

APPENDIX 2



CAPITAL STRATEGY 2018/19 - 2022/23

1.0 INTRODUCTION

East Lindsey District Council (ELDC) reviews and updates its Capital Strategy on an annual basis. This ensures the strategy maintains a strong and current link to the Council's priorities and to its key strategy documents notably the Asset Management Strategy within the Asset Management Framework 2016-2026, and the Economic Strategy. It must also be consistent with the Medium Term Financial Strategy and the Corporate Strategy.

The Strategy focuses on core principles that underpin the five year capital programme as presented in the draft budget report. It gives a position statement with regards to capital expenditure and the resources available in terms of funding. The Strategy projects where the Council will be in five years time and how it will get there. It also focuses on the key issues and risks that will impact on the delivery of the Capital Investment Strategy and the governance framework required to ensure the Strategy is delivered.

2.0 CORE STRATEGY

The core strategy explains how we will manage our capital resources to deliver our current and foreseeable capital programme.

The Council's Asset Management Framework contains aspirations around the required disposal of or investment in Council assets in order to contribute towards the council's aims and objectives. Appropriate capital investment should deliver both the financial efficiencies the Council requires through its Transformation Programme and maximise the use of the assets it currently holds.

We will ensure this happens through 4 core principles:

Table 1 – Core principles

Principle 1 – Managing the impact of investment decisions on our revenue budgets
We will do this by:
<ul style="list-style-type: none">• Ensuring capital investment decisions do not place unnecessary additional pressure on Council Tax or our Medium Term Financial Strategy
<ul style="list-style-type: none">• Taking investment decisions that generate a commercial rate of return for the Council
<ul style="list-style-type: none">• Purchase rather than leasing vehicles such as the refuse fleet
<ul style="list-style-type: none">• Promote capital investment which allows invest to save outcomes and which contribute to the Transformation programme.
Principle 2 – Optimise the availability of capital funding where that funding supports the priorities of ELDC
We will do this by:
<ul style="list-style-type: none">• Disposal of surplus assets and use them to reinvest
<ul style="list-style-type: none">• Effective working relationships with potential funders
<ul style="list-style-type: none">• Listen to and support effective partnering arrangements
<ul style="list-style-type: none">• Generating capacity within the services' revenue budgets to deliver ongoing contributions towards necessary capital investment.
<ul style="list-style-type: none">• Have clear policies for the consumption of our reserves
Principle 3 – Ensure we have effective pre and post project appraisal
We will do this by:
<ul style="list-style-type: none">• Developing projects that fully support the council's transformation programme

APPENDIX 2

<ul style="list-style-type: none">• Ensuring a system of competition exists for project approval
<ul style="list-style-type: none">• Build into project appraisal recognition of environmental sustainability
<ul style="list-style-type: none">• Fully consider project risk
<ul style="list-style-type: none">• Carefully consider Value for Money and Efficiency of every project
<ul style="list-style-type: none">• Schemes will only be added once an affordable business plan is in place
Principle 4 – Performance manage our capital programme
We will do this by:
<ul style="list-style-type: none">• Integrating the capital programme into our performance management framework
<ul style="list-style-type: none">• Ensure our capital schemes use appropriate project management tools
<ul style="list-style-type: none">• Expect responsibility for the delivery of the capital programme to be clearly defined
<ul style="list-style-type: none">• Make sure our assets perform at an optimal level through effective ongoing asset management, consistent with levels of investment

3.0 STRATEGIC CONTEXT

3.1 Strategic Links

This strategy is a high level summary of ELDC's approach to capital investment in the future of the district. It guides the development of service capital plans, and sets out the policies and practices that the authority uses to establish, monitor and manage the Council's capital programme, in line with the Medium Term Financial Strategy. The Capital Strategy will take account of both local improvement priorities and national priorities, that are established through effective consultation with residents and our partners. These priorities (supported by Service Plans) inform resource allocation. Progress on achieving these objectives is closely monitored in accordance with the performance framework.

The Council's transformation programme is a key strategic document for the period 2018-2023. The Transformation Programme is being developed to meet the anticipated significant reduction in Government Funding. Its key objectives are to help the council become non reliant on this source of funding, through reduced expenditure and increased income, but also to continue to provide its statutory services, protect its most vulnerable residents and focus investment on delivering economic development to the District.

The Transformation Programme will provide the backdrop to the Medium Term Financial Strategy (MTFS) which in turn ensures all new resources, be they revenue or capital, are allocated through the principles on which it is based.

This Capital Strategy is linked to a number of other strategies. These includes service strategies, such as Housing and Planning services, as well as strategies such as the Medium Term Financial Strategy, the Economic Development Strategy and the Asset Management Strategy.

3.2 Capital Resources

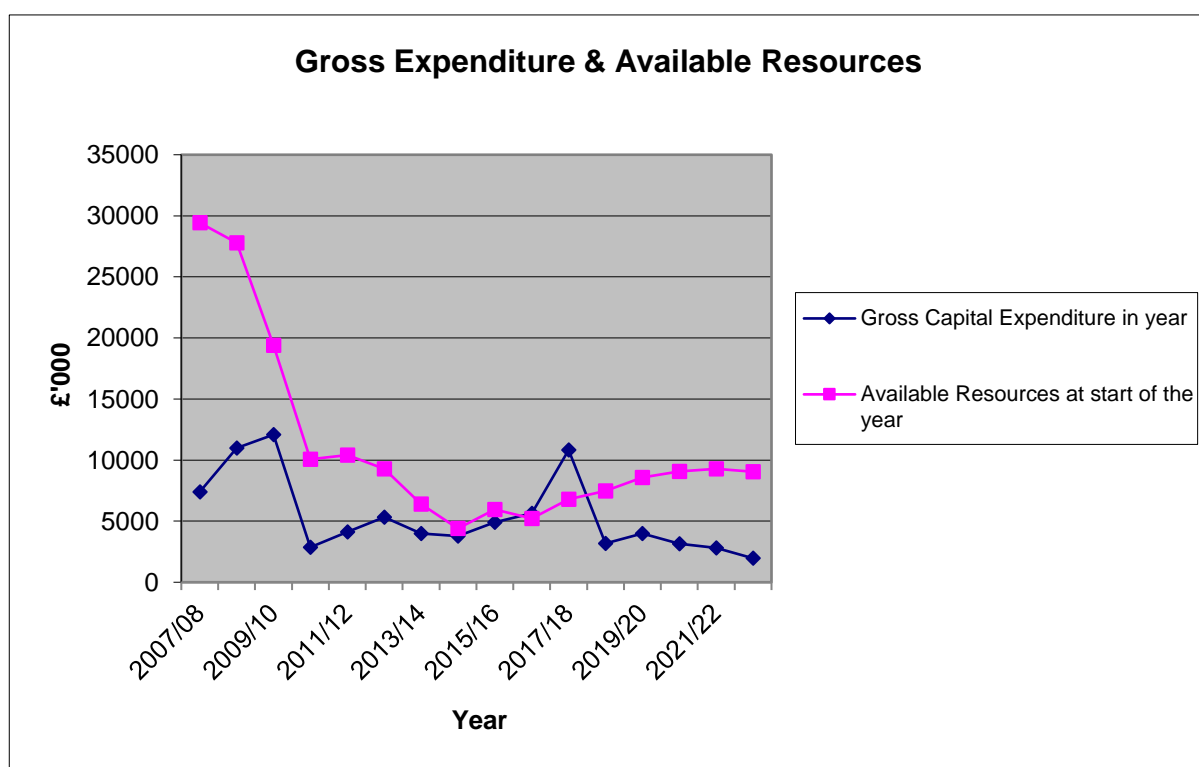
Balance of Funding

Historically the Council's capital resources have mainly come from the disposal of its housing stock and other capital receipts from asset disposals. These resources have been consumed over time, as depicted in the graph below. If the Council is unable to secure significant new capital receipts then it will need to look to other sources of funding for its required capital investment. In recent years the council has transferred all New Homes Bonus (NHB) into the Capital Reserve. However, this approach is not forecast to be a sustainable one as NHB funding is anticipated to reduce, or stop, over the medium term. The Council will continue to put NHB into the Capital Reserve while it can but it needs to develop an alternative strategy for future funding sources in anticipation of future significant reductions.

Where appropriate the Council will aim to achieve a commercial return on its assets in order to generate future revenue sources of funding for capital investment.

APPENDIX 2

*Graph 1: Capital Programme impact on Capital Resources**



* Capital Resources identified here and at Table 4 below are the Council's primary sources of funding for capital assets, namely, those held by ELDC as unapplied capital receipts and those revenue funds held in the Capital Reserve. The Council does fund some items of capital expenditure from other revenue reserves (e.g. Technology Reserve) and from some external sources of funding.

At the start of 2021/22 its capital resources are estimated to have increased to £10.282m. The Council anticipates that the required investment in its Transformation Programme will make full demands on all these available resources over the next few years. New projects will be introduced into the capital programme as business cases come forward. The priority for these new projects will be to support core service provision and provide finance for the support of the emerging asset management plan.

A brief description of all the resources available to fund future capital expenditure are given in the following table.

Table 3 – Sources of Capital Funding

Capital Resource	Implications with regards to future funding
(a) Capital Receipt	Historically this is the form of funding the Council has relied upon. The Council does hold a number of potentially high value assets that could be sold. However, the Council will consider all appropriate options for any surplus assets. It will need to fully understand what can be achieved from holding an asset before a decision is made to dispose of it. If the Council's existing capital receipts are spent in line with current plans and no significant surplus assets are sold there will be limited receipts available for funding the capital programme.
(b) Section 106 – Planning Obligations	The Council has powers under Section 106 to provide for infrastructure and facilities to support the local community along side planning and development projects. In some cases the Council is able to receive cash amounts in lieu of developers providing for these requirements directly. The Council has not made significant use of such arrangements and has therefore not built a Capital Programme around this type of funding. If such cash amounts are received from developers, then the Council will plan for using these as a source to support its capital investment.
(c) External grants and contributions	The partnership approach to service delivery is a core belief of the Council. Through its services, partnership working, supportive funding

APPENDIX 2

	and innovation, the Council will seek to attract investment into the District. The Council has a history of attracting inwards significant values of external funding from both Europe and the UK. The Council will be actively involved in any new arrangements to support development on both a national and regional basis. Furthermore the Council is aware of the need to be innovative and work closely with the Private, Public and the Voluntary Sectors to deliver outcomes for local people at a time when there will be reduced levels of capital resources. The Council is also in receipt of grant funding from the Better Care Fund to support its Disabled Facility Grant programme and is heavily reliant upon this to help it deliver these mandatory grants for which there is a significant demand from its residents. The Council always tries to maximise the use of all available external funding opportunities.
(d) Revenue Contributions and Treasury Management	Despite uncertainty about future capital receipts and also the scale of any shortfall in the funding of annual revenue budgets, the Council's Medium Term Financial Strategy must aim to build revenue capacity to fund the Capital Programme into the annual budget setting process, to fund future and recurring schemes and ongoing asset replacement. If the Council's revenue budget has capacity the Council should consider the need to build up an annual revenue contribution to capital, perhaps from surplus Business Rates. The Council currently transfers all new Homes Bonus into the capital reserve. As the Council's vehicles are replaced it is moving from leasing to outright purchase. Any savings in revenue running costs, from these or any other replaced assets, will be used to make contributions to reserves to generate capacity for future capital purchases.
(e) Balances and Reserves	ELDC has a reasonable level of both general and specific reserves. Specific Reserves are held for particular reasons. The Council's reserve have been established through stringent financial management and policy decisions made in recent years. Use of these reserves will come under increasing pressure as other resources become scarce, however, future financial reforms present risks which will make it hard to justify excessive use of these reserves in the short term. The Council's policy on the type and level of reserves held will be reviewed annually.
(f) Borrowing	The Council will consider borrowing where there is a business case that will support the financial repayments of such borrowing and/or where there is a commercial and social return that supports a scheme. The Council will need to be mindful of the revenue implications of any borrowing that it undertakes.

Table 4 – Summary of Estimated Capital Resources (Capital Receipts and Capital Reserve only)

Resources	2018/19	2019/20	2020/21	2021/22	2022/23
Resources at start of the year	7,468	8,074	8,523	8,499	8,032
Revenue	50	50	50	75	75
Internal Borrowing	0	0	0	0	0
Revenue Contributions to reserves – predominantly New Homes Bonus	1,666	1,064	568	369	0
External Funding	2,843	1,562	1,562	1,562	1,562
Other Reserves	1,087	1,507	850	851	100
New Capital Receipts	100	100	100	100	100
New Borrowing	0	0	0	0	0
Less Capital Resources Used in Year	-5,140	-3,834	-3,154	-3,424	-2,336
TOTAL CAPITAL RESOURCES AT END OF YEAR	8,074	8,523	8,499	8,032	7,533

3.3 Disposals Policy

The Council's Disposal Policy was updated as part of the development of the new Asset Management Plan. Generally the Council seeks to achieve 'best consideration' in disposing of

APPENDIX 2

assets, via a sale subject to competition. In certain circumstances it may be for less than best consideration normally where the disposal will contribute to the achievement of the promotion or improvement of the economic, social or environmental well being of the whole or part of the area. Sales may on occasions be negotiated directly with one party (e.g. a sitting tenant or a party with special interests). Any deviations from best consideration will be reported in accordance with the Council's Constitution.

Where the Council identifies potential surplus assets it will make sure that all options for the future use of an asset are considered prior to any decision to sell.

The Council has and will continue to consider community asset transfers where disposals of assets by this means are appropriate.

Any proceeds from the disposal of assets such as land in excess of £10,000 are determined as a 'capital receipt'. The policy to sell small pockets of land often brings in income of less than £10,000. This income is classed as 'revenue income' and is posted to the revenue income and expenditure account.

3.4 Capital Expenditure, Risks and Opportunities

Table 5 below summarises the key issues facing the Council in relation to Capital expenditure, both in terms of upside and downside risks.

Table 5 – Capital Expenditure issues

Area	Issue
(a) Asset Management Strategy	The Council's Asset Management Strategy supports its Capital Strategy. Annual reviews of assets aligned to the Strategy may identify surplus assets, which may in turn generate capital receipts for future capital investment. The Council also has a requirement to maintain its existing assets (property and vehicles). As such expenditure pressures are similarly identified where assets need replacing. The council will also consider those opportunities which would enable the Council to invest in new and needed assets which will generate income e.g. new car parks. This would only be done where need is proven and a suitable business case supports that investment.
(b) Risk Management	Monitoring and control of exempt input tax is essential for the council. Where exempt input tax exceeds the 5% de minimus limit the whole amount is irrecoverable and will represent an additional cost to the council. Each capital investment will be closely reviewed to assess its VAT implications.
(c) Environment and climate change	Particularly pertinent given issues surrounding global warming and rising sea levels and East Lindsey's coastline and risks concerning flood and the requirement to alleviate such risks.
(d) Procurement	The purchase of capital assets should be conducted in accordance with the Procurement Strategy, ensuring value for money, legality and sustainability at all times. Contract standing orders and rules governing the disposal or write off of assets are contained in the Constitution which is consistently reviewed
(e) Tourism and Leisure and Economic Development	One of the key priorities for the Council is to try and maximise economic investment and development across the District and address issues around the current low-wages in this part of the country. The local economy is heavily reliant upon tourism and leisure. The Council is committed to developing its visitor economy and as such there will be inevitable pressures on the assets in relation to these areas. In addition the Council will consider investment in appropriate infrastructure which will enable the districts local economy to develop and thrive e.g investment in Broadband.
(f) Housing demand	Given the socio-demographics of the district there is increasing pressure with regards to the Council's statutory obligation concerning Disabled Facilities Grants (DFGs). In recent years the level of DFG funding received via the Better Care Fund has increased. However if grant funding ceases or is reduced the position with regard to the delivery of these grants may not be sustainable in the future. The Council has historically invested significant amounts of its

APPENDIX 2

	resources into the development of affordable housing within the District. This has delivered a large number of much needed homes. Whilst housing continues to be an issue, the council's limited resources now need to be focussed on other areas (such as economic development). For this reason new ways of securing investment in affordable housing will need to be developed.
(g) Partnership working	The integration of our capital strategy with those who we seek to work with will be necessary to deliver the shared visions we hold. Given the opportunities of Localism and working with local communities and the voluntary sector, looking at joint asset use will be increasingly important. A good example being the arrangements with Compass Point Business Services, with fixed assets also relating to equipment and intangible assets, such as software, as much as physical infrastructure.
(h) Invest to save schemes and VFM	Whilst there are revenue implications for investing in capital schemes, the Council is keen to invest in areas that result in long-term revenue savings and 'invest to save' schemes. It is also an aim to invest in assets that generate a revenue income in excess of that which could be earned by leaving the capital on deposit (see comments under Asset Management Strategy at (a) above). The significant resources applied to capital expenditure require the adopted principles of value for money to be at the heart of our capital strategy and returns on investment are one aspect of VFM.

3.5 Framework for managing and monitoring performance

It is important given the risks surrounding Capital Projects that the appropriate Governance framework is in place hence the following processes are in place:

- The Capital Strategy itself to be presented annually alongside the Medium Term Financial Strategy at Council;
- All schemes and the overall Capital Programme are subject to approval by the Executive Board and Council (where required), with due diligence paid to scarce capital resources going forward;
- Progress on the delivery of the Capital Programme will be monitored by a joint officer and member Capital Programme Working Group and progress will be reported to Executive Board and Overview Committee on a quarterly basis in line with the performance management reporting cycle;
- Portfolio holders will be assigned projects in line with their responsibilities;
- The Capital Programme Working Group will receive post project completion reports to ensure that its limited resources have been used effectively.

Author(s)	Sally Topham (CPBS)
Review Date	November 2017
Next Review Date	January 2018
Document Version	2018 v1

APPENDIX 2

CAPITAL PROGRAMME 2018/19 – 2022/23							FUNDING					
Description	2018/19	2019/20	2020/21	2021/22	2022/23	Total	External Grants/ Contn.	Revenue	Other	Capital	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000			Reserves	Reserve	Receipts	
Capitalised Planned Enhancement Work	572	665	642	786	549	3,214				3,214		3,214
Replacement Car Park Machines				100		100					100	100
Wheelie Bin Replacement	50	50	50	75	75	300		300				300
Pumping Works Skegness Foreshore	168					168				168		168
Disabled Facilities Grants	1,562	1,562	1,562	1,562	1,562	7,810	7,810					7,810
Annual General Provision for Flood Grants	50	50	50	50	50	250					250	250
IT Investment	100	100	100	100	100	500			500			500
Replacement Fleet Vehicles	75	76				151			151			151
Refuse Vehicles		1,331	750	750		2,831			2,831			2,831
Skegness Embassy Theatre	184					184			184			184
Skegness Leisure Investment	566					566			566			566
TOTAL APPROVED	3,327	3,834	3,154	3,423	2,336	16,074	7,810	300	4,232	3,382	350	16,074
Skegness Town Hall refurbishment	1,653					1,653	1,281			372		1,653
Council Chamber Audio Visual replacement	160					160			160			160
TOTAL SUBJECT TO APPROVAL	1,813	0	0	0	0	1,813	1,281	0	160	372	0	1,813
GRAND TOTAL	5,140	3,834	3,154	3,423	2,336	17,887	9,091	300	4,392	3,754	350	17,887

FUNDING	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£'000	£'000	£'000	£'000	£'000	£'000
External Grants	2,843	1,562	1,562	1,562	1,562	9,091
Revenue	50	50	50	75	75	300
Other Reserves	1,085	1,507	850	850	100	4,363
Capital reserve	1,112	665	642	786	549	3,754
Capital Receipts	50	50	50	150	50	350
TOTAL	5,140	3,834	3,154	3,423	2,336	17,887

POTENTIAL FUTURE SCHEMES
Investment in Leisure Centres
Investment in Acolaid IT system - used by Environmental Health and Enforcement teams
Gypsy and Traveller Sites
Fairfield Industrial Estate Extension
Energy Efficiency Measures
Skegness Foreshore enhancements
Economic Development projects - in line with Economic Action Plan