AGENDA ITEM 11 REPORT NPA23/24-26 APPENDIX 2

CAPITAL STRATEGY 2024/25

1. Background

1.1. Chartered Institute of Public Finance and Accountancy (CIPFA)'s Prudential Code for Capital Finance in Local Authorities and the Department for Levelling Up, Housing and Communities (DLUHC) investment guidance require all local authorities to prepare a capital strategy report which demonstrates that the authority:

- takes capital expenditure and investment decisions in line with service objectives;
- takes account of stewardship, value for money, prudence and affordability;
- sets out the long term context in which capital expenditure and investment decisions are made;
- gives due consideration to both risk and reward and the impact on the achievement of priority outcomes.

1.2. The aim of the capital strategy is to ensure that all members of the authority fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.3. This capital strategy is reported separately from the Treasury Management Strategy; this ensures the separation of the core treasury function (security, liquidity and yield principles) and the approach to capital investment.

1.4. This report covers the impact of capital investments focussing on the authority's core activities. Treasury investments and associated risks are covered under the authority's Treasury Management Strategy set out in **Appendix 3** to this report.

2. Governance Framework

2.1. The authority's financial regulations and procedures set out the framework of control, responsibility and accountability for the proper administration of the authority's financial affairs. Under the financial regulations and procedures, the Chief Finance Officer and Directors are jointly responsible for ensuring a capital programme is prepared and considered by the full authority.

2.2. Further to this, the authority's Financial Procedures define the key controls around the management of the authority's financial affairs, including the capital programme. The key controls for the capital programme are:

- specific approval by the authority for the programme of capital expenditure, in conjunction with the annual revenue budget, outlining the phasing of expenditure and the sources of funding;
- reports of schemes and estimates, including options appraisals, project plans, progress targets and associated revenue expenditure are prepared for each capital project, for approval by the full authority;
- no new capital scheme proceeds unless all required finance and other necessary approvals have been obtained;
- proposals for improvements and alterations to buildings must be approved by the appropriate Director in consultation with the Chief Executive;
- a nominated, accountable budget holder for each capital budget;
- monitoring of progress on capital schemes and comparison with approved budget and remedial action taken to address overspends, reporting monthly to the Chief Executive and Directors, and at least four times a year to Senior Management Team and the Policy & Resources Committee;

- compliance with the authority's Financial Regulations, Contract Standing Orders and Procurement Policy, for example, when inviting competitive quotes or tenders.

3. Risk Management

3.1. Risk management is defined as *"the culture, processes and structure, which come together to optimise the management of potential opportunities and adverse effects"*. Due to the potential high value and long-term nature of capital expenditure, there is an inherent risk associated with an authority's' capital programme which needs to be managed. The principles and assumptions set out in this strategy and the authority's governance framework are designed to ensure that resources are utilised to meet the objectives of the authority whilst ensuring effective use of resources and securing the assets of the authority and its continued financial and organisational well-being.

3.2. The authority maintains a Corporate Risk Register and Corporate Governance framework which requires that the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. It includes the systems and processes, and cultures and values, by which public bodies are directed and controlled and through which they account to and engage with their partners and communities.

3.3. Further to this, the authority's Financial Procedures define the key controls around the risk management. The key controls for the risk management are:

- The risk management strategy is agreed and adhered to across the authority;
- Procedures are in place to identify, assess and manage the risks that may hinder the authority from reaching its objectives;
- Risk management is a formalised stage of the business and project planning process, project management, major changes initiatives and financial management processes;
- A monitoring process is in place to regularly review the effectiveness of risk reduction strategies and the operation of these controls;
- Risk management training and support is available across the authority;
- Managers know that they are responsible for managing risks and are provided with information on risk management initiatives and incidence levels.

3.4. The Corporate Risk Register is monitored by the authority's Operational Management Team and issues escalated to Senior Management Team as required. The Corporate Risk Register is reported to each Policy & Resources Committee meeting.

4. Capital Strategy

<u>Capital Expenditure</u>

4.1. Capital expenditure involves acquiring or enhancing fixed assets with a long-term value to the authority, such as land, buildings, and major items of plant, equipment or vehicles. Capital assets shape the way services are delivered in the long term and create financial commitments for the future in the form of financing costs and revenue running costs.

4.2. The authority's intention is to optimise rather than maximise capital investments whilst ensuring the conditions of the investment are compatible with the aims and objectives of the Authority. It is necessary to set out the key principles which can be used as the basis to guide future capital expenditure decisions. The key principles are:

- Capital expenditure shall be subject to a process of consideration of the purpose, benefits and risks of meeting the strategic fit of the authority's Partnership Management Plan, Corporate Plan and asset management planning priorities.
- Capital investment proposals will consider the total projected costs, expenditure profile and full whole life financial implications both revenue and capital. The possible "exit" value of the assets created should be assessed as a relevant consideration in reducing the risk in respect of cost and / or strategic fit.

- Consideration should be given to the requirement of ongoing budgetary provision for the replacement of existing assets to ensure the operational requirements of the Authority are met and these assets provide best value to the Authority.
- Consideration should be given to capital projects which deliver revenue efficiency gains, improvements in value for money or maximise income streams whilst complying with the above principles and taking into consideration related additional costs.

Capital Financing

4.3. The authority is able to finance capital investment from a number of sources. It is necessary to set out the key principles for each potential source of capital investment which can be used as the basis to guide future capital financing decisions:

- **External Grants and Contributions:** External funding is potentially an important source of income, but conditions need to be carefully considered to ensure that they are compatible with the aims and objectives of the authority. The authority will use external grants and contributions to fund capital expenditure where it results in a substantial benefit to the authority relative to the resources required to achieve that benefit.
- **Borrowing:** Borrowing as a source of funding shall be carried out in accordance with the CIPFA Prudential Code and the authority's Treasury Management Strategy. Future borrowing repayments (including interest) should be given careful consideration and need to demonstrate affordability relative to the benefits of the asset being purchased/enhanced and the Medium Term Financial Strategy.
- **Capital Receipts from the Sale of Assets:** Receipts from the sale/disposal of assets should first be used to replace that asset if required. Any surplus receipts shall then be available to finance capital expenditure in accordance with the principles outlined in this strategy.
- **Capital and Earmarked Reserves:** Capital financing from capital and earmarked reserves shall be recommended when the assets being acquired or enhanced meet the approved purpose of the reserve in accordance with the Authority's Financial Procedures.
- **Direct Revenue Funding:** Capital financing from revenue budgets shall only be recommended where there are sufficient resources available within the approved revenue budget, including revenue reserves, and the implications for the current financial year and Medium Term Financial Strategy are considered.
- **Other:** Other potential sources of capital financing shall be considered taking into account the principles outlined above where relevant and in accordance with the appropriate approvals in line the with the authority's governance framework.

5. The Capital Programme

5.1 The Capital Programme represents anticipated capital expenditure over the Medium Term Financial strategy period, informed by the key principles above. The capital programme requires specific approval by the Authority, in conjunction with the annual revenue budget, outlining the phasing of expenditure and the sources of funding. The Authority's capital programme 2024/25 to 2028/29 forecasts a total of £0.978 million capital investment as shown in **Table 1** below which takes account of the Authority's invest-to-save programme created in 2023/24.

5.2

Table 1: Capital Programme	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**
IT Infrastructure	175	0	0	0	0
QECP Partnering arrangements	40	0	0	0	0
South Downs Centre - External redecorations	25	0	0	0	0

Vehicle Replacement	0	50	0	0	0
Variation: Seven Sisters Country Park – Reed Bed	260	0	0	0	0
Variation: Seven Sisters Country Park – Micro Tractor	20	0	0	0	0
Variation: Seven Sisters Country Park – Trading Company	220	0	0	0	0
Variation: South Downs Centre - Cladding	70	0	0	0	
Variation: Memorial Hall – AV equipment	35	0	0	0	0
Variation: South Downs Centre and Seven Sisters Country Park Energy Efficiency Programme	75	0	0	0	0
Variation: National Park Signage	8	0	0	0	0
Total Capital Budget	**928**	**50**	**0**	**0**	**0**

5.3 Financing of the Capital Programme has been informed by the key principles in section 4 above. Expenditure shall only be included in the Capital Programme when financing has been identified and considered. **Table 2** below shows how it is anticipated the Capital Programme will be financed.

Table 2: Capital Programme Financing	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**
External Grants and Contributions	760	0	0	0	0
Borrowing	0	0	0	0	0
Capital Receipts	0	0	0	0	0
Capital and Earmarked Reserves	168	50	0	0	0
Direct Revenue Funding	0	0	0	0	0
Other	0	0	0	0	0
Total Capital Financing	**928**	**50**	**0**	**0**	**0**

Capital Programme Approval Requests

5.4 The following variations were considered by Policy & Resources Committee at its meeting on 29 February 2024 and were recommended for approval to the full Authority.

Capital Project	**Variation (£'000)**	**Project Purpose, Benefits and Risks:**	**Financial Implications:**
National Park Signage Project	8	Contingency for some original phase 1 metal signs that are likely to fail.	Funded by reserves
South Downs Centre - Cladding	70	Ensure building would once again be safe and sound, waterproof and with increased energy efficiency.	Funded by Invest to Save reserve
Seven Sisters Country Park – Trading Company	220	£30k of the £250k loan provision has been taken up, at present no further intention to take up a further loan this financial year, carry remaining provision forward into next year. The current loan arrangement is being repaid over 10 years, with first instalment March 24.	Funded by reserves

Capital Project	Variation (£'000)	Project Purpose, Benefits and Risks:	Financial Implications:
South Downs Centre and Seven Sisters Country Park Energy Efficiency Programme	75	The project remit for this has been extended. SSCP works has commenced on site 8.1.24 and will be complete by March (camping barn, ranger office, turkey and pump barn - lighting and heating works). Installation of solar panels cannot commence until these works finished at SSCP (and surveys undertaken) and at SSDC until cladding works complete when solar panels and lighting works will be undertaken.	Funded by Invest to Save reserve
South Downs Memorial Hall - AV equipment	35	The AV system and Public Eye system are two separate systems; the new system will be all within one system and provide us more control.	Funded by Invest to Save reserve
SSCP - Reed Bed	260	Tender now let to start on site in February with tree and shrub clearance. There has been delays in receipt of permits from Environment Agency, the Klargaster units have now been placed on order due to lead in times.	Funded by Defra grant – Water in Protected Landscapes

6. Debt, Borrowing and Treasury Management

6.1 The Authority has adopted CIPFA's Code of Practice for Treasury Management in Local Authorities. The authority is responsible for approving the Treasury Strategy setting out the matters detailed in "Treasury Management in the Public Services: Code of Practice for Treasury Management in Local Authorities". This code is applicable to national park authorities.

6.2 Under the Prudential Code and Treasury Management Code, the authority is required to set parameters around its borrowing and treasury activity, including an authorised borrowing limit for each year which cannot be breached. Additionally, when funding capital expenditure through borrowing, the Authority is required to set aside a sum from revenue each year to repay the debt, known as the Minimum Revenue Provision (MRP).

6.3 The Policy & Resources Committee is responsible for proposing a Treasury Strategy before the start of the year and for monitoring treasury management performance. The Chief Finance Officer is responsible for reporting treasury management activities to the committee and for making delegated treasury management decisions.

6.4 All decisions on borrowing, investment or financing are delegated to the Chief Finance Officer, and such officers as he/she may nominate, who shall be required to act in accordance with the Code of Practice referred to in the authority's Treasury Management Statement Strategy.

6.5 The Local Government Act 2003 permits local authorities (and therefore national parks) to borrow to finance capital expenditure provided that the plans are affordable, prudent and sustainable in the long term. This means that capital expenditure should form part of a capital investment strategy and should be carefully prioritised to maximise the benefit.

7. Commercial Activity

7.1 The authority has assets which were part of the transfer of Seven Sisters County Park in July 2021 which may be defined as commercial for Statement of Accounts reporting purposes. As part of the transfer of Seven Sisters Country Park the operational purpose is for holding and investing in these assets is not commercial but in line with statutory purpose of the national park itself.

8. Other Long-term liabilities

8.1 The authority has one long-term financial liability which is the 'loan arrangement' with East Sussex County Council associated with the transfer of Seven Sister County Park in July 2021. The balance at inception was £0.875 million to be repaid in equal instalments over 25 years with the repayment value indexed annually by the Retail Price Index. The cost of this is covered by income generated by Seven Sisters via the operating agreement with Seven Sisters Commercial Operations Ltd.

9. Knowledge and Skills

9.1 The authority's Chief Finance Officer has delegated responsibility for the Authority's treasury and capital financing activities. This post requires the post holder to be a qualified accountant. The Chief Finance Officer is a CIPFA qualified accountant who follows an ongoing programme of Continuous Professional Development (CPD).

9.2 The authority's treasury and capital strategies are produced and maintained by professionally qualified accountants and who have extensive relevant experience. The authority is able to access appropriate specialist and technical advice regarding its treasury investment and borrowing activity. Officers involved in treasury management regularly attend training and participate in CPD and ensure that their relevant professional knowledge is up to date.

9.3 The authority's Treasury Management Strategy is also reviewed by the Head of Finance & Corporate Services, who is a qualified accountant and is able, if necessary, to seek advice from other treasury specialists who are independent of Brighton & Hove City Council. The Authority's Treasury Management Strategy is jointly reported to Policy & Resources Committee by the Chief Finance Officer and Head of Finance & Corporate Services for the committee's approval and recommendation to the Authority.

9.4 All of the authority's capital projects have project teams made up of officers from relevant professional disciplines from across the authority. These project teams may access external specialist advice regarding projects where required.

9.5 Training is available for members who are responsible for decision making and scrutiny of treasury decisions to ensure their skills and knowledge are kept up to date for their involvement in this area.

10. Chief Finance Officer Statement

10.1 This Capital Strategy is compiled in line with the requirements of the 2018 CIPFA Prudential Code and the 2018 Treasury Management Code.

10.2 The Chief Finance Officer has reviewed the strategy against best practice advice from CIPFA and expert advisers and considers the strategy to be prudential, sustainable and affordable within the risk framework of the authority and has ensured that it is fully integrated with the Authority's Medium Term Financial Strategy, Treasury Management Strategy and Capital Strategy.