. It also gives an overview of how associated risk is managed and the implications for future financial sustainability. It is a 'living document' that will be enhanced over the coming years.

- 5.4 The Strategy provides a set of objectives and a framework, within CIPFA Codes and legislation, by which new capital projects are evaluated and decisions made whilst ensuring funding is targeted towards meeting priorities.

The Capital Strategy:

- States the council's processes for:
 - Project initiation
 - deciding on the prioritisation of capital projects
 - monitoring and evaluating schemes
- Takes account of significant revenue implications (these are included in the Budget Strategy)
- Provides a framework for the management and monitoring of the capital programme
- Identifies funding and provides a basis to inform bidding for additional capital resources (e.g. from the Local Enterprise Partnership, National Lottery, Government initiatives)

Project Initiation

- 5.5 Capital projects are subject to robust justification process, bringing together a clear business case with sufficient detailed costings to ensure transparent decisions can be taken. Business cases are prepared in accordance with the Corporate Projects Assurance Group guidelines.
- 5.6 Proposals are given independent oversight and review by the Corporate Projects Assurance Group. This includes validation arrangement, estimated figures, project milestones and an evaluation of risks. The group will also consider Governance arrangements.
- 5.7 For larger projects where feasibility is less certain viability assessments and robust business cases are prepared before bids are made for funds. This includes undertaking all preparatory work to fully understand the requirements of the project before budget is sought.

Prioritisation on capital projects

- 5.8 Capital projects will be assessed based on the criteria in section 5.1 above.
- 5.9 The business case put forward for a capital project will be reviewed to ensure it takes account of stewardship, value for money, prudence, sustainability and affordability.

Formal approval process

- 5.10 Project proposals will be put to the Budget Advisory Group which will make recommendations to Cabinet. The Cabinet report will outline how the scheme is funded. If part of the annual budget process these schemes will have Full Council approval.

Monitoring and evaluating schemes

- 5.11 The finance system is used as a tool for budget management, this is accessed by both finance staff and capital project managers to give up to date information on project spend. Quarterly monitoring and reporting of slippage is undertaken to ensure that full use of resources and effective treasury management is undertaken.

5.12 A sub group of the Corporate Projects Assurance Group – the Capital Programme Board oversees a range of capital projects, the group will –

- Receive updates at the end of each quarter from the relevant budget holders to challenge the current budget and spend.
- Challenge any over or underspend and provide advice to prevent further variances in spend.
- Review the future years capital programme and challenge if the schemes will be delivered and what governance arrangements are in place.

The Council will assign a project manager to each project to oversee planning, delivery, management and governance including risk management of the capital project.

Funding the Strategy

5.13 Funding must be appropriate for the project and will come from:

- Reserves
- Capital receipts – from the sale of assets or finance lease receipts
- Government grants
- Third party grants and contributions
- Community Infrastructure Levy
- Revenue contributions (see below)
- Other developer contributions
- External (prudential) borrowing

5.14 The revenue budget has an annual budget of around £600,000 for programmed repairs, there is a three year plan of how to spend this money. This is based on condition surveys and includes works at K2 Crawley, the Hawth, car parks, depots, parks and pavilions and community centres.

5.15 In addition there are annual contributions from Revenue to the renewals funds. Annually there is a contribution of £100,000 for both IT equipment replacement and specialist equipment at the Hawth and K2 Crawley, together with an annual contribution of £200,000 for vehicle replacements (with an additional £300,000 in 2019/20 in preparation for the refuse contract renewal). Delegation is given to Heads of Service for replacement of vehicles and to Portfolio holder for IT equipment. The specialist equipment for leisure services forms part of the approved capital programme through Cabinet.

6. Debt and Borrowing and Treasury Management

6.1 The council's approach to borrowing is set out in the Treasury Management Strategy elsewhere on this agenda. The Council may consider internal or external borrowing in future.

7. Commercial Activity

7.1 The Council may invest in other financial assets, including loans and property primarily for financial return, which are not part of the treasury management activity.

Officers would use the following criteria to assess potential purchases. It is expected that proposals should meet all of these criteria unless there are sound reasons not to.

- i purchase price of less than £6m.
- ii preferably freehold, but if leasehold then at least 125 years left on lease, or the ability to purchase an extension to the lease length.
- iii an income flow of at least 8 years duration, before either a lease renewal or tenant's option to break.
- iv a covenant check of the tenant confirms the ability to perform the conditions of the lease, including payment of rent.
- v the investment should be in such a condition that any further short term capital investment would be limited.
- vi whilst Crawley may be a preferable location, other locations within East and West Sussex and Surrey will be considered.

The Table below lists the investment properties that the Council owns.

Name	Valuation
Ashdown House – High Street	£ 9,407,100
Voluntary Organisations (Station Road)	£ 1,499,400
Telford Place Car Park	£ 1,060,600
Atlantic House – Three Bridges	£ 5,786,500
Ask – High Street	£ 1,537,700
Other	£ 1,120,200
Total	£ 20,411,500

8. Future Capital programme

The 2019/20 capital programme is attached at Appendix 1, this is based on the approvals in the Budget and Council tax report elsewhere on this Agenda.

9. Implications

There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the public services, the Local Government Investment Guidance provides that the Council's investments are and will continue to be, within legal powers to borrow and invest including controls and limitations conferred under the Local Government Act 2003.

10. Background Papers

[Treasury Management Strategy for 2018/2019 – Cabinet, 7 February 2018 \[report FIN/433 refers\]](#).

2019/2020 Budget and Council Tax – Cabinet, 6 February 2019 [report FIN/462 refers].

[2018/19 Budget and Council Tax FIN/434](#)

Treasury Management Strategy 2019/20 FIN/464

Q3 Budget Monitoring 2018/19 FIN/466

Contact Officer: Karen Hayes, Head of Corporate Finance
01293 438263
karen.hayes@crawley.gov.uk

CAPITAL PROGRAMME FUTURE YEARS

Scheme Description	Budget 2019/20	Budget 2020/21	Budget 2021/22
Town Centre General		71,100	
Town Hall Development	3,000,000		
Solar PV CBC Operational Buildings	60,000		
TOTAL CABINET PORTFOLIO	3,060,000	71,100	

New Cemetery	66,000		
K2 Crawley Heat Network (Heat & Power)	110,112		
Shrub Removal	30,000		
Boulevard Cycle Path		94,000	
Crawters / Manor Royal Cycle Path	64,598		
Orchard Street Car Park	300,000		
Heat Network	1,250,000	2,788,100	
Ifield Drive	5,920		
Camber Close	15,282		
Lavant Close	16,594		
Fisher Close	9,873		
Scallows Close	16,597		
Flooding Emergency Works	167,177		
Cheals Broadfield Pond	1,456		
Titmus Lake Tilgate & Furnace Green	42,000		
Stafford Bridge Ifield Green		78,900	
Billington Drive Maidenbower	28,000		
Broadfield Brook Flood Works	30,000		
River Mole Flood Works	30,000		
Northgate Flood Attenuation Work	42,000		
Crabbett Park Pound Hill Flood Works	33,000		
Crawters Brook Flood Works	100,000		
TOTAL ENVIRONMENT SERVICES & SUSTAINABILITY PORTFOLIO	2,358,609	2,961,000	

Housing Enabling	1,220,000		
Temp Accommodation Acquisitions	273,700		
Open House Moving Acquisitions	14,235		
Affordable Housing Town Hall	5,600,000	2,180,798	4,128,750
Disabled Facilities Grants	305,804		
Improvement/Repair Loans	89,334		
TOTAL HOUSING (GENERAL FUND) PORTFOLIO	7,503,073	2,180,798	4,128,750

Investment Property Acquisition	6,000,000	5,000,000	
Manor Royal Business Group	200,000		

Scheme Description	Budget 2019/20	Budget 2020/21	Budget 2021/22
<u>Crawley Growth Programme</u>			
Queensway	1,286,758		
Manor Royal Cycle Improvements	1,462,000		
Town Centre Cycle Improvements	862,000		
Station Gateway	2,508,867	2,600,000	
Growth Programme S106	587,595		
Three Bridges Station	850,000	787,193	
Total Crawley Growth Programme	7,557,220	3,387,193	
TOTAL PLANNING & ECONOMIC DEVELOPMENT PORTFOLIO	13,757,220	8,387,193	

ICT Capital - Future Projects	250,400		
HRA Database	75,000	400,000	67,000
ICT Transformation	461,000		
New Website and Intranet	115,529		
TOTAL RESOURCES PORTFOLIO	901,929	400,000	67,000

Vehicle Replacement Programme	539,506		
Refurbishment Playgrounds Future Schemes	39,600		
Skate Park Equipment	46,000		
Memorial Gardens Improvements	33,400		
Wakehams Play Refurbishment		65,000	
K2 Crawley Replace Artificial Turf Pitches	4,323		
Tilgate Park & Nature Centre	154,688		
Nature & Wildlife Centre	144,331		
Tilgate Park & Nature Sustainable Heat	289,000		
Ewhurst Road Play Refurbishment	72,500		
Adventure Golf	420,000		
Adventure Playgrounds	200,000	200,000	
Memorial Gardens Play Improvements	170,000		
Kidborough Road Gossops Green	70,000		
Stoney Croft	25,000		
4 Type A Play Areas Ifield	26,000	26,000	
2 Type A Play Areas Pound Hill	13,000	13,000	
Perkstead Court Play Area Bewbush		20,000	
1 Type A Play Areas Bewbush		13,000	
Medler Close Langley Green	65,000		
Meadowlands West Green		40,000	
K2 Crawley Climbing Wall		140,000	
Hawth Light/Sound Desk	31,213		
TOTAL WELLBEING PORTFOLIO	2,343,561	517,000	

TOTAL GENERAL FUND	29,924,392	14,517,091	4,195,750
<u>Programme Maintenance</u>			

Scheme Description	Budget 2019/20	Budget 2020/21	Budget 2021/22
Rewiring	1,300,000	1,200,000	1,200,000
Roof Structure (i.e Soffits)	600,000	600,000	600,000
Windows	300,000	300,000	300,000
Structural Works	80,000	80,000	80,000
Renovation And Refurbishment	200,000	200,000	200,000
Insulation	250,000	250,000	250,000
Kitchens	850,000	850,000	850,000
Bathrooms	550,000	550,000	550,000
Common Areas	20,000	20,000	20,000
Adaptations For The Disabled	380,000	300,000	300,000
Sheltered Major Works	100,000	100,000	100,000
Boilers	1,000,000	1,000,000	1,000,000
Disabled Adaptations - Major Room	950,000	950,000	950,000
Legionella	50,000	50,000	50,000
Energy Efficiency - Lighting	80,000	80,000	80,000
External Environmental Work	100,000	100,000	100,000
Intercom Upgrade	50,000	50,000	50,000
Major Insulation Energy Efficiency	1,800,000	1,800,000	1,800,000
Hostels	450,000	250,000	250,000
Major Renovation, Flats, Blocks, etc	650,000	100,000	100,000
Garages	200,000	200,000	200,000
TOTAL HRA IMPROVEMENTS	9,960,000	9,030,000	9,030,000

151 London Road (New Build)	388,000		
Bridgefield House	12,489,101		
HRA Purchase Edinburgh House	3,500,000		
Acquisitions Buy Back Of Dwellings	1,000,000	1,000,000	1,000,000
Kilnmead	1,986,637		70,000
Forge Wood	2,622,370		
Telford Place Development	5,597,103	6,266,174	9,000,000
Woolborough Road Northgate	1,118,000		
Goffs Park - Depot Site	550,930		
83-87 Three Bridges Road	303,150		
Dobbins Place		24,000	
Barnfield Road	20,000		
Forge Wood Phase 2	7,049,476		
257/259 Ifield Road	841,000		
Forge Wood Phase 3	1,068,250		
Forge Wood Phase 4	962,125	1,049,591	
Contingencies		800,000	
Prelims		490,000	
TOTAL OTHER HRA	39,496,143	9,629,765	10,070,000

Scheme Description	Budget 2019/20	Budget 2020/21	Budget 2021/22
TOTAL HRA	49,456,143	18,659,765	19,100,000

TOTAL CAPITAL PROGRAMME	79,380,535	33,176,856	23,295,750
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FUNDED BY			
Capital Receipts	20,415,943	8,278,898	990,000
Capital Reserve	25,000		
Better care fund (formally DFGs)	305,804		
Lottery & External Funding	2,798,688	3,850,000	
HRA revenue contribution	39,123,243	16,857,836	11,736,375
Replacement Fund/Revenue Financing	702,506		
Section 106	1,086,693	308,193	
1-4-1	14,922,658	3,881,930	1,569,375
Borrowing (HRA)			9,000,000
TOTAL FUNDING	79,380,535	33,176,856	23,295,750