

COUNCIL
11 FEBRUARY 2016



EPSOM AND EWELL BOROUGH COUNCIL

CAPITAL STRATEGY STATEMENT
February 2016

Capital Investment 2016/17 to 2018/19

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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 updated in February 2015 to reflect progress made on property and energy management.

Due to the current public sector funding environment the capital programme 2016-2019 has been limited to the core capital programme which comprises 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 in future years.

2. Development of the Capital Strategy

Member and officer capital groups have been established to oversee the capital programme and monitor capital schemes. The Capital Member Group is made up of Members nominated by the Financial Policy Panel, supported by the Head of Financial Services and attended by the Director of Finance & Resources as appropriate. The Officer Capital Management Group (OCMG) is chaired by the Head of Financial Services and comprises representatives of the main service, operational, procurement and policy areas.

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

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3. Capital Programme 2016-19

Based on the available capital resources and subject to external funding, including grants and developer contributions, and securing revenue savings, Council approved the following programme for 2016-19 in February 2016.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	Total £'000
LED Lighting - Various Sites	0	50	0	50
Replacement of car park pay and display machines	0	104	0	104
Waste Strategy containers	25	25	0	50
Information Technology & Electronic Service Delivery	0	250	0	250
Container and bin replacement	66	68	0	134
Ashley Centre Car Park repairs	0	150	100	250
Disabled Facility Grants *	286	286	286	858
Cemetery extension	654	0	0	654
St Mary's Church Wall repair	0	60	0	60
Installation of solar panels to Council buildings	0	100	0	100
Total	1,031	1,093	386	2,510

* Subject to revenue funding being identified and/or additional external funding

In addition schemes may be added where:-

- there is a carry forward from 2015/16 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

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Funding for the approved programme is set out below.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	Total £'000
Capital Reserves and Receipts	695	629	100	1,424
Government Grants	286	286	286	858
Revenue Reserves	50	28	0	78
Capital Reserves for Spend to Save Schemes	0	150	0	150
Total	1,031	1,093	386	2,510

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 2017 is £2.1 million. This assumes full delivery of the 2016/17 capital programme and no new capital receipts.

5. Capital Resources

Potential capital resources have been identified from

- capital reserves at the end of March 2017
- approved sales of property assets, subject to market recovery
- use of new homes bonus grant
- use of CIL
- external funding, including grants and commuted sums

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The Council has agreed to use new homes bonus as a source of funding for capital projects to supplement a reducing level of capital reserves.

The Council will use new receipts from developers for CIL to part finance Plan E and the potential Kiln Lane Link Road projects.

The Council needs to achieve additional receipts from sale of assets or other external funding if additional capital investments identified in future years are to proceed. 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

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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 develop 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 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.

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 directors 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

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- Officers submit full capital bids to the Officer Capital Management Group 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 four year 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 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

The Council is expected to remain debt free over the next three years of the Medium Term Financial Strategy, retaining capital reserves at a minimum level of £1 million. 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, income generated from the new community infrastructure levy and uncommitted new homes bonus grant, there may be a need to borrow to finance part of the 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 Officer Capital Management Group, overseen by Directors 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 Directors, 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 progress on capital receipts against income targets. 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 employ 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.