Breckland

Capital Strategy
2014/15 – 2018/19

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 Business Plan.

Reduced 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.

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 2014 to 2019 the Council is likely to need significant investment to advance the priorities stated within its business plan and will need to adopt a responsive and flexible approach to how it invests in services.

In order to do this we recognise a 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
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 assets and use them 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
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
• Ensure responsibility for the delivery of the capital programme is clearly defined

PART 3

3.0 STRATEGIC CONTEXT

3.1 Aims

The specific aims of this strategy are to ensure:

- Physical assets and related resources are efficiently and effectively used to support the Breckland Council Business 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;
- 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 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 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;
- Support for our partners by acting as an enabler in drawing down external funding for community projects. To further act as a match funding provider.
- Encourage inward investment into the district and innovative approaches to investment such as partnerships with the Private Sector 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 Medium Term Financial Plan. Like the Medium Term Financial Plan it is driven by the Breckland Council Business Plan supported by departmental Annual Delivery Plans and Service Team Plans.

The priorities below provide the backdrop to the Medium Term Financial Plan (MTP) which in turn ensures all new resources, be it revenue or capital, are allocated through the principles on which it is based.

Table 1 –Priorities

Priorities
To have pride in Breckland
To develop stronger communities
To support our local economy
To be an entrepreneurial Council

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

- Local Development Framework
- Treasury Management and Investment Strategy
- Medium Term Financial Plan
- ICT Strategy
- Corporate Asset Management Strategy
- Procurement Strategy
- Risk Management Policy
- Building Futures, meeting needs - Breckland Housing Strategy
- Contaminated Land Strategy
- The Environment Strategy
- Community Infrastructure Levy

Capital projects are required to demonstrate a clear link with the Council's aims & priorities with many projects linking to more than one of the five key themes.

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 Economic Development Service Priorities are detailed within the Economic Development Service Team Plan

3.3 <u>Asset Management</u>

The Corporate Asset Management Strategy details the existing asset management arrangements and plans to improve corporate asset use. Part of this document is a register of all of the property assets. Two further Asset Management Plans will be created, one to provide management and governance for the Council's commercial assets and the second to do the same for the residual assets (service delivery and surplus assets). 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. It is important to remember that 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 features performance targets which are reviewed on a monthly basis with the relevant Executive Member. The Councils Investment Assets are valued at £21m @ 01.04.2013 and the Councils other Land and Property is valued at £25m @ 01.04.2013. The Corporate Asset Management Strategy informs the revenue budget and capital programme.

The Authority has identified surplus land and property which it is in the process of disposing of. This not only brings in a capital receipt but maintenance costs and liabilities are reduced. As a principle we will release funding from under-utilised assets. The regular review and identification of surplus asset disposals forms part of the scope of work carried out by the CAMWG (Corporate Asset Management Working Group) who meet on a regular basis. There is also an annual review of the asset register which is undertaken by the Asset Manager. In addition to the above, Innovative investment under a Local Asset Backed Vehicle (LABV) to undertake regeneration, economic development, regeneration and income growth is underway. The main drivers for change are:

- Step change in financial performance of asset base
- Accelerate growth in the District
- Provide a vehicle to enable stalled projects to proceed
- Provide a vehicle for Regeneration

Whilst the above is undertaken there is limited work on creating value/income from single sites.

Table 2 – Breckland Council's Fixed Assets

Asset Type	Valuation	
	£'000s 2013	£'000s 2012
Community	277	291
Held for Sale	0	45
Heritage	169	99
Infrastructure	0	0
Investment	21,494	21,785
Intangible	730	754
PPE	27,542	30,368
Total	**50,212**	**53,342**

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

The ICT Strategy, is used to manage the assets which are the computer system and infrastructure. The ICT infrastructure (including servers and desktop) is currently under review within the ICT Strategy in light of changing service delivery requirements. The way the Council manages its financial assets/investments is covered separately by the Treasury Management and Investment Strategy. The Council will consider the use of its compulsory purchase powers to assist with land assembly where there is a clear community benefit.

3.4 <u>Capital Resources</u>

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 3 sets out the position of the Capital Financing Requirement (CFR), adjusted for expected capital programme spend and forecast sources of funding as at December 2013. By 2015-16 the Council's underlying borrowing requirement reduces as shown in table 3 and indicates there is little scope for further capital investment beyond this point unless additional capital receipts are generated or borrowing takes place. The capital programme currently includes budget for projects which may form part of the council's LABV project, however until this project is further developed it is not known definitively which capital programme items will be included. Therefore the need for borrowing will be further addressed in 2014-15 when the LABV project stages have progressed. Whilst all projects within the capital programme are approved, the funding is not released until a detailed 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.

The available balances assume that the Icelandic repayments of £3.398m are repaid in line with the latest distribution forecasts (balance at 1st April was £3.523m and £446k has been received year to date). Were some or all of this not repaid, or if repayment is delayed it would affect the Council's ability to spend.

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 unsupported borrowing whilst it still has reasonable capital receipt resources available, however regulations require the Council to approve its 'Prudential Indicators' at least annually.

Table 3 – Summary of Estimated Capital Resources*

Resources	2013/14 (£'000s)	2014/15 (£'000s)	201516 (£'000s)	2016/17 (£'000s)	2017/18 (£'000s)
Opening CFR Movement in year	(2,227) 3,050	646 8,302	8,762 962	9,528 873	10,194 884
CFR as per prudential code	823	8,948	9,724	10,401	11,078
PFI Liability	(9,492)	(9,315)	(9,129)	(8,933)	(8,726)
Underlying Borrowing requirement	(8,669)	**(367)**	**595**	**1,468**	**2,352**

* based on assumed levels of activity at December 2013

Capital Receipts

The forward availability of capital receipts will play 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 investigating Local Asset Backed Vehicles where private sector funds are levered in on the basis of the assets included by the public sector to create a vehicle to manage and deliver increased investment and receipts. (as described in para 3.3).

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 is transferred to the revenue account to offset the future maintenance costs of the recreation asset. The Council has wider powers under section 106 to provide infrastructure and facilities to support the local community.

In addition to S106 agreements, the Council will charge a Community Infrastructure Levy as a means of resolving strategic funding gaps between those items of infrastructure which will be covered by established (public) funding streams and the remaining infrastructure requirements which will deliver sustainable development. The exact detail of the charging mechanism and the administration of the scheme is work in progress.

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 Capital Match Funding reserve which it uses to support community and economic development projects. 100k per annum is allocated in the capital programme. We seek to maximise external funding to support our programme. This tends to be for specific purposes. Both through European funding, and working with public and private sector partners we are able to make better use of Council money. Although European funding remains an option in the future, central government funding is likely to be constrained as capital for existing and new programmes is reduced or deleted.

Revenue contributions

The Medium Term Financial Plan does not currently make any provision for an annual revenue contribution in support of capital expenditure. As at 1st April 2013, an unallocated sum of £1.739m revenue funding is available to draw on for match funding capital and revenue projects and this will be kept under review.

Balances and Reserves

Breckland council holds a healthy level of both general and specific reserves. This reflects the robust financial management and policy decisions made in recent years and could offer an additional resource to support capital expenditure if necessary.

3.5 Framework for managing and monitoring performance

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

- Allocation of capital funding
- Monitoring the 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 Corporate 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. This is followed up by a more detailed Project initiation Document (PID) (where appropriate) prior to release of funding to ensure the project is deliverable.

Monitoring of the delivery of the Capital Programme involves these functions:

- Approval of the individual project initiation documents (PID) for each scheme
- Regular review of project progress and forecasting including achievement of key milestones, outputs and outcomes
- 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 functions will be delivered by Executive. Key staff charged with responsibility for delivery will be invited to attend the meeting as 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 5 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
- 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 are managed through the councils 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 be managed in accordance with Prince 2 principles that have been adopted by the Council.

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.

The Council is relying on the court system in Iceland to determine how much of the Council's original deposits in Glitner and Landesbanki will actually be returned. The Winding Up Boards are unable to distribute funds until legal issues have been resolved.

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, Breckland is committed to exploring the technologies for reducing carbon emissions for non-residential new builds.

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.

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 <u>Equality</u>

As part of preparing the Capital Strategy we have completed an Equalities Impact Assessment. We recognise and value 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.

Author	Margaret Bailey/Mark Finch
Review Date	September 2013
Next Review	September 2014
Document Version	V1