



EPSOM AND EWELL BOROUGH COUNCIL

**CAPITAL STRATEGY STATEMENT
February 2018**

Capital Investment 2018/19 to 2020/21

1. Introduction

The Council's Capital Strategy provides a framework for asset planning and for decisions on capital investment – expenditure on larger projects or schemes which generally leads to improved corporate or community assets.

The Financial Policy Panel provides guidance on the level of investment that is consistent with the Council's Medium Term Financial Strategy. The programme will be reviewed annually so that an investment programme is maintained and investment options reassessed with specific reference to the Priorities in the Corporate Plan, the Community Strategy and the Asset Management Plan.

The development of the Capital Strategy and the Asset Management Plan assists the Council in major investment decisions. The Asset Management Plan was last updated in February 2015 to reflect progress made on property and energy management. An updated plan is currently being prepared by the Head of Property and Regeneration.

In 2016/17, Council agreed a new strategy for Property Investment which included the creation of a Commercial Property Acquisition Fund of up to £20 million, financed from prudential borrowing. In February 2017, Council increased the fund by a further £60 million. This approved capital expenditure for acquisition of investment properties within the Borough is to secure long term income streams for the Council. The approval of individual investments is delegated to the Investment Property Group.

In September 2017, Council approved the establishment of a property investment company and a supplementary capital expenditure budget for property acquisitions of up to £300m across 2017/18, 2018/19 and 2019/20.

Due to the current public sector funding environment the main capital programme 2018-2021 has been limited to core projects which comprise mandatory and other prioritised expenditure, investment that can be funded from external funds and is classed as a high priority and 'Spend to Save' schemes that will provide future savings.

2. Development of the Capital Strategy

Member and officer capital groups have been established to oversee the main capital programme and monitor capital schemes. The Capital Member Group is made up of Members nominated by the Financial Policy Panel, supported and attended by the Chief Finance Officer as appropriate. The officer group with responsibility for overseeing the capital programme is the Leadership Team and comprises Heads of Services.

Service and financial planning timetables are submitted to Financial Policy Panel annually. The Capital Strategy is presented to the Council for approval each year.

3. Main Capital Programme 2018-21

Based on the available capital resources and subject to external funding, including grants and developer contributions, and securing revenue savings, Council has been asked to approve the following programme for 2018-21 in February 2018.

	2018/19 £'000	2019/20 £'000	2020/21 £'000	Total £'000
Playhouse- Replacement of stage floor surface	36	0	0	36
Playhouse- Refurbishment of existing 1st floor changing rooms	30	0	0	30
LED Lighting Bourne Hall	55	0	0	55
Bourne Hall- Replacement of old defective air conditioning to banqueting suites	25	0	0	25
Disabled Facility Grants *	588	588	588	1,764
Ashley Centre Car Park - Health & Safety improvements	165	0	0	165
Repair to St Mary's Churchyard Flint faced wall	77	0	0	77
Ashley Centre Car Park - Upgrade level 4a & 4b with deck shield waterproof coverings	227	0	0	227
Energy Improvements - LED Replacement lighting Hudson House	20	0	0	20
Upgrade of Car Park credit card machines	35	0	0	35
Replacement of CRM and Data Warehouse	250	250	0	500
ICT programme of work	60	0	0	60
Document Management System replacement	50	0	0	50
Financial Management System Upgrade	65	0	0	65
Poole Road Pavilion enhancements	50	0	0	50
Renewal of Town Hall lift controls	80	0	0	80
Total	1,813	838	588	3,239

* Subject to additional external funding

In addition schemes may be added where:-

- there is a carry forward from 2017/18 with specific funding already allocated
- new schemes supported by a business case (self-financing), or

- they can be funded by additional external funding sources e.g. Section 106 agreements or specific grants

Funding for the approved programme is set out below.

	2018/19 £'000	2019/20 £'000	2020/21 £'000	Total £'000
Capital Reserves and Receipts	665	250	0	915
Government Grants	588	588	588	1,764
Revenue Reserves	540	0	0	540
Capital Reserves for Spend to Save Schemes	20	0	0	20
Total	1,813	838	588	3,239

4. Use of Capital Reserves

The Council's financial position is reviewed annually following the closure of accounts and prior to service and financial planning for the following year. This includes a review of the projected capital receipts reserve position and other sources of funding for capital schemes.

The Council's Medium Term Financial Strategy targets a minimum balance of capital reserves of £1 million to be used as a contingency for unplanned capital commitments over the next four years. This minimum balance is subject to annual review and may be varied:-

- where capital receipts generated from sale of assets have an adverse impact on the revenue budget, e.g. loss of rental income, or
- for changes in revenue budget targets requiring differing levels of investment income
- where major developments or land disposals take place

Due to the low level of receipts from the disposal of property assets since 2009, the Capital Member Group has limited investment from reserves to high priority and spend-to-save schemes. The forecast of reserves at 31 March 2019 is £2.4 million. This assumes full delivery of the 2018/19 capital programme and no new capital receipts.

A report is due to go to Strategy & Resources Committee in April 2018 to request the use of CIL funding for two infrastructure projects, the Cemetery Extension and Lower Mill Weir repair, which were originally earmarked for funding from capital receipts.

Should the proposal be approved, this will release £771k of capital receipts and increase the forecast balance at 31 March 2019 to £3.2m.

5. Capital Resources

Potential capital resources have been identified from

- capital reserves at the end of March 2019;
- approved sales of property assets, subject to market recovery;
- revenue funding, as identified as part of the revenue budget setting process;
- use of Community Infrastructure Levy (CIL) and S106;
- external funding, including grants and commuted sums.

The Council will use CIL receipts from developers to part finance Plan E and the potential Kiln Lane Link Road projects. CIL will also be used to finance the Cemetery Extension and Lower Mill Weir infrastructure projects, subject to S&R Committee approval in April.

As capital reserves decrease, the Council needs to achieve additional receipts from sale of assets or other external funding, or identify contributions from revenue, if the capital programme is to be sustainable over the long-term. The Council will review its property through the Asset Management Plan.

The Council seeks to maximise partnership funding in the delivery of its key priorities and will commit capital reserves to: -

- finance prioritised capital investment where funding is not available from other sources
- attract partnership funding and/or to achieve partnership objectives
- finance investment that is 'self-funding', for example investment that improves performance and reduces running costs or investment in the maintenance of service assets

The Council will seek to maximise effective investment from all potential funding sources. External sources of financing include monies received in negotiations on the Hospital Cluster site, Section 106 agreements, CIL, government grants for Disabled Facilities, partnership funding from other Local Authorities or Public and Voluntary organisations.

6. Criteria for Assessing Capital Programme Priorities

The following criteria have been used for appraising future capital investment options and reviewing the on-going capital programme. As a minimum all investment proposals must meet one of the following baseline criteria: -

- investment where there is a guarantee of the scheme being fully externally funded and is classed as a high priority
- investment required to meet Health and Safety or other new legislative requirements
- investment required to continue to deliver the services of the Council (e.g. minimum level of building maintenance)
- investment in 'Spend to Save' schemes that will generate cost savings or additional income generation, providing;
 - there is payback of the capital invested within 5 years (up to 7 years for energy reduction initiatives);
 - there is a low risk of not achieving return on investment
 - there is a clear definition of the cost/benefits of the scheme

Prior to schemes being assessed for approval, a detailed project appraisal must be completed and recommended by the appropriate policy committee. A standard capital appraisal form has been developed which requires details of the scheme (cost estimates, revenue impact, project management resources and expected timescales). It also requires an explanation of how the scheme fits within the baseline criteria. In recommending investment proposals policy committees must ensure they can fund any additional operational costs from within their revenue budget targets.

Where schemes are prioritised for inclusion in the capital programme prior to a detailed evaluation of revenue costs, commitments will not be made until estimates of operational costs have been evaluated and financing in the revenue budget identified. The Council will continue to follow a whole life costing approach to project appraisal.

Capital schemes funded wholly or in part from external sources e.g. Government Grants, Section 106 monies, CIL or other contributions are also subject to the same requirements in respect of meeting the baseline criteria and the completion of project appraisals recommended by the policy committee.

Schemes can be included within the proposed capital programme subject to a detailed business case being submitted to the relevant service committee. These schemes can only progress once approval is granted for the project by the policy committee.

Separate criteria exist to evaluate proposed individual property acquisitions that are funded from the Property Acquisition Funds.

7. Timetable for Approval of Capital Programme

The timetable and process for approval of capital programme following annual review is as follows:-

- update on level of resources / reserves at end of previous year reported to Financial Policy Panel and Strategy and Resources Committee in June and July
- Members nominated onto the Capital Member Group by the Financial Policy Panel
- a forecast of resources reported to Financial Policy Panel and Strategy and Resources Committee in September
- budget targets agreed by the Council in September
- officers, in consultation with Heads of Service, submit new or updated draft summary capital bids to the Capital Member Group to review in September
- Capital Member Group meets in September to agree approach and use the Capital Strategy criteria to decide which of the summary bids should be progressed into full bids for review in November
- Officers submit full capital bids to the Leadership Team to validate and be prioritised in October
- Capital Member Group reviews all bids in November and prepares recommendations on funding to Financial Policy Panel in early December
- prioritisation of all investment proposals within the available resources advised by Financial Policy Panel in December
- detailed scheme proposals and project appraisals, including identification of how any revenue funding requirements could be met for each scheme, recommended by policy committees in January
- capital programme to be recommended by policy committees in January
- capital programme for the following year and the remaining years of the capital programme agreed by Council in February

Any approved capital scheme which has not been committed by the mid-year point of the year in which funding is agreed is subject to review by the Capital Member Group / Financial Policy Panel.

Any approved capital scheme where additional capital or revenue costs are identified prior to commencement of the scheme should be referred back to the relevant policy committee and, if additional funding is required, to Strategy and Resources Committee as soon as possible during the year.

Investment proposals funded wholly from external sources or relating to property acquisitions may be submitted for approval at any time during the year. The investment requirements and funding available from CIL, Section 106 and Hospital Cluster monies are reviewed annually in December by Financial Policy Panel.

8. Borrowing Strategy

In February 2017 the Council agreed to extend the borrowing to fund the acquisition of commercial property that provide the Council with a long term rental income from £20 million up to £80 million. The Council will keep the level of borrowing under review.

The Council does not anticipate borrowing for capital projects other than the acquisition of investment properties and the Medium Term Financial Strategy requires that the Council maintains a minimum level of £1 million of capital reserves.

However, during this period a borrowing strategy may need to be developed in preparation of the 2020-2024 Medium Term Financial Strategy. Subject to the levels of new receipts generated, revenue contributions, income generated from CIL and S106 and external grants, there may be a need to borrow to finance part of the main capital programme.

9. Approach to PFI and Procurement

The majority of capital schemes fall below a level of investment normally relevant to PFI. PFI options will be actively considered on any major investment decisions of significant financial value e.g. projects with a cost over £5 million.

The Council has developed its Procurement Strategy. As part of this strategy a number of principles and guidelines have been developed to assist all managers including capital scheme budget holders in the purchase of goods and services. The main areas covered include review of procurement options, risk/benefit analysis, risk management, potential for partnership, cost and quality options and assessing the need for specialist skills.

10. Managing and Monitoring the Capital Programme

Detailed monitoring and performance review of the capital programme is the responsibility of the Leadership Team on a quarterly review basis and by the Capital Member Group during the annual review. The officer group sets performance and delivery targets for the year, reviews monitoring information and recommends action where appropriate for reporting to Chief Officers, Members, the Financial Policy Panel and policy committees.

Financial monitoring reports are submitted to Members on a quarterly basis. This includes expenditure monitoring, uncommitted balances held on s106 funds and capital receipts balances. Budget monitoring reports show the projected outturn and profiled spend for each scheme, highlighting significant variations and slippage and identifying recommended action. Summary reports are sent to all Members at the

end of each quarter and recommended changes to the programme are submitted to committees during the year. Financial Policy Panel will consider major variances from revenue or capital programmes.

Detailed information on the delivery of individual schemes, including assessment of financial and delivery risks and profile of works and expenditure during the year, is agreed with budget holders. This will form the basis against which schemes are monitored during the year. For those schemes considered as most significant, a detailed timetable and milestones will be agreed by the relevant committee at the beginning of the financial year.

For major schemes the Council will consider external consultants to assist in project management.

The Council conducts post implementation reviews on certain capital projects, specifically where the scheme has a high cost or value or there has been a significant variation in cost or time to implement.