Hart District Council - Draft Capital Strategy

1 Purpose and Aims

1.1. The Chartered Institute of Public Finance and Accountancy updated the Prudential Code for Capital Finance in Local Authorities in December 2021. This code sets out a framework that helps local authorities with strategic planning, asset management planning and proper option appraisal.

1.2. The Prudential Code ensures that local authorities' capital expenditure plans are affordable, prudent, and sustainable. It also ensures that treasury management decisions are made based on good professional practice and a clear understanding of the associated risks.

1.3. Authorities must assess their capital expenditure and investment plans, considering their overall organisational strategy and available resources. They should ensure that their decisions take into account the long-term financial implications and potential risks to the authority.

1.4. Authorities must have a capital strategy to ensure that they make capital expenditure and investment decisions in line with service objectives. The strategy should consider stewardship, value for money, prudence, sustainability, and affordability and take into account both risks and rewards. It should comply with the Prudential Code of Practice by CIPFA and government guidance.

2. Strategic Context for Capital Strategy

Corporate Plan 2023-27

2.1 The Corporate Plan 2023-2027 is a strategic document that outlines the Council's direction, priorities and activities and guides the allocation of its resources.

2.2 The main themes and priorities are:

- Planet - Sustainability and Climate Emergency: A carbon neutral and climate resilient council by 2035
- People - fair treatment for all, help for those in need, and a sustainable economy that makes Hart a great place to live and work
- Place - delivering warmer, better homes in sustainable locations that people can afford to live in
- Delivered by a resilient and financially sound Council - Your services: getting it right first time and delivering what matters to you.

2.3 To support the delivery of the Corporate Plan it is essential that necessary long term fixed assets continue to be made available. The provision of long-term assets is further defined as a capital expenditure.

3 What is Capital Expenditure

3.1 To fully benefit from the Prudential framework, it's important to understand what counts as capital expenditure. If an expense doesn't qualify as capital, it won't fall under the framework and will be charged to revenue during the period in which it was incurred. However, if an expense is considered capital, there may be opportunities to finance it through capital receipts or by spreading the cost over future years' revenues.

3.2 There are three ways in which expenditure can qualify as capital under the framework:

- The expenditure should result in the acquisition, construction, or improvement of fixed assets, both tangible and intangible. Improvement is when the capital expenditure significantly extends the useful life of the asset, increases its value, or enhances its ability to support the functions of the Council.
- The expenditure meets one of the definitions specified in regulations made under the 2003 Local Government Act.
- The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.

The council often has projects that are not part of the regular operational services, but they do not meet all of the criteria for capital projects. These projects are often included in the Capital Programme, and the principles of this capital strategy apply to them.

4. Capital Investment Objectives

4.1 Restrictions on council borrowing prohibit investments in land or buildings for yield. No yield-based investments are allowed in the Capital Programme for three years, and no alternative financing options. Non-compliance will result in repayment of PWLB borrowing and may prevent future access to PWLB.

The key objectives of capital investment are to:

- **Support service delivery** in line with the Council's strategic objectives including enhancing Hart's digital offer to customers.
- **Support regeneration, economic development and affordable housing provision** working in partnership with other organisations where necessary and attracting external funding where possible.
- **Implementation of the Climate Change Strategy.** The Council has a target to achieve its net zero-carbon target. It will achieve this through various measures and an action plan will be developed early in 2023.
- **Supporting local communities.** Working with partners and utilising external funding where possible, including SANG and S106 funding.
- **Supporting healthy and independent lives.** The ongoing use of Disabled Facility Grants as part of the Improved Better Care Fund will be instrumental in this.
- **Facilitate the generation of income.** From existing commercial assets or service-based assets capable of generating income.
- **Enhance value for money** by helping to reduce or avoid costs and future liabilities.

It is anticipated that the capital investment will fall into four main categories based on these objectives:

- Assets owned by the Council to support the direct delivery of services by the Council itself.
- Assets owned by the Council to support the delivery of services by third parties where there is a strategic need/advantage in continuing to own the assets.
- Assets held for the purposes of regeneration or economic development.
- Assets currently held for a financial return to support the financial resilience of the Council.

In some cases, the Council may invest in assets owned by third parties to achieve their objectives or comply with the law.

4.2 The Council will comply with paragraph 51 of the Prudential Code in relation to any new investments for commercial purposes and will not borrow to invest primarily for yield.

5 Approach to Capital Investment

5.1 The Council's approach to capital investment aims to ensure that:

- Capital expenditure contributes to the achievement of the strategic plan.
- An affordable and sustainable capital programme is delivered.
- Value for money is achieved.
- A clear framework for making capital expenditure decisions is provided.
- A corporate approach to generating capital resources is established.
- Sufficient long-term assets to provide services are acquired and retained.
- Invest to save initiatives to make efficiencies within the Council's revenue budget are encouraged.
- An appraisal and prioritisation process for new schemes is robust including appropriate due diligence and external expert advice.
- Effective governance is in place for projects

6 Governance Arrangements

6.1 The Council's Constitution and Financial Regulations govern the capital programme:

- All schemes are formally approved into the capital programme by following a process as set out in the financial regulations.
- All capital expenditure must be carried out in accordance with the Financial Regulations and the Council's Constitution.
- The expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards.
- Capital Programme approved by Full Council as part of the Council's annual budget report sets the capital funding availability for the Council, the prioritisation of funding and the schemes receiving entry into the Capital Programme.
- Officers are not authorised to commit expenditure without prior formal approval as set out in the financial regulations.
- Each scheme must be controlled by a responsible person/project manager.
- Any agreements (such as section 106) which contractually commit to procure capital schemes will need to follow the same approval process as other capital expenditures before they can be formally incorporated into the capital programme.
- Capital expenditure on Commercial projects may be approved subject to specific Cabinet approval supported by a business case and appropriate property and legal advice.

7 Capital Funding

7.1 The Council's Capital Programme is funded from a mix of sources, including:

Grant Funding - Capital purposes are often the reason for funding, which may come from the central government or other agencies.

Capital Receipts - Receipts received from selling assets can only be used to fund new assets and are kept in a Capital Receipts Reserve.

Developer Contributions - S106 agreements. These agreements can include SANG receipts and are typically related to specific capital investment projects. If they are more general, the Council will use the funding to meet its capital investment priorities as long as they meet the conditions of the S106 agreement.

Partner Contributions - Some projects may be jointly funded by the Council and other agencies, including other councils.

Prudential Borrowing - The Council has the option to borrow funds for its capital expenses from both internal and external sources. However, it must ensure that the revenue financing costs of such borrowing are affordable and sustainable. The Government's guidelines and the CIPFA Prudential Code for Capital Finance in Local Authorities will be taken into consideration when deciding on prudential borrowing as a source of capital funding.

Revenue Contributions to Capital - the Council can use its revenue resources to fund its capital expenditure.

Use of Earmarked Reserves – where resources have been approved by Council for a specific purpose

Leasing - a specialised form of borrowing linked directly to the rental of an asset.

7.2 The capital programme and its projects' funding options depend on various factors, such as the availability of resources and constraints applicable to specific sources. The funding preference is for external resources like partner contributions or grants. Borrowing, either internally or externally, is the second choice. It will be used only if there is a business case. In case other funding sources are unavailable, the council's resources, including capital receipts and revenue contributions, will be utilized, if affordable.

8 Capital Risks

8.1 The Council will assess capital risks and determine its risk tolerance based on the investment proposal's specific circumstances. Key capital risks are associated with the Council's capital strategy.

- **Cost Inflation** – Reducing real terms value of capital budgets
- **Availability of materials and labour** – affecting delivery times and tender prices
- **Capital Maintenance** – Deterioration of assets if insufficient maintenance. Condition surveys are important to aid revenue budgeting and capital investment plans
- **Availability of external funding** – ensuring the Council spots opportunities and responds quickly
- **Project management skills and capacity** – to produce bids and ongoing management and delivery
- **Capital Slippage** – If capital expenditure isn’t profiled accurately, then there is the risk of significant underspend against the programme, which delays benefits and ties up resources
- **Interest Rate Increases** – Affecting viability of schemes.