EPSOM AND EWELL BOROUGH COUNCIL

CAPITAL STRATEGY STATEMENT
February 2024

Capital Investment 2024/25 to 2028/29

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 long-term assets.

Each year the strategy confirms the capital programme setting guidance including criteria for assessing proposals to manage the level of investment in accordance with the Council's Medium Term Financial Strategy. The core capital programme is reviewed annually with options reassessed with specific reference to priorities in the Corporate Plan and the Asset Management Plan.

The development of the Capital Strategy and the Asset Management Plan assists the Council in major investment decisions. The latest Asset Management Plan was approved by Strategy & Resources Committee in July 2020.

As in previous years, due to limited capital reserves and the continued challenging funding environment, the core capital programme 2024/25 has been limited to only priority projects which meet one of the criteria set out in section 7.

2. Development of the Capital Strategy

Member and officer capital groups have been established to oversee the core capital programme and monitor capital schemes. Financial Strategy Advisory Group (FSAG) is the member group, supported and attended by the Head of Finance as appropriate. The officer group with responsibility for overseeing the core capital programme is the Strategic Leadership Team and comprises the Chief Executive, the Director of Corporate Services and the Director of Environment, Housing and Regeneration.

Service and financial planning timetables are submitted to Strategy & Resources annually. The Capital Strategy is presented to the Council for approval each year. The current strategy covers a five-year rolling period, which is proportionate to the size and resources available to the authority.

3. Commercial Activity & Investment Strategy

<u>Commercial Property</u>

The Council retains one in-Borough commercial property acquisition fund, funded by borrowing, with up to £49.6m available for investment. To comply with statutory guidance, any investment funded by borrowing must primarily be for regeneration (or other local authority) policy purposes; yield/return on investment should only be a subsidiary benefit. Any further usage of the fund would first require the Council to agree an updated Property Investment Strategy and meet any assessment and approval criteria contained therein.

The Council formally closed its out-of-Borough commercial property acquisition fund in February 2020 in order to comply with DLUHC's Statutory Guidance on Investments,

<u>Residential Property</u>

In 2016/17, the Council established a £3m fund to purchase residential property, principally to assist the Council to manage homelessness and reduce associated costs.
The remaining balances on the Property Acquisition Funds are shown in the following table. Please note that the £80m funds are not reserves that the Council holds; they are limits (approved by Full Council) up to which borrowing could be undertaken.

The expenditure to date and current balance of each property fund is detailed in the following table.

Property Acquisition Funds	Commercial Property £000	Residential Property £000	Total £000
Opening fund balance	80,000	3,000	83,000
Purchases during 2016/17	(19,206)	(811)	(20,017)
Purchases during 2017/18	(5,148)	(562)	(5,710)
Purchases during 2018/19	0	(257)	(257)
Purchases during 2019/20	(6,077)	(20)	(6,097)
Purchases during 2020/21	0	(95)	(95)
Purchases during 2021/22	0	(238)	(238)
Purchases during 2022/23	0	(39)	(39)
YTD purchases during 2023/24	0	0	0
Current commitments	0	0	0
Fund balances at 31/12/2023	**49,569**	**978**	**50,547**

Any further usage of the commercial property fund would first require the Council to agree an updated Property Investment Strategy and meet any assessment and approval criteria contained therein.

4. Core Capital Programme 2024/25

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 2024//25 in February 2024.

Project	2024/25 £'000	Main Funding Source
Disabled Facility Grants (subject to external funding)	785	External grant
Longmead Depot - Works to prevent accidental contamination of water sewerage system	50	Capital receipts
Ashley Centre Car Park - Barrier Controlled Parking System	240	Budgeted revenue contribution
Streetlight Replacement Phase 2	200	Capital receipts/ Alternative options
Bourne Hall - Solar PV battery storage and roof replacement	306	Capital receipts
Community & Wellbeing Centre - Solar PV panels battery storage	60	Capital receipts
Community & Wellbeing Centre - Window Replacement	60	Capital receipts
Sub-Total	**1,701**	
ICT Programme of Works	250	Budgeted revenue contribution
Total	**1,951**	

In addition schemes may be added where:-

- there is a carry forward from 2023/24 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.
- Approval is obtained from Strategy & Resources Committee.

5. Provisional Capital Programme 2025/26 – 2028/29

The Financial Strategy Advisory Group also considers a provisional programme of schemes covering the subsequent four financial years. The programme is mainly compiled from information from the Asset Management Plan for buildings and other known capital expenditure requirements.

The 2025/26 to 2028/29 provisional programme currently comprises the following schemes:

Indicative Forecasts	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**Deferred from prior yrs**	**Total 2025/26-2028/29**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Strategy and Resources Committee					
ICT Budget	140	50	50	50	0	**290**
Cox Lane Centre	0	0	0	0	80	**80**
Longmead Depot	40	0	0	0	40	**80**
Ewell Court House	0	0	85	0	50	**135**
Total	**180**	**50**	**135**	**50**	**170**	**585**
	Environment Committee					
Ashley Centre Multi Storey Car Park	0	0	0	0	780	**780**
Auriol Pavilion	0	0	0	0	110	**110**
Cemetery Public Conveniences	0	0	0	0	25	**25**
Gibraltar Rec Ground Pavilion	0	40	0	0	0	**40**
Harrier Centre	155	0	0	0	0	**155**
Horton Country Park Conveniences	0	0	0	0	30	**30**
Hook Road Multi Storey Car Park	20	0	40	0	500	**560**
Total	**175**	**40**	**40**	**0**	**1,505**	**1,760**

Indicative Forecasts	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Deferred from prior yrs £'000	Total 2025/26-2028/29 £'000
	Community & Wellbeing Committee					
Disabled Facilities Grant (DFG)	785	785	785	785	0	**3,140**
Bourne Hall	0	0	0	20	970	**990**
Epsom Playhouse	100	70	0	150	375	**695**
Wellbeing Centre	0	0	0	0	99	**99**
West Park Cottage	0	0	0	0	40	**40**
Total	**885**	**855**	**785**	**955**	**1,484**	**4,964**
	Licensing & Planning Policy Committee					
No anticipated expenditure	0	0	0	0	0	**0**
Total Indicative Forecasts	**1,240**	**945**	**960**	**1,005**	**3,159**	**7,309**

The Council has agreed to move its civic offices to a new Town Hall site. This project is managed separately to the core capital programme, therefore figures for the new Town Hall site are not included in the core capital programme above.

Forecasts for 2025/26 to 2028/29 are indicative and will be subject to future capital proposals being produced and approval each year through the Council's capital programme setting process. It is not an exhaustive list as future schemes may be identified through other workstreams such as the Climate Change Action Plan and Annual Plan cycle. Similarly, some schemes may be removed from the programme if strategic asset reviews recommend an alternative approach or Council priorities change. Each year, the forthcoming annual programme will be reviewed by Financial Strategy Advisory Group (FSAG) through the annual capital budget setting process with bids assessed against the agreed criteria, and the programme updated accordingly.

Forecasts for 2025/26 to 2028/29 are based on the estimated cost of works as reported in the Asset Management Plan 2020-2030. It is acknowledged that due to inflation, costs will have increased since this Asset Management Plan was agreed at S&R in July 2020. The subsequent increase in prices will be reflected when budgets for those relevant financial years come to be set through the Council's agreed budget setting process.

6. 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 retained as a contingency for unplanned capital commitments over the next four years.

Due to the low level of receipts from the disposal of property assets since 2009, the FSAG has limited investment from reserves to high priority and spend-to-save schemes. The forecast of capital

receipts at 31 March 2024 is £2.8 million. This assumes full delivery of the 2023/24 capital programme and no new capital receipts.

7. Capital Financing and Resources

Potential capital resources have been identified from

- estimated capital reserves at the end of March 2024;
- 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 such as Disabled Facilities Grant.

The Council has previously earmarked CIL receipts from developers to part finance the Step-free Access to Stoneleigh Station project, which forms part of the 2023/24 capital programme. The emerging Local Plan will seek to shape development in the borough and, alongside the CIL Spending Protocol agreed at Licensing & Planning Policy Committee, will continue to help inform the Council's use of future CIL receipts.

As capital reserves decrease, the Council may need 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 continue to review its property through the Asset Management Plan.

In 2024/25, the draft budget includes £500,000 of revenue funding for the 2024/25 capital programme. £250,000 of the annual revenue contribution is earmarked for the ICT Programme of Works, subject to S&R approval each year. In subsequent years, the Council's current 10-year forecast projects the annual revenue contribution will reach £550,000 by 2026/27.

All revenue contributions are subject to annual approval as part of the Council's budget setting process and are intended to limit the use of diminishing capital reserves to ensure the capital programme becomes sustainable in future years.

The anticipated level of funding available for the capital programme in shown in the following table.

	CIL & S106	Capital Grants	Capital Receipts	Residential Property Fund	Revenue	Total
	£m	£m	£m	£m	£m	£m
2023/24						
Estimated resources at 31/3/2023	**9.52**	**0.96**	**3.94**	**0.98**	**0.57**	**15.95**
Anticipated Receipts in 2023/24	1.04	0.79	0.00	0.00	0.57	2.39
Forecast funding for 2023/24	(1.51)	(1.74)	(1.17)	0.00	(0.57)	(5.00)
Estimated resources at 31/3/2024	**9.04**	**0.00**	**2.77**	**0.98**	**0.57**	**13.35**
2024/25						
Anticipated Receipts in 2024/25	1.04	0.79	0.00	0.00	0.66	2.48
Forecast funding for 2024/25	(0.56)	(0.79)	(0.70)	0.00	(0.50)	(2.55)
Estimated resources at 31/3/2025	**9.52**	**0.00**	**2.07**	**0.98**	**0.73**	**13.29**
2025/26						
Anticipated Receipts in 2025/26	1.04	0.79	0.00	0.00	0.62	2.44
Forecast funding for 2025/26	(1.04)	(0.79)	0.00	0.00	(0.46)	(2.28)
Estimated resources at 31/3/2026	**9.52**	**0.00**	**2.07**	**0.98**	**0.89**	**13.46**
2026/27						
Anticipated Receipts in 2026/27	1.04	0.79	0.00	0.00	0.62	2.44
Forecast funding for 2026/27	(1.04)	(0.79)	0.00	0.00	(0.16)	(1.99)
Estimated resources at 31/3/2027	**9.52**	**0.00**	**2.07**	**0.98**	**1.35**	**13.92**
2027/28						
Anticipated Receipts in 2027/28	1.04	0.79	0.00	0.00	0.62	2.44
Forecast funding for 2027/28	(1.04)	(0.79)	0.00	0.00	(0.18)	(2.00)
Estimated resources at 31/3/2028	**9.52**	**0.00**	**2.07**	**0.98**	**1.79**	**14.36**
2028/29						
Anticipated Receipts in 2028/29	1.04	0.79	0.00	0.00	0.62	2.44
Forecast funding for 2028/29	(1.04)	(0.79)	0.00	0.00	(0.22)	(2.05)
Estimated resources at 31/3/2029	**9.52**	**0.00**	**2.07**	**0.98**	**2.19**	**14.76**

Notes:

1. Community Infrastructure Levy receipts are 80% of the total collected through the levy. From 2025/26, it is assumed that new receipts collected will be offset by new commitments, following agreement of the CIL spending protocol.
2. Capital grants refer to the Disabled Facilities Grant.
3. No expenditure has been entered for the residential fund but this will occur when opportunities arise.
4. Revenue includes budgeted revenue contributions to fund capital schemes; and use of revenue reserves such as the repairs and renewals reserve.
5. Forecast capital resources assume that the agreed relocation of the Council's civic offices to a new site will be fully funded by income generated from the existing Town Hall site.

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 may include LEP funding, Section 106 agreements, CIL, government grants for Disabled Facilities, partnership funding from other Local Authorities or Public and Voluntary organisations.

8. 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 (or up to 10 years if the climate change criteria below is met);
    - there is a low risk of not achieving return on investment
    - there is a clear definition of the cost/benefits of the scheme
- investment where the scheme is consistent with the Council's Climate Change Action Plan, subject to affordability, supported by a robust business case and value for money can be demonstrated through a maximum payback period of 10 years.

In addition, proposals should be subject to a de-minimis limit of £50,000 to be considered for inclusion in the capital programme. Schemes under £50,000 expected to be progressed through revenue maintenance budgets.

Prior to schemes being assessed for approval by Full Council, 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.

By assessing schemes against the above criteria, the Council ensures that capital schemes support the corporate priorities, as set out in the Four Year Plan. Separate criteria exist to evaluate proposed individual property acquisitions that are funded from the Property Acquisition Funds.

Following Council's adoption of the Climate Change Action Plan in January 2020 and in accordance with the new MTFS, the capital investment criteria were reviewed during 2020/21 and the fifth criteria listed above added, with the aim of further facilitating actions which positively impact the environment.

9. Timetable for Approval of Capital Programme

The timetable will be reviewed for 2025/26, but the typical process for approval of the capital programme following annual review is as follows:-

- Update on level of resources / reserves at end of previous year reported to FSAG and Strategy and Resources Committee in June and July.
- Budget targets agreed by policy committees.
- Officers, in consultation with Heads of Service, Directors and Policy Chairs, submit new or updated draft summary capital proposals to FSAG for review in September.
- FSAG meets in September to agree approach and use the Capital Strategy criteria to decide which of the summary proposals should be progressed into full proposals for review in November.
- Officers submit full capital proposals to the Strategic Leadership Team for consideration in October.
- FSAG reviews all proposals in November and prepares recommendations on funding to Policy Committees in January.
- 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.

For any approved capital scheme where additional capital or revenue costs are identified prior to commencement of the scheme, then subject to the thresholds contained in the Council's Financial regulations, the scheme may need to 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.

10. 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, and any further borrowing to acquire property would first require the Council to agree an updated Property Investment Strategy. The Medium Term Financial Strategy requires that the Council maintains a minimum level of £1 million of capital reserves.

However, should the need to borrow to finance part of the main capital programme arise (which may depend on the levels of new receipts generated, revenue contributions, income generated from CIL and S106 and external grants), the Council will ensure any borrowing is proportionate and sustainable. Any borrowing would be undertaken accordance with the Treasury Management Strategy.

11. Approach to Procurement

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.

12. Managing and Monitoring the Capital Programme

Detailed monitoring and performance review of the capital programme is the responsibility of the Strategic Leadership Team and the Audit & Scrutiny Committee on a quarterly review basis and by FSAG 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 and policy committees.

Financial monitoring reports are submitted to Audit & Scrutiny Committee and circulated to Members on a quarterly basis. This includes expenditure monitoring, uncommitted balances held on s106 and CIL 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. Any recommended changes to the programme are submitted to committees during the year as appropriate.

13. Risk Management

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 may conduct 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.