Capital Strategy 2017/18 – 2021/22

PART 1

1.0 INTRODUCTION

Following best practice Breckland Council is required to renew its Capital Strategy on an annual basis. This ensures a strategy that maintains a strong and current link to our Corporate Plan.

Further changes to government funding will impact on already limited financial resources, making the Capital Strategy an essential tool for the Council to focus its capital resources on outcomes that deliver maximum benefit to council tax payers in the district.

Extract from Corporate Plan
……."Breckland Council has always been a forward-thinking, entrepreneurial authority. We continue to strive for excellence and we deliver great value for money for our residents while making the most of the huge opportunities for economic growth in the district"……….

…..Corporate Plan priorities are:

- Supporting Breckland to develop and thrive
- Providing the right services, at the right time and in the right way
- Developing the local economy to be vibrant with continued growth
- Enabling stronger, more independent communities

For the benefit of the reader the strategy has 3 key parts;

- Introduction
- Core Strategy
- Strategic Context

Please have a read of our strategy and we hope it provides you with the understanding you seek with regards to how we will manage the capital resources at our disposal to deliver our priorities.

PART 2

2.0 CORE STRATEGY

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

From 2018 to 2022 the Council is likely to need significant investment to advance the priorities stated within its corporate plan and will need to adopt a responsive and flexible approach to how it invests in services.
In order to deliver the corporate plan priorities we need to deliver efficiencies, seek additional funding and periodically review both the consumption of our capital resources and our stated priorities. We will ensure this happens through these 4 core principles,

Principle 1 – Managing the impact of investment decisions on our revenue budgets
We will do this by,
• Ensuring capital investment decisions do not place additional pressure on Council Tax or our Medium Term Financial Plan
• Promoting capital investment which allows either invest to save outcomes or generates a revenue and/or capital return and/or generates additional new homes bonus or Business Rates income
Principle 2 – Optimise the availability of capital funding where that funding supports the priorities of Breckland Council
We will do this by,
• Disposal of surplus or poor performing assets and use the funds to reinvest
• Have effective working relationships with potential funders
• Listen to and support effective partnering arrangements
Principle 3 – Ensure we have effective pre and post project appraisal
We will do this by,
• Ensuring a system of competition exists for project approval
• Fully consider project risk
• Carefully consider Value for Money and Efficiency of every project and outcomes
Principle 4 – Performance manage our capital programme
We will do this by,
• Integrating the capital programme into our performance management framework
• Ensure our capital schemes use appropriate project management tools appropriate to the project's size
• Ensure responsibility for the delivery of the capital programme is clearly defined

Future Changes

The Capital Strategy is part of the authority's integrated revenue, capital and balance sheet planning. The updated Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code) have been issued in December 2017. Both these codes will be effective for the 2018/19 financial year

'Treasury management investments' activity covers those investments which arise from the organisation's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

However, organisations invest in other financial assets and property primarily for financial return that are not part of treasury management activity. This may include: 'service investments' held clearly and explicitly in the course of the provision, and for the purposes, of operational services, including regeneration and 'commercial investments' which are taken for mainly financial reasons.

Where such investments do not give priority for security and liquidity over yield, whether because of the nature of the assets themselves or for valid service reasons, CIPFA recommends that such a decision should be explicit, the additional risks set out clearly and the impact on financial sustainability identified and reported.

It is critical that due diligence processes and procedures reflect the additional risk an organisation is taking on. Due diligence procedures should ensure effective scrutiny of proposed investments, identification of risk to both capital and returns, any external underwriting of those risks, and the potential impact on the financial sustainability of the organisation if those risks come to pass. Where necessary independent and expert advice should be sought to ensure due diligence is suitably robust.

However, it is recognised that the requirement included in the Prudential Code to produce this more detailed Capital Strategy may require a longer lead-in period. Therefore the Treasury and Capital Management Panel recognise that this requirement may not be able to be fully implemented until 2019/20 financial year.

This Capital Strategy does not therefore reflect the full requirements of the new Prudential and Treasury Management Codes at this stage. We will review this strategy during 2018-19 to implement the required changes for the 2019-20 strategy.

PART 3

3.0 STRATEGIC CONTEXT

3.1 Aims

To deliver the Corporate Plan Priorities, the specific aims of this strategy are to ensure:

- Physical assets and related resources are efficiently and effectively used to support the Breckland Council Corporate Plan. These inputs will then be reviewed against the outputs from capital schemes to demonstrate Value for Money;
- Issues related to property and other assets are fully reflected in the Council's planning, specifically adequate funds for maintenance are available and prioritised to the assets which generate the majority of income;
- The strategy itself is a useful tool to assist stakeholders understanding of the Council's decision making process and project management of its capital investments;
- Adequate provision is made for delivering corporate priorities and demonstrated through effective resource allocation;
- Invest to save and invest to earn projects and projects which generate new homes bonus, Council Tax or Business Rates income are encouraged;
- The Council works within the prudential code framework and demonstrates robust and linked capital and treasury management;
- Review of the asset management plans to identify surplus or poor performing assets which can move through a disposal process to generate new capital resources;
- Capital spending plans are affordable and integrated with the Medium Term Financial Plan (MTP);
- Encourage inward investment into the district and innovative approaches to investment such as partnerships with the Private Sector, collaborative arrangements with other Local Authorities and creation of new delivery vehicles

3.2 Strategic Links

This strategy is a high level summary of Breckland Council's approach to capital investment in the future of our 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 MTP. Like the MTP it is driven by the Breckland Council Corporate Plan supported by Service Team Plans.

The priorities in the corporate plan provide the backdrop to the MTP which in turn ensures all new resources, be it revenue or capital, are allocated through the principles on which it is based.

This strategy is linked to a number of corporate strategies and initiatives, underpinned by the Breckland Council Corporate Plan. The key strategies and initiatives impacting on capital are:

- Treasury Management and Investment Strategy
- Medium Term Financial Plan
- ICT Strategy
- Corporate Asset Management Strategy
- Risk Management Policy

Capital projects are required to demonstrate a clear link with the Council's aims & priorities.

In pursuit of its corporate priorities Breckland does not have a specific "statutory duty" to undertake economic development activities. However, in the Local Government Act 2000 all local councils were given legal powers to allow them to safeguard the economic, social and environmental well-being of their areas and the Inward Investment will play a key role in the future to drive out the benefits from economic growth through areas such as Business Rates and new homes bonus income and help promote economic growth.

3.3 Asset Management

The Corporate Asset Management Strategy 2012-20 is a high level summary of the Council's overall approach to the strategic management of its land and building assets. It is linked to the vision and priorities of the Council to provide a policy direction for the effective and efficient use of the Council's assets for the benefit of the residents. This document groups the Council's assets and provides the number of assets and gross book values of those assets.

The Council has now split the management of its Operational Assets into the Place portfolio and the Investment Assets into the Commercialisation portfolio to recognise the different requirements of the asset base. For the investment asset portfolio an assessment of the level of maintenance required for the properties has been made and this assessment will feature in both capital and revenue budgets, as it is important that the quality of the stock is maintained in order to sustain performance. The available capital budgets will be prioritised to those assets which generate the majority of income. The income generated by the Commercial Property Account supports other spending in the district and helps keep the council tax low. The Corporate Asset Management Strategy 2012-20 features performance targets which are reviewed on a monthly basis with the relevant Executive Member. The Councils Investment Assets are valued at £25m @ 01.04.2017 and the Councils other Land and Property are valued at £38m @ 01.04.2017. The Corporate Asset Management Strategy informs the revenue budget and capital programme. Given the scale of change in the commercial markets since 2012, the effects of the government's drive for efficiency from the public estate via initiatives like the One Public Estate and the successful initiation of the local asset backed partnership, Breckland Bridge Ltd – the strategy requires a review to bring it up to date in line with these changes and this is planned for 2018/19.

The Authority continually seeks to identify assets that are surplus and to undertake disposals accordingly. This not only brings in a capital receipt but maintenance costs and liabilities are reduced. As a principle we will review and dispose of underutilised or poor performing assets and ensure that the top performing assets are adequately maintained. In particular in 2017/18 this exercise has been conducted on the investment assets portfolio. Assets that fail to meet the required yield that will be sought to be disposed of so that the capital receipt can be re-invested into other more higher performing assets to create a stronger return profile. The new local asset backed vehicle, known as Breckland Bridge Ltd is required to undertake direct development of assets to create financial improvement in the asset base as well as regeneration and economic development. Breckland Bridge Ltd's initial business plan is focused on three main projects initially, leaving scope for remaining sites to be included in the partnership at a later date.

Table 1 – Breckland Council's Fixed Assets

Asset Type	Valuation	
	£'000s 2016	£'000s 2017
Community	314	334
Heritage	200	204
Infrastructure	1,110	1,110
Investment	23,825	24,611
Intangible	1,100	1,082
Property Plant & Equipment	31,581	37,663
Total	**58,130**	**65,004**

This table sets out the gross value of assets by category as at 31st March for the last 2 years.

ICT Strategy

The ICT Strategy is used to manage the assets which are the communications and computer systems and infrastructure. New delivery requirements are in place from 2017/18 for ICT and there are changing service delivery requirements. Funding is allocated for this in the capital programme and over the longer term the ICT service will provide revenue funding (through savings) to cover future capital investment.

Housing

This capital strategy can support the housing needs of the Council, stimulating good quality new build housing and enabling delivery of affordable housing. This could involve initiatives such as:

- Purchasing housing to deliver a revenue income stream to the Council through market rentals for quality rental accommodation
- Lending finance to RSL's to enable them to build further affordable housing

These initiatives may require future borrowing by the Council and this will be part of a full business case if required.

3.4 Capital Resources

The Local Government Act 2003, which includes the legislation for the capital finance system, does not specify what precisely constitutes capital expenditure. Instead it:

- Refers to "expenditure of the authority which falls to be capitalised in accordance with proper practices".
- Enables the Secretary of State to prescribe by regulation which local authority expenditure shall be treated as capital expenditure and which shall not be treated as capital expenditure
- Enables the Secretary of State to prescribe by regulation that the spending of a particular local authority shall, or shall not, be treated as capital expenditure

The Council will set a de minimus limit of £20,000 for expenditure to be considered for capitalisation. The following categories of expenditure will require capital resources to fund their purposes:

- The acquisition, reclamation, enhancement or laying out of land exclusive of roads, buildings or other structures
- The acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures
- The acquisition, installation or replacement of movable or immovable plant, machinery and apparatus and vehicles and vessels
- The making of advances, grants or other financial assistance towards expenditure incurred or to be incurred on items detailed in points 1 to 3 above or on the acquisition of investments

- The acquisition of share capital or loan capital
- The issue of loan instruments in respect of which not all repayments by the authority are due within 1 year of issue
- Works to increase substantially the thermal insulation of a building
- Works to increase substantially the extent to which a building can be used by a disabled or elderly person
- The acquisition of computer software, plus the in-house preparation of it, provided that the intention is to use the software for at least 1 year

Regulations state that expenditure on repair and maintenance which does not increase the life, value or extent of use of an asset is not deemed as capital expenditure. The de minimus is not applicable to capital grants which may be of any value and are made as a contribution to a larger capital scheme. The Council sometimes receives directives that grant contributions are to be applied as Capital expenditure. Should such directives be received, the Council will treat the grant as capital expenditure if the spend is deemed to meet grant conditions. From time to time the Council needs to buy vehicles and equipment and a de-minimis of £10,000 is applicable to vehicles and equipment

Balance of Funding

Table 2 sets out the position of the Capital Financing Requirement (CFR), adjusted for expected capital programme spend and forecast sources of funding as at September 2017. Following adjustments to the capital programme, there is no underlying need to borrow in this budget period as shown in table 2. However, the scope for new investment is limited unless additional capital receipts or funding is generated or external borrowing takes place. The Council will support the principle of borrowing to lend on to Breckland Bridge or a separate entity to ensure funding for projects is delivered in the most cost effective way and will consider any requests on an individual basis. In addition it will lend on a project by project basis, if appropriate to improve Treasury returns. Whilst all projects within the capital programme are approved, the funding is not released until a detailed report or if appropriate a Project Initiation Document (PID) is approved (see section 3.5 for the process).

The CFR will need to be monitored closely to ensure future capital expenditure remains affordable. The opening and closing balances include adjustments for PFI and Finance Leases which effectively reduce the available capital resources until such time as principal payments are received. Any future decision on borrowing for capital projects would only be supported if the business case for the projects does not place additional cost pressure on the tax payer through the council tax charge. The council would not undertake any un-supported borrowing whilst it still has reasonable capital receipt resources available. However regulations require the Council to approve its ‘Prudential Indicators’ at least annually.

Table 2 – Summary of Estimated Capital Resources*

	17/18 £000's	**18/19 £000's**	**19/20 £000's**	**20/21 £000's**	**21/22 £000's**
Capital resources available @ start of year	(2,792)	(1,810)	(1,419)	(1,120)	(948)
Movement in year (exp-income/funding)	983	390	300	171	262
Capital Financing Requirement	**(1,810)**	**(1,419)**	**(1,120)**	**(948)**	**(687)**

* based on assumed levels of activity at December 2017

Capital Receipts

The forward availability of capital receipts is an important part in both the timing and scope of the capital programme. The Council is looking to manage it's assets in such a way as to obtain best value and is looking at innovative ways of creating income such as Breckland Bridge Ltd where the Council is working with the private sector to manage and deliver increased investment and receipts. There are no plans for any other significant receipts to be generated within current plans. However within the asset management plan, surplus and poor performing assets are reviewed for potential disposal (see section 3.3) with re-investment in higher performing assets and the Council's focus on Commercialisation will ensure maximum return from council assets.

Where revenue costs are incurred to create a capital receipt, up to 4% of the receipt may be used to offset the costs of generating that receipt but this is not yet an approved accounting policy.

Section 106 – Planning obligations

When the Council adopts land for open space or play area the developer pays a commuted sum under a 'section 106 agreement'. This is held on the balance sheet and the interest earned offsets the future maintenance costs of the recreation asset. The Council also seeks to secure the provision of infrastructure and facilities to mitigate the effects of development under section 106.

External Grants and Contributions

The partnership approach to service delivery is a core belief of the Council. Through its services, partnership working, supportive funding and innovation, the Council will seek to attract investment into the District. Breckland has a Match Funding reserve which it uses to support community projects and future plans include methodology to ensure the future of community grants can be self-funding (i.e. through a lottery approach). We seek to maximise external funding to support our programme. This tends to be for specific purposes. Working with public and private sector partners we are able to make better use of Council money. Central government funding is likely to be constrained as capital for existing and new programmes is reduced or deleted.

Revenue contributions

The Council's Investment Strategy sets out the approach to the allocation of reserve balances and the Council's approach to managing its surplus cash. The Medium Term Financial Plan does not currently make any provision for general annual revenue contributions in support of capital expenditure but where applicable specific contributions are identified from reserves or revenue contributions from specific services (such as ICT).

Balances and Reserves

Breckland council continues to hold a healthy level of specific reserves. This reflects the robust financial management and policy decisions made in recent years and enables internal borrowing and cash flow to be managed. However, reserves are mostly earmarked for specific projects, limiting funding for new initiatives.

3.5 <u>Framework for managing and monitoring performance</u>

There are several functions associated with the management of the Capital Programme:-

- Allocation of capital funding
- Release of capital funding

- Monitoring and reporting of delivery of the capital programme

Allocation of Capital Funding involves these functions:

- The assessment of the available funding resources
- Assessment of proposed schemes and business cases
- Prioritisation of schemes
- Recommendations of approval of schemes within the programme
- Approval of change control to Capital schemes where this changes funding requirements

These functions will be undertaken by Executive Management Team, Cabinet and Council. In summary the capital budget is agreed annually along with any revenue implications, which are factored into revenue planning. The budget is set in accordance with the timetable laid out in the Medium Term Financial Plan. The programme is approved by Council in January/February to allow schemes to commence during the following year. Cabinet will consider the prioritisation of capital schemes before recommending budgets for approval. A Bidding Form is used for all capital projects to enable indicative funding to be allocated to projects.

Release of Funding will be by the Finance Board upon receipt of an appropriate report or PID document (depending on the scale of the project) to ensure it is deliverable. Key staff charged with responsibility for delivery of the project will be invited to attend Finance Board as appropriate.

Monitoring and reporting of progress of the delivery of Capital Programme involves these tasks:

- Regular review of project progress and forecasting including achievement of key milestones, outputs and outcomes with post project reviews taking place depending on the scale of the project.
- Management of risks and issues
- Removal of barriers to delivery
- Approval of any changes to schemes not requiring funding changes
- Reporting on required funding changes
- Post implementation review taking account of any corporate learning opportunities

These tasks will be monitored and reported monthly in the Capital Financial Performance Report and through the Council's Performance System (Pentana) if deemed appropriate.
Budgets for individual schemes are assigned to lead officers who are responsible for delivering the project on time and to budget. The lead officers are responsible for managing capital projects, including Capital bid forms, PID's, procurement, contract management, and post implementation reviews.

Progressing schemes in accordance with agreed timescales is an important aspect to managing the capital programme. Costs incurred compared to budget are monitored on a monthly basis in line with revenue budgetary control.

Financial progress against the capital programme is reported to Cabinet on a quarterly basis as a minimum and more often as required. Wider performance is managed through the Council's performance systems. This allows a continuous cycle of monitoring and forecasting. The bidding round will be conducted annually so that every year the 4 year programme is reviewed and refined and reflects the latest corporate priorities.

Performance measurement

The Council is determined to ensure high quality customer-focused services for all our residents and visitors to Breckland. The Council also wants services to continue getting better year by year.

Capital projects identify milestones and key outputs and these are used to integrate the delivery of Capital projects into the performance management framework.

Project Evaluation

All capital projects need to be appraised according to existing project management guidance to inform the decision making process. Options appraisals are also required to ensure value for money in achieving the project objectives and realising benefits. Matters to be considered within the capital bidding process are:

- Council Objective/Priority
- Whole life cost of the proposal including the revenue effects *
- Affordability and source of funding
- Partnership involvement
- Options appraisal
- Project appraisal
- Risks
- Improvements in service delivery
- Customer facing outcomes
- Other benefits and success criteria
- Efficiencies and ongoing returns/capital receipts
- In principle support from the Director and Portfolio Holder
- Exit strategy
- Timescales

*Whole Life Costing (WLC) is defined in ISO Standard 15686-5. WLC shifts the emphasis of capital appraisal from comparing alternative construction/acquisition costs to a Value for Money approach by reviewing comparative costs over the life of the scheme. WLC will not always be appropriate for all prescribed aspects of the Council's capital programme.

Project evaluation should include the following activities:

- Feasibility
- Appraisal (to include report, financial appraisal, risk appraisal)
- Budget
- Monitoring and review
- Outturn

This will ensure that any capital scheme that feeds into the programme will comply with the principles of the Prudential Code:

- Affordability
- Sustainability
- Prudence

3.6 Risk

The Council is faced with diminishing capital finance and reduced access to grants and external funding which means the Council will need to monitor spend against available funds carefully to ensure that it does not spend or commit in advance of receiving funding. The Capital Financing Requirement (CFR) will need to be monitored carefully.

Significant capital projects will be managed through the council's performance system. All risks that may affect a project are considered. These can include political, economic, legal, technological, environmental and reputational as well as financial. Large projects will use appropriate project management tools in accordance with the size of the project.

Disinvestment initiatives will be followed through to ensure they perform as expected and as the Council diversifies its capital investment into areas such as loans to Breckland Bridge Ltd, exposure to non-repayment will be carefully managed through the contract management arrangements in place.

A specific risk as a VAT registered body is the recovery of exempt VAT only up to a value of 5% of all the VAT it incurs. This is known as the de-minimis limit. Monitoring and control of exempt input tax is essential for the council as where exempt input tax exceeds the 5% 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.

3.7 Sustainability

Breckland Council is always mindful of proposals put forward by the Department of Communities and Local Government. In conjunction with targets being proposed for all new homes to meet energy/carbon standards.

3.8 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 continuously reviewed.
Where capital spend involves a specific procurement process which differs from the standard process, we will adopt the principal that by approving the capital project we are also approving the specific procurement process.

3.9 Value for Money

The Council recognises that effective procurement lies at the heart of delivering value for money and is essential if the Council is to obtain real improvements to quality and service costs. The Council seeks to achieve value for money by applying rigorous procurement standards in the selection of suppliers and contractors to ensure efficiency, economy and effectiveness is received throughout the life of a contract. The significant resources applied to capital expenditure require the adopted principles of value for money to be at the heart of our capital strategy. Specifically we will seek to strengthen the outcome indicators as part of post project reviews.

3.10 Disposals

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.

3.11 Equality

Breckland Council recognises and values the diversity in our community and the contribution that people from different backgrounds and cultures bring to the development and wellbeing of our district. Breckland Council is therefore committed to principles of equality in its capacity as an employer and service provider to all sections of the community.

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