

Crawley Borough Council

Report to Overview & Scrutiny Commission 25 November 2019

Report to Cabinet 27 November 2019

Budget Strategy 2020/21 – 2024/25

Report of the Head of Corporate Finance, **FIN/483**

1. Purpose

- 1.1 The 2020/2021 General Fund and Housing Revenue Account Budgets and the updated capital programme will be determined by the Full Council in February 2020. This report sets out the projected financial position for 2020/21 to 2024/25 for the General Fund and the underlying assumptions.
- 1.2 The report also sets the policy framework for the budget process, recognising that there are a range of options for capital investment, income generation, savings and Council Tax levels; none of which can be considered in isolation. The overall objective is to work towards a balanced General Fund budget over a three year period.
- 1.3 A separate report on the Housing Revenue Account's capital investment programme will be considered by the Budget Advisory Group ahead of the Budget report to Cabinet and Full Council in February 2020.

2. Recommendations

2.1 To the Overview & 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 asked to recommend to Full Council the approval of the Budget Strategy 2020/21 to 2024/25 and to:

- (a) **Note, for the purpose of projections, the current budget surplus of £489,200 for 2020/21, on the basis of a Council tax increase of 2% which is £4.08 on a Band D in property 2020/21. This surplus is due in the main due to the extension of the four year financial settlement and the delay in the fairer funding review and unexpected New Homes Bonus. However the fair funding review and the changes to Business Rates Retention will result in future significant budget gaps which will need to be addressed.**
- (b) **Work towards balancing this over a three year period, including putting back into reserves when the Budget is in surplus which is the case in 2020/21.**

- (c) **Instruct Corporate Management Team to take action to address the long term budget gap and to identify policy options for consideration by Cabinet Members and the Budget Advisory Group, which will include areas where additional resources need to be redirected.**
- (d) **Note that 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.**
- (e) **Note that the Budget is aligned to the Council's Corporate Priorities.**
- (f) **Approve the updates to section 5.1 in the Capital Strategy in Appendix A of this report.**
- (g) **Approve an increase in the capital programme of £500,000 for the purchase of an investment property as outlined in section 8.3 of this report.**

3. Reasons for the Recommendations

- 3.1 To set a Strategy for savings and income generation and working towards a balanced budget over three years. Including putting back into reserves when the budget is in surplus.
- 3.2 To determine the criteria for capital programme bids.
- 3.3 To agree the need to keep reserves as outlined in section 7.

4. Background

- 4.1 The local government finance system has become increasingly complex. The difficulty of predicting what factors such as interest rates, Government funding and other costs will be in two to five years' time is further complicated by political uncertainty.
- 4.2 On 17 December 2015 the Ministry of Housing, Communities and Local Government (MHCLG) announced that councils would be able to achieve greater certainty and confidence from a four year Budget Settlement (that covered 1 April 2016 to 31 March 2020). A new four year settlement was expected to be received from the MHCLG that covered 1 April 2020 to 31 March 2024.
- 4.3 However a technical consultation was released on 3rd October 2019 by the MHCLG that confirmed that there will be a roll forward of the 2019/20 settlement for one year, with the business rates retention reset and fair funding review being delayed until 2021/22. The impact of this in future years is very difficult to estimate at this stage as there is no background information.
- 4.4 The 2020/21 General Fund and Housing Revenue Account Budgets and the revised capital programme will be set by the Full Council in February 2020. This will be informed by the recommendations of the Budget Advisory Group and will take into account the efficiencies, increased income and savings achieved through a refreshed transformation programme and budget challenge process led by the Corporate Management Team. At the same meeting the Treasury Management Strategy will address the financing of the capital programme.
- 4.5 Many of the underlying financial assumptions in this report apply equally to the Housing Revenue Account as to the General Fund (for example inflation and employee related

costs). However, the financial position of the Housing Revenue Account (HRA) is heavily influenced by the financing regime introduced in April 2012.

- 4.6 Under this regime the Council has taken on debt of £260.325m and determined a repayment profile which gives it the capacity to spend capital sums to achieve some of its objectives for housing. This includes a comprehensive stock investment programme and the building of new Council homes.
- 4.7 However this was complicated by the Government's announcement in the July 2015 Budget that rents are to be reduced by 1% per annum for 4 years from 2016/17. This reduced the Council's ability to invest in the provision of new housing. The impact of this resulted in the MHCLG lifting the debt cap which enables the HRA to borrow more to build housing, however the costs of borrowing have to be included when looking at viability of schemes.

5. Key Assumptions

5.1 This report provides details of budget projections for a five year period, 2020/2021 to 2024/2025. There are a number of key assumptions affecting the projections. A summary table is shown in paragraph 5.11. On 3rd October 2019, the MHCLG issued a technical consultation paper on the 2020-21 settlement. The key points are:

- Confirmation that 2020/21 will be a roll forward settlement, with the business rates retention reset and fair funding review being delayed until 2021/22.
- Confirmation that the business rates retention pilot will finish at the end of this financial year.
- An additional year of new homes bonus but for one year only rather than the previous four, this had not been expected and is a windfall (see 5.8 for further details).
- 2% limit to council tax increases. However a £5 limit for districts forms part of the consultation questions. For the purposes of this report a 2% increase in 2020/21 has been assumed.
- A further year of Revenue Support Grant.

The provisional settlement figures will be announced in December therefore the assumptions below will be amended as required.

5.2 External support

The Local Government Finance four year settlement gave the Council's Revenue Support Grant (RSG) and is shown in the table below -

	2016/17	2017/18	2018/19	2019/20
Provisional RSG	£1.76m	£1.04m	£0.57m	£0.06m
Percentage reduction	-32.35%	-41.64%	-44.54%	-89.72%

The 2019/20 figures show that the Council received the equivalent of £59,107 in Revenue Support Grant, this was adjusted through the business rates pilot. Now that there has been another year roll forward the assumption for 2020/21 is RSG of £60,112.

5.3 Retained Business Rates

Although the Council will collect in excess of £120 million in business rates, the amount it retains is much smaller. The main reason for this is that the Government retains 50% of the rates collected and West Sussex County Council retains 10%. The Council also has to pay a significant tariff to the Government.

There are further complications in that the Council's retained share can be added to by a safety net payment, or suffer a further levy. These are applied if the Council's retained share is more than 7.5% below a Government set figure (safety net) or above it (a levy of 50%).

The Council is in a levy position as we are exceeding the limit set, so as a result for every additional £1 that it collects above its funding target, it only keeps 20p.

An annual increase in line with CPI in business rates is included in the Budget Strategy. Assumptions are reviewed regularly to allow for any growth and provision for appeals from ratepayers on their property valuation.

Any in year variations from this budget will be transferred to/from the business rates equalisation reserve. When the reserve exceeds £4m the surplus is transferred to the general fund or capital programme reserve. The business rates equalisation reserve has to be kept at this high level because of the possible fluctuations and appeals with such a high amount of business rates collected.

5.4 Pay Award

Local Government pay is negotiated nationally and the Council has no direct influence on the settlement. The budgeted increase is 2% and there is additional provision for the Crawley Allowance which increases in line with RPI.

The table in 5.11 shows future assumptions.

5.5 Investment Interest

5.5.1 The Council has traditionally relied heavily on investment interest to support the revenue budget. However, interest rates remain low and the level of interest received has reduced.

5.5.2 The Bank of England increased the base rate to 0.75% in August 2018 – the highest level since March 2009. The Monetary Policy Committee (MPC) has indicated that future base rate increases will be gradual and would rise to a much lower equilibrium rate than before the financial crisis. The Council's treasury advisors are forecasting that the MPC will not increase the base rate again until quarter 3 of 2020/21. However, given the current level of uncertainties this forecast is highly subject to change.

5.5.3 An average investment rate of 0.95% has been assumed for 2020/21, increasing to 1.19% in 2021/22 and 1.70% in 2022/23. Interest rate projections will be kept under constant review during the year.

5.5.4 Expenditure on the capital programme results in reduced investment income as there are fewer resources available for investment, and future investment balances will be much lower once the development of the new Town Hall begins. However, delays in the capital programme will result in higher balances available than anticipated for investment.

5.6 Pensions

The actuarial revaluation of the pension fund managed by West Sussex County Council has recommended a 1.0% decrease in employers contributions per annum from 2020/21 and for the following two years. This results in a saving of £416,500 by year three for the General Fund. The pension fund is fully funded as it has exceeded targets over the last three years.

5.7 General Inflation

In recent years many budgets have been frozen or reduced which has compensated for those budgets that have increased by more than the base assumption (for example energy and fuel). The Budget Strategy assumes that contract costs linked to inflation indices will increase by 2.4% in 2020/21, 2.9% in 2021/22, 2.8% in 2022/23 and reducing to 2.7% onwards. These assumptions will be updated over the coming months. No allowance has been made for inflation on other general running expenses.

5.8 New Homes Bonus

- 5.8.1 The Government introduced the New Homes Bonus (NHB) in 2011 to give local authorities additional money for each new residential property created in the area. At that time Local authorities would receive a sum equivalent to the average national Council Tax for a property in that band for each of the following six years. In 2017/18 this was reduced to each year for four years. For 2020/21, the sum for each new dwelling receivable was £1,399.90 with £349.98 per property going to West Sussex County Council.
- 5.8.2 There is an additional payment of £350 for each year if the property falls into the definition of affordable housing. This additional element is paid a year in arrears. In two tier areas the District or Borough Council receives 80% of the bonus and the County Council 20%.
- 5.8.3 The technical consultation states that New Homes Bonus will be paid in 2020/21, but for one year only, therefore no legacy payments going forward. Previous assumptions were that no new payment would be made in 2020/21 and therefore the £622,000 New Homes Bonus was unexpected.

The New Homes Bonus for 2020/21 is projected to be £1.788m and is estimated to reduce to £226,000 by 2023/2024. These assumptions will be refined once the outcome of the consultation is known. The Table below shows the calculation of the assumptions.

Year of Bonus	2019/20 £	2020/21 £	2021/22 £	2022/21 £	2023/24 £	2024/25 £
2016/17	307,143					
2017/18	482,947	482,947				
2018/19	420,570	420,570	420,570			
2019/20	262,515	262,515	262,515	262,515		
2020/21		622,000				
2021/22			226,000			
2022/23				226,000		
2023/24					226,000	
2024/25						226,000
Total	£1,473,175	£1,788,032	£909,085	£488,515	£226,000	£226,000

5.9 Fees and Charges

An average increase in income budgets of CPI or 2%, whichever is the highest, is assumed for 2020/21 onwards.

5.10 Fair Funding review (delayed)

The Government are reviewing the way in which local authorities in England are funded in their 'Fair Funding Review'. Central government funding for local authorities is based on an assessment of its relative needs and resources. The overarching methodology that

determines how much funding each authority receives each year was introduced over ten years ago and has not been updated since funding baselines were set at the start of the 50 per cent business rates retention scheme in 2013/14.

The methodology is very complex and involves 15 relative need formulas and several tailored distributions for services previously supported by specific grants. These formulas involve over 120 indicators of 'need', reflecting factors previously identified as driving the costs of service delivery. It is widely agreed across the sector that the formulae are overly complex, lack transparency and, as they have not been updated for a long time, are now out of date.

The Fair Funding Review has been delayed with the outcome of this review not being known until late in 2020. It is anticipated this would have updated the needs formula and set new funding baselines for the start of the new 75 per cent business rates retention scheme, from April 2021. Political uncertainties may delay this further. It is therefore very difficult to project forward and setting the 2021/22 budget will result in transferring either to or from reserves.

5.11 Summary of assumptions

	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>
Business rate income*	+2.2%	+2.6%	+2.5%	+2.5%	+2.5%
New Homes Bonus	£314k	-£879k	-£421k	-£262k	+226k
Pay award	2.0%	2.0%	2.0%	2.0%	2.0%
Av. interest rate	0.95%	1.19%	1.70%	1.70%	1.7%
Running costs	0%	0%	0%	0%	0%
Contracts (RPI)	2.4%	2.9%	2.8%	2.7%	2.7%
CPI	1.7%	2.2%	2.1%	2.0%	2.0%
Customer receipts	2.0%	2.2%	2.1%	2.0%	2.0%
Tax base increase (percentage of new properties for Council tax)	1.81%	1.6%	1.6%	1.6%	1.6%
Council Tax increase (for estimating purposes)	2.0%	2.4%	2.3%	2.3%	2.3%

*Business rates equalisation reserve will be used to absorb any fluctuations. Also see 6.1 below

The tax base increase assumes the number of Band D properties in Crawley has increased due to the current building programme including Crawley Homes new builds.

6. Budget Projections 2020/21 to 2024/25

6.1 The table below summarises the budget projections based on the assumptions above.

	2020/21 £'000s	2021/22 £'000s	2022/23 £'000s	2023/24 £'000s	2024/25 £'000s
Base budget	15,825	15,611	16,021	16,603	17,196
Investment interest	(718)	(774)	(1,089)	(1,189)	(1,289)
Net budget	15,107	14,837	14,932	15,414	15,907
Funded by:					
Council Tax	7,493	7,760	8,069	8,386	8,711
New Homes Bonus	1,788	909	489	226	226
Retained Business Rates	5,561	3,830	3,825	3,924	4,023
Revenue Support Grant	60				
Section 31 Grant*	694	0	0	0	0
Damping	0	1,093	952	542	128
Budget Gap / (Surplus)	(489)	1,245	1,597	2,336	2,819

* Section 31 Grant is payable by the Government when they give business rate discounts for small businesses

There is a projected reduction in business rates income as a result of the proposed business rates reform. This will increase the amount we are projected to achieve before we keep any excess; however rather than facing a cliff edge there is also a provision for damping where the impact of these changes are staggered over four years.

This is an assumption, without this damping the gap would be:

	2020/21 £'000s	2021/22 £'000s	2022/23 £'000s	2023/24 £'000s	2024/25 £'000s
Budget Gap / (Surplus)	(489)	2,338	2,549	2,878	2,947

Costs associated with the New Town Hall in the short term will be funded from reserves, the general fund reserve has been increased to absorb these costs which will be required for three financial years before the scheme pays back and will eventually contribute almost £1m once four and a half floors are filled and bringing in rental income.

6.2 There is a projected budgeted surplus in 2020/21 of £489,000; reducing to a gap of £2,819,000 by 2024/25. Once the outcome of the fair fund review and business rates reform is known these assumptions will be amended together with the town hall projections. Such a significant future funding gap will result in the longer term reduction or loss of some services.

The Table below summarises the movements in the Gap

	2020/21	2021/22	2022/23
	£000's	£000's	£000's
Inflation	422	864	1,320
Interest	188	66	-182
Business rates income	-722	610	756
Increased Council tax income	-276	-578	-886
Local election	-106	-46	-46
Reduced recycling credit income from WSCC*	400	400	400
New Homes Bonus	-315	564	985
Reduced Employers pension contributions	-136	-275	-417
Reduction in contribution to renewals fund	0	-300	-300
Other – various	56	-60	-33
Total	-489	1,245	1,597

* As part of West Sussex County Council savings the removal of recycling credits to Districts and Boroughs has been proposed, this equates to £400,000 for Crawley Borough Council.

The aim is to have a balanced budget over a three year period. In the event of an in year surplus this will be transferred to reserves.

6.3 The assumptions above include a provision for a Council Tax increase by 2% which is in the consultation document, if the outcome is to allow to increase by up to £5 per annum on a Band D property this will be recommended in order to help maintain services in the future. This is less than 10p per week. The aim is to work to keep council tax low without compromising local services.

6.4 **Budget pressures**

Any additional growth items approved as part of future years budgets will increase the budget gap over the long term. There are however areas where there may be the need for investment in services. These include:

- Income generation officer
- Tree officer
- Homelessness

Any applications for additional posts will be presented to the Budget Advisory Group in January.

7. **Reserves**

7.1 The Council achieved a surplus General Fund in 2018/19 of £0.425m, which was transferred to the capital programme reserve.

7.2 There are two purposes for holding reserves. The first is to have sufficient funds to be able to maintain services, both in the short and medium term. The second is to earmark funds for specific purposes. There should be plans to spend earmarked reserves, even if the amount and timing of that spending is uncertain. In accordance with CIPFA guidance, earmarked reserves are held for a number of purposes:

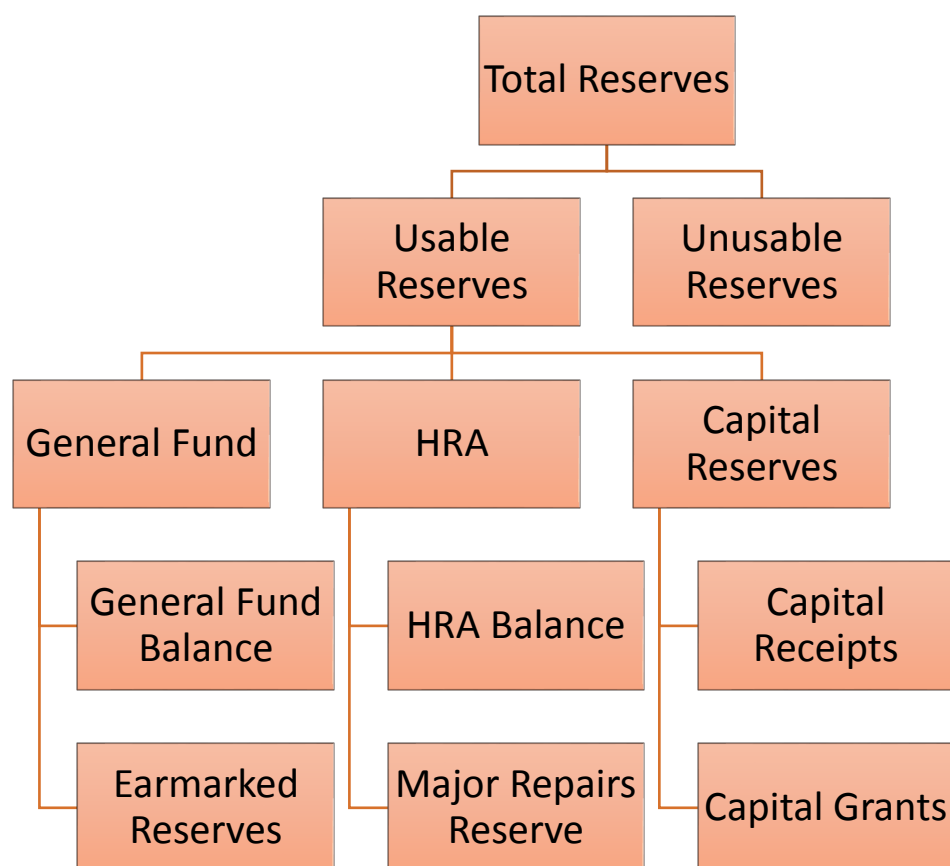
- Sums set aside for major schemes such as capital developments or asset purchases.
- Insurance reserves.
- Reserves for unspent revenue grants.

The nature and purposes of these reserves means that from year to year funds will flow in and out as projects progress, grants are received, insurance costs are incurred and on the other hand capital receipts are set aside for future capital investment, insurance funds are topped up to prudent level or authorities seek to set aside funds which will allow them to invest to generate future revenue savings. Some authorities will have accumulated reserves as part of a plan to ease future budget reductions and to allow longer term savings to come to fruition. However, it is not a proper use of reserves to just draw down to support revenue budgets with no clear plan for how the gap will be bridged in future years when reserves are no longer available.

Councils manage money by dividing it between two pots of reserves - useable reserves and unusable reserves (an explanation of these terms can be found below).

Managing money in this way means that we can budget successfully for what we need to deliver services now whilst building up funds that will grow over time and so protecting services in the future.

The chart and explanations below illustrate how those reserves are split.



Useable reserves: This is money that each council has set aside for specific purposes an example is insurance reserves.

Unusable reserves: The unusable reserves pot contains funds that cannot be used to provide services or used for day to day running costs. The unusable reserves hold funds that have 'unrealised gains or losses'. This means that we have assets such as buildings whose value changes over time. There may also be commitments linked to these assets such as loans or maintenance needs. The funds held in the unusable reserves fund can only be unlocked and turned into usable money if the assets are sold.

General fund / HRA balance: This is a contingency fund - money set aside for emergencies or to cover any unexpected costs that may occur during the year, such as unexpected repairs. There is a requirement to keep such reserves at an appropriate level.

Earmarked reserves: This is money that has been set aside for a particular purpose, such as buying or repairing equipment or the maintenance of public parks or buildings.

Capital receipts: This is the name given to the income received when assets are sold (such as land or buildings). Capital receipts can only be used to buy or fund capital expenditure. Capital expenditure is the money spent on buying assets that have a lasting value. These assets could be land, buildings or large pieces of equipment such as vehicles. Capital expenditure can sometimes also be used to fund grants to people or organisations.

Capital grants: Capital grants are sums of money given to councils by the government. This money can only be used as capital expenditure, in other words this money can only be used to buy assets of lasting value.

Major Repairs Reserve

The major repairs reserve controls an element of capital resources required to be used on Housing Revenue Account (HRA) assets or for capital financing purposes. This can be used for repairs to existing stock, provision of new stock or repaying debt.

A statement by the Chief Executive of the Chartered Institute of Public Finance and Accountancy (CIPFA) - Councils are topping up their reserves where they can, reflecting the absence of a long-term funding settlement for the sector, continued uncertainty around the spending review and Fair Funding Review and an expectation that the long hard winter of austerity is set to continue,' he said.

'Local government reserves play a crucial role in good public financial management. They exist so that a council can invest in service transformation for the future or else allow them to respond to unexpected events or emerging needs. Critics have been quick to criticise these pots of money held by councils, arguing that services should not be failing while councils hold reserves. But taking away capital and technical sums such as insurance, usable revenue reserves usually only amount to about a month's turnover on operations. And always remember as one-off resources, they can only be spent once, while service demands will continue year on year.'

- 7.3 The level of reserves should be regularly reviewed. This is particularly true in the current situation. Local government has had reduced financial resources from the Government and it is clear that this is going to continue for several years. Other Government changes (for example the Localisation of Council Tax Benefit and Business Rates Retention) have transferred significant risks to local authorities. As part of closure of accounts process a review of reserves will take place by the Corporate Management Team with any reserves that are to be reduced to be moved to the capital programme reserve.
- 7.4 For both the Housing Revenue Account and the General Fund, the Council needs sufficient funds to be able to sustain services. In the case of the Housing Revenue Account the reserves are sufficient and no changes are proposed.
- 7.5 The 2019/20 Budget Strategy transferred £1m from the business rates equalisation reserve to the general fund reserve in order to offset the short term costs associated with the Town Hall where monies will be invested before floors are let. Any reserves available in excess of £5m are transferred to the Capital programme reserve.
- 7.6 Any surplus in the current and future financial years can be transferred to the capital programme reserve.

8. Capital Funding

- 8.1 Future bids for capital should be based on expenditure required to maintain the Council's assets, for environmental obligations such as flood prevention and for disabled facilities grants. In addition bids will be for spend to save projects or spend to earn investment income but that such prioritisation should not preclude the initial consideration of capital projects that could deliver social value. Schemes will be presented to the Budget Advisory Group in the new year for prioritisation. Due to commitments within the capital programme future capital schemes will result in borrowing. The Treasury Management Strategy which will be reported to Cabinet and Full Council in February 2020 will address these borrowing requirements.

Attached as Appendix A is the Capital Strategy, there are changes to the recommended criteria on spend on investment properties to £8m in section 5.1.

- 8.2 Any other specific bids will be presented directly to later meetings of the Cabinet.
- 8.3 There is a sum of £7m within the capital programme for purchase of an investment property, it is **Recommended** that this sum is increased to £7.5m in order to include the costs associated with the purchase of a property including Stamp Duty Land Tax and fees. A property has come available that would return £315,000 per annum and as a result would contribute to meeting the future budget gap. The cost of this property would be met within the £7.5m.

9. Housing Revenue Account

- 9.1 Council on 22 February 2012 (FIN/257) approved the payment of £260.325m to the Department for Communities and Local Government as part of the Government's abolition of the previous housing subsidy regime. The money was borrowed via a series of loans from the Public Works Loan Board. The repayment dates vary between 2022/2023 and 2037/2038.
- 9.2 The net effect of these changes was that the HRA had budgeted for significant surplus over the coming years. This was to enable the Council to make capital investments that will help it achieve its corporate housing objectives. Investments already approved include the provision of housing at Breezehurst Drive, Brunel Place and Forge Wood. Changes to Right to Buy discounts and the announcement in the July 2015 budget that rents will decrease by 1% per annum for 4 years from 2016/17, resulted in fewer resources available to meet all aspirations.
- 9.3 The HRA 30 year plan is constantly being updated, and is reported to the affordable housing group. This takes both revenue and capital budget projections and shows resources available for future investment in housing.
- 9.4 The debt cap has subsequently been removed. This would allow an increase in borrowing in order to build more housing, however borrowing rates from the Public Works Loans Board have recently increased so the merits of the scheme versus cost will have to be weighed up.

10. Budget Process

- 10.1 The Budget Advisory Group will be meeting over the coming months to assess the policy implications of savings measures, future growth bids and business cases put forward to support proposals for capital investment including Crawley Homes. The report of the Chair of the Budget Advisory Group will be considered by the Cabinet in the New Year.

- 10.2 The Budget and Council Tax report will be considered by the Overview and Scrutiny Commission, followed by the Cabinet on 5 February 2020. The 2020/21 Budget will be set by Full Council on 26 February 2020.
- 10.3 Where budgetary proposals identify the need for the reduction of, or closure or discontinuance of a service, appropriate consultation will need to be carried out. The Council will also have to have due regard to the public sector equality duty under section 149 of the Equality Act 2010 in making their decisions. The equalities impact will be addressed on proposals as they are developed.

11. Background Papers

Budget Strategy 2019/20 – 2023/24 FIN/417
2019/20 Budget and Council Tax FIN/462
Treasury Management Strategy 2019/20 FIN/464
Treasury Management Outturn FIN/473
Financial Outturn 2018/19 FIN/472

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Appendix A

Capital Strategy

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. Background

- 2.1 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.
- 2.2 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.
- 2.3 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.

3. Objectives of the Capital Strategy

- 3.1 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.

- a. 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.
- b. 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.
- c. 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, through budget monitoring and reporting to the Corporate Projects Assurance Group.
- 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

- d. 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.
- e. 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.
- f. 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

- g. Capital projects will be assessed based on the criteria in section 3.1 above.
- h. 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

- i. 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

- j. 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.
- k. 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.
 - Post project reviews are also fed back and learning is included in future schemes.

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

- l. Funding must be appropriate for the project and will come from:
 - Capital receipts – from the sale of assets or finance lease receipts
 - Government grants
 - Third party grants and contributions
 - Community Infrastructure Levy
 - Other developer contributions
 - Reserves
 - Revenue contributions (see below)
 - External (prudential) borrowing
- m. 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.
- n. 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 and 2020/21 in preparation for the refuse contract renewal). Delegation is given to Heads of Service for replacement of vehicles and to Cabinet Member for IT equipment. The specialist equipment for leisure services forms part of the approved capital programme through Cabinet.

4. Debt and Borrowing and Treasury Management

- 4.1 The council's approach to borrowing is set out in the Treasury Management Strategy 2019/20 FIN/464. The Council will consider external borrowing in the Treasury Management Strategy which will be submitted to Cabinet in February 2020.

5. Commercial Activity

- 5.1 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 £8m.
- 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	£ 9,426,000
Atlantic House – Three Bridges	£ 5,441,800
Ask – High Street	£ 1,551,000
Sub Total	£16,418,800
Voluntary Organisations (Station Road)	£ 1,519,500
Telford Place Car Park	£ 1,042,100
Other	£ 1,061,100
Total	£20,041,500

6. Future Capital programme

The 2020/21 and future capital programme will be included as part of the Budget and Council tax report which will be considered by Cabinet and Full Council in February 2020. Future use of council property including asset management planning is included within the Council's Transformation programme.

7. 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.