

## Policy Committee – 3<sup>rd</sup> March 2015

### CAPITAL STRATEGY 2015-2019



Report of the Strategic Manager – Financial Services (s151 Officer)

Ward(s) affected: All

#### 1. **Purpose of Report**

- 1.1 This report seeks the approval of the Council's Capital Strategy for 2015/16 to 2018/19

#### 2. **Recommendations**

- 2.1 Members are recommended to approve the Capital Strategy 2015/16 - 2018/19.

#### 3. **Background Information**

- 3.1 Given the current and future financial pressures faced by local government, it is important to have robust strategies in place that provide a clear framework for the allocation of increasingly scarce resources.
- 3.2 The last Craven District Council Capital Strategy was approved in April 2011, covering the period 2011 - 2015.
- 3.3 The proposed Capital Strategy covers a four year period in line with previous strategies. This enables planning within the 10 year Long Term Financial Strategy.
- 3.4 This revised Strategy outlines the Council's approach to capital investment. It sets out how the Council will finance the capital programme, how it will seek to maximise capital resources and how it will ensure that capital investment is directed towards the Council's priorities. The Strategy also highlights the basis for prioritisation of capital bids included in the four year Capital Programme and the arrangements for monitoring the Programme.

#### 4. **Proposals**

- 4.1 The proposed Capital Strategy is attached at Appendix A.

## 5. **Implications**

### 5.1 **Financial and Value for Money Implications**

All financial implications are as contained in the Strategy. There are no direct financial implications as a consequence of this report.

### 5.2 **Legal implications**

None relevant.

### 5.3 **Contribution to Council Priorities**

The Capital Strategy sets out the Council's policy on capital investment and ensures the efficient use of capital resources to meet Council Priorities.

### 5.4 **Risk Management**

The Council's capital resources are relatively low and the four year programme is dependent on additional resources being generated from capital receipts. If the receipt of estimated capital resources is delayed or unrealised, the capital programme and resourcing will need to be reviewed.

### 5.5 **Equality Impact Assessment**

The Council's Equality Impact Assessment Procedure **has been** followed. An Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

## 6. **Consultations with Others**

Corporate Leadership Team

## 7. **Access to Information : Background Documents**

None

## 8. **Author of the Report**

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## 9. **Appendices**

Appendix A – Capital Strategy 2011-2015



**CRAVEN**

IN · THE · YORKSHIRE · DALES

**D I S T R I C T**

# **CAPITAL STRATEGY**

**2015 - 2019**

## 1.0 **INTRODUCTION**

- 1.1 Capital expenditure is a significant part of the Council's annual expenditure. The programme for 2014/15 provided for capital expenditure of £3.3m. The approved capital programme for 2015/16 and the indicative programme up to 2018/19 sets out further capital expenditure requirements of approximately £7.3m for new capital schemes over the next four years.
- 1.2 Capital expenditure involves acquiring or enhancing fixed assets with a long-term value to the Council, such as land, buildings, and major items of plant, equipment or vehicles, where the cost is equal to or greater than £10,000. It also includes grants to people and other organisations towards their own capital expenditure, where the cost is equal to or greater than £4,000. Capital expenditure is concerned with the medium to long term issues affecting the Council, unlike revenue expenditure which covers the day to day operations of the Council.
- 1.3 Capital assets shape the way services are delivered in the long term, providing the infrastructure for service delivery. They also create financial commitments for the future in the form of financing costs and/or revenue running costs.
- 1.4 This Strategy is a high level summary of the Council's approach to capital investment. It sets out how the Council will allocate, maximise and manage the capital resources available for its plans and programmes, ensuring that capital investment is directed to the Council's Corporate Priorities. The strategy outlines the basis for the prioritisation of all capital bids put forward for inclusion in the rolling four-year programme, and the monitoring of that programme.
- 1.5 The Strategy covers the period from 2015/16 to 2018/19.

## 2 **THE CORPORATE FRAMEWORK**

- 2.1 The Council has a well established corporate service and financial planning process in which the Council Plan and related strategies are developed and linked. The latest review of the Council Plan sets out the Council's priorities for the period 2015-2018. These are:
- Enterprising Craven
  - Greener Craven
  - Working With Communities
  - Financial Resilience

## 3 **AIMS AND OBJECTIVES OF THE CAPITAL STRATEGY**

- 3.1 The aims of the Capital Strategy are:
- to provide an effective policy framework for deploying the Council's capital resources;
  - to set out how the Council will maximise the capital resources available for its plans and programmes.
- 3.2 The objectives of the Strategy are:
- to ensure that the capital resources available to the Council support delivery of the Council's priorities;
  - to guide the production of the capital programme;
  - to assist in determining priorities between various services;

- to ensure Value For Money (VFM)

## **4 BACKGROUND**

- 4.1 Opportunities for capital investment by a district council such as Craven are limited. The constraints on the Council's financing capacity mean that capital expenditure must form part of an investment strategy and should be carefully prioritised in order to maximise the benefit of scarce resources. The Council can deliver capital investment either directly through the use of its own capital resources, or indirectly through influencing partners and other external bodies.
- 4.2 The development and implementation of the Council's Capital Strategy involves:
- Working with partners to maximise the effect of capital investment in the District in the achievement of agreed priorities;
  - Maintaining the Council's assets to achieve priorities, consistent with the Council's Asset Management Plan (AMP);
  - Developing new initiatives and continuing current initiatives, including proposals arising through the programme of service reviews;
  - Seeking to maximise investment in the District through external funding sources;
  - Responding to relevant Government initiatives (e.g. carbon reduction, waste management) within the resource constraints;
  - A careful assessment of any revenue implications of capital proposals (both in relation to capital financing costs and running costs).
- 4.3 The model of delivery for capital projects will vary. Options could include direct investment and delivery by the Council, partnership working, or an enabling approach, with delivery the responsibility of others, supported by the Council.
- 4.4 The Council's capital programme only reflects expenditure incurred directly by this Council for its own account and the resources raised to meet that expenditure. It does not reflect investment made directly by partners.
- 4.5 The Council's capital programme is set in accordance with the Prudential Code for Capital Finance in Local Authorities, under the principles of affordability, sustainability and prudence.

## **5 INVESTMENT PRIORITIES**

- 5.1 The Council's investment priorities which link to the 2015-2018 Council Plan are:

### **5.2 Enterprising Craven**

Determine future land allocations for housing and employment across the District outside the National Park and secure affordable homes

- Adopt the Local Plan to determine sites for future development and protection
- Sustain economic growth through housing development

Supporting business growth across Craven

- Improve the economic vitality of Craven's market towns and villages by implementing a range of initiatives to make them more attractive as places to live, work, visit and do business
- Develop the South Skipton Employment Zone
- Work with the Threshfield Quarry Partnership to redevelop Threshfield

Quarry Development of Station Road, High Bentham to enable business growth

- Work with partners to prepare a plan for the development of Settle and Giggleswick

Improve infrastructure throughout the District

- Roll out broadband across Craven as a partner in the Superfast North Yorkshire project
- Work with local communities to regenerate and revitalise the stretch of the Leeds Liverpool Canal Corridor within Craven
- Work with partners to deliver the Skipton Flood Alleviation Scheme
- Work with partners to develop Transport Plan for South Craven

### 5.3 **Working with Communities**

Support local citizens to become more actively involved in their communities

- Provide support for community based groups such as Friends of Aireville Park to undertake initiatives aimed at improving their local community
- Work with partners to deliver the Tour De France Legacy Strategy

Improve the opportunities available to residents of Greatwood and Horse Close, South Skipton

- Work with partners to fund a specialist to tackle the causes of deprivation, improve the life chances of young people and the quality of life for residents living on Greatwood and Horse Close, South Skipton

Increase partner and community involvement in service delivery

- Work with community organisations who receive core funding from the Council to reduce their reliance on core funding, ensure they continue to be financially viable and explore opportunities for them to deliver Council services

### 5.4 **Greener Craven**

Improve the quality of life and make Craven's public spaces cleaner, safer and greener

- Review the Council's Cleaner Neighbourhoods Strategy

Work to reduce energy consumption across Council operations

- Implement the Climate Change Business Plan 2013 – 2016
- Install energy efficient and renewable technologies within Council owned buildings to reduce the Council's carbon emissions

Work to reduce waste and increase recycling levels within the District

- Promote the Council's commercial recycling scheme

### 5.5 **Financial Resilience**

Ensure the Council remains financially sustainable and has robust arrangements in place for securing value for money

- Continue to address the Council's financial pressures resulting from cuts in government funding
- Improve resilience and generate additional income streams
- Implement the Customer Access Strategy to improve access to Council services

Implement major projects in the Asset Management Plan to support the achievement of value for money

- Implement the agreed plan for the improvement of Skipton Waste Management Depot

Implement the business plan to restore Skipton Town Hall as a sustainable and vibrant community venue

## **6 FURTHER CONSIDERATIONS**

- 6.1 Where there is adequate capital resource provision, the Council will aim to capitalise any expenditure which legally falls within the accepted definition of capital expenditure, or new Government directives. This will be done to relieve pressure and increase flexibility in the revenue account.
- 6.2 In addition to the Council priorities, the Council needs to ensure that capital resources are directed at its existing non-surplus assets to ensure that these are of good condition and to achieve best use of these assets to deliver better services. This is an area which has seen limited investment over the past few years and will need to be considered during the life of the Capital Programme. The AMP will inform this work, taking into account existing stock and the need for ongoing maintenance and improvements.

## **7.0 2015 – 2019 CAPITAL PROGRAMME**

- 7.1 A summary of the 2015 – 2019 capital investment programme is set out below.

**Table 1: Rolling Capital Programme**

	<b>2015/16 £'000</b>	<b>2016/14 £'000</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
Strategic Housing Services	360	312	312	312
Waste Management Services	534	280	350	300
Information Services	144	110	110	110
Property Management	290	3,185	300	300
<b>Total</b>	<b>1,328</b>	<b>3,887</b>	<b>1,072</b>	<b>1,022</b>

## **8 CAPITAL RESOURCES**

### **8.1 Capital Funding Sources And Principles**

- 8.1.1 Capital expenditure can be funded from a variety of sources:
- borrowing
  - grants
  - contributions
  - capital receipts – from the sale of assets
  - revenue
  - partnerships

**Borrowing** – The ‘prudential borrowing’ powers available to local authorities are subject to proposals being ‘prudent, affordable and sustainable’. The main source of borrowing continues to be that of the Public Works Loan Board. The Council will only consider using borrowing to finance capital projects if that borrowing has no adverse impact on the revenue budget and there is an economic argument for doing so. For example, where the investment would be justified by additional income (or the protection of existing income), or where savings could be made at least equivalent to the debt charges. Decisions on borrowing will be subject to a detailed appraisal, including the ongoing revenue implications, and will take place in the wider context of the Council’s Treasury Management Strategy as agreed by

Members.

**Government Grants** – The Government makes a contribution to capital expenditure on Disabled Facilities, with the shortfall having to be funded from the Council's own capital sources. The expectation is that the council will also provide resources of up to 40% of this expenditure. The Council is keen to maximise grant funding, either via general funding or by earmarked ring-fenced grants which fund specific proposals.

**Contributions** – Section 106 of the Town and Country Planning Act 1990 allows local planning authorities to enter into legally binding arrangements with land developers. These arrangements can include the provision of funding by the developer for specific local community schemes including affordable housing and community facilities. The Council will seek to maximise this funding source.

**Capital Receipts** – The best use of Council owned property remains a key policy driver. The Council continues to review the operational use and contribution of its buildings and land holdings with an aim of optimising returns for each asset, dependent on its use. The Council regularly reviews its disposals policy and prioritising surplus assets for disposal.

**Capital receipts from disposals** are available to reinvest in services in accordance with the Council's priorities. The financial constraints within which the Council operates, combined with the significant capital investment needed to maintain and improve assets, highlights the need to maximise returns from asset disposals whilst also using assets to deliver priorities such as affordable housing which may require Council land to be sold at a discount or in some cases donated at nil return. It is crucial that a balance is struck between meeting these two requirements.

**Bids for Surplus Property** – The Council has a policy for considering bids for its surplus properties from voluntary organisations. The bids are judged on financial and service grounds and must demonstrate how the transfer of a Council asset will contribute to meeting Council priorities.

The Council separates the generation of a capital receipt from the spending of the receipt. Thus, capital receipts are pooled, rather than being earmarked for specific schemes, unless Members agree otherwise.

**Revenue** – The Council has the option to support its capital programme with contributions from its revenue resources including earmarked reserves. Given the recent and ongoing cuts in Government revenue funding, the current Strategy assumes limited revenue resources will be available to support capital spending. This position will be reviewed annually as part of the Council's ongoing long and medium-term financial planning arrangements.

**Partnerships** – Capital investment in the District is delivered not only by the Council directly, but also through its role as community leader, working with others to encourage investment. In such instances, public funding acts as seed funding to facilitate development. The Council adopts a strategic approach to the use of external funding and has a successful track record in securing external support to help fund capital schemes. These include community schemes enabled by the Council as well as those it delivers directly. Increasingly, capital projects are dependent on attracting grant aid from sub-regional, regional, national and European sources. Although often requiring match funding from the Council's own limited resources, this can be a very efficient method of adding value to those resources in



delivering a variety of capital schemes. All such schemes must offer value for money and assist in meeting the Council's priorities. The Council also contributes towards schemes managed by other organisations if they will help to meet the Council's priorities.

## 8.2 Funding Sources For The 2015/16 – 2018/19 Capital Programme

8.2.1 The table below shows the estimated sources of capital funding over the period of this strategy.

**Table 2: 2015/16 to 2018/19 Summary of Estimated Capital Resources**

	2015/16 £'000	2016/14 £'000	2017/18 £'000	2018/19 £'000
Government & Other Grants	239	1,976	191	191
Capital Receipts	380	1,153	121	121
Earmarked Reserves	409	90	90	90
<b>Total Resources</b>	<b>1,028</b>	<b>3,219</b>	<b>402</b>	<b>402</b>

## 8.3 Maximising Resources

8.3.1 The Council will seek to maximise the resources available for its future capital investment through:

- **Asset rationalisation** – the realisation of capital receipts will be the primary means of raising capital resources over the period of the Medium Term Financial Plan (MTFP). The Council's commitment to the Skipton Developments project continues and this will raise over £4.0m over the life of the MTFP. Through the Asset Management Plan (AMP) further surplus assets will be identified which are no longer required to meet the Council's Priorities and present opportunities to raise capital receipts through the disposal of such assets. The Council will endeavour to realise better VFM from its assets;
- **Resource bidding** – identifying potential external funding sources to address the revenue and capital implications of the Council Plan priorities. Where possible, officers should seek external funding for potential capital projects before submitting a capital bid;
- **Partnership arrangements** – the partnership approach to service delivery is a key component of realising the Council's priorities. The Council will seek to attract investment into the District through its work with existing partners and with the wider public and private sectors;
- Close working with RSLs and other developers to maximise the supply of new housing, including affordable housing, and related facilities;
- **Prudential borrowing** – opportunities to use the prudential regime for capital finance will be re-assessed in line with improvements to the Council's financial position. This will apply in particular to spend-to-save schemes where capital investment is justified in terms of additional income and / or revenue savings. Full assessment of the use of prudential borrowing will also take place if there are temporary shortfalls in capital resources arising

from timing delays in receipt of expected support for the programme such as capital receipts or grants.

## **9 ALLOCATION OF CAPITAL RESOURCES**

- 9.1 The Council reviews the allocation of capital resources on an annual basis to ensure that its programme of investment is in line with the actual resources available to support its spending needs and priorities.
- 9.2 The capital resources at the Council's disposal are either:
- ring-fenced / earmarked to a particular scheme or proposal;
  - discretionary for use on any scheme. These funds include the use of revenue, capital receipts, capital grants, borrowing approvals and any unsupported borrowing through the prudential system.
- 9.3 Given the limited level of capital and revenue resources, it is vital that the Council has a robust decision making process to ensure that resources are allocated in the most effective way. The Capital Strategy guides the production of the capital programme to ensure:
- all capital investment decisions are taken based on full knowledge of the facts, options, effects and consequences of the decision being taken;
  - schemes clearly show a link to corporate priorities;
  - alternatives are identified and considered through a robust option appraisal process for all capital projects exceeding £100k;
  - a formal evaluation process is used to manage the competing demands for resources.
- 9.4 In order to ensure that capital resources are used most effectively and contribute to the achievement of the Council's priorities, the Council assesses all schemes annually against pre-set criteria using a bidding process.
- 9.5 In determining whether schemes should be included within the capital programme the following criteria are considered:
- Statutory obligations.
  - Risk implications
  - Council priorities
  - National priority initiatives
  - Performance measures
  - Partnership Working
  - Revenue implications
- 9.6 The basis of the cost assessment is also considered.
- 9.7 The Capital Bid Form is submitted on an annual basis and used to assess capital schemes. Details are submitted for a five year period to enable the full financial impact to be assessed and to facilitate the rolling financial programme. Any schemes put forward during the year, outside the annual bidding process, would be assessed against the same criteria.
- 9.8 Bids are evaluated and prioritised by the Corporate Leadership Team (CLT). The Asset Management & Capital Working Group review bids for expenditure on Council property prior to the evaluation by CLT.

## **10 REVENUE IMPLICATIONS**

- 10.1 It is important that the revenue implications of capital investment are clearly identified, these may include:
- Interest charges arising from existing or additional borrowing
  - Investment income foregone when capital receipts are used
  - Leasing costs
  - Running costs of capital projects
  - Depreciation costs
  - Efficiency gains
- 10.2 It is also essential that any increases in capital expenditure are limited to a level whereby the corresponding impact on revenue is containable within projected income levels over the term of the Long Term Financial Strategy and MTFP.
- 10.3 The revenue effects of capital programme schemes and the assumptions on which they are based have been reflected in the 2015/16 annual budget and the forward forecast.

## **11 PROCUREMENT**

- 11.1 Capital related procurement is undertaken in accordance with approved procedures set out in the Council's Contract Procedure Rules. When levels of expenditure are above the EU tendering thresholds, the Council must procure using the European Union Procurement Regulations.

## **12 ROLES AND RESPONSIBILITIES**

- 12.1 The Strategic Manager – Financial Services (S151 Officer) is responsible for policy development and financial monitoring and management of the Capital Programme.
- 12.2 The Council's Corporate Property Officer (CPO) is responsible for the monitoring and performance of the overall Capital Programme in respect of the Council's property assets.
- 12.3 Individual budget holders are responsible for specific schemes within the overall Capital Programme.
- 12.4 The Asset Management and Capital Working Group is chaired by the CPO and attended by the Member Portfolio Holder. The group provides a forum responsible for reviewing the management and performance of the Council's assets and capital programme, operating within agreed terms of reference

## **13 PERFORMANCE MANAGEMENT**

- 13.1 The financial performance of schemes in the capital programme is reported quarterly to the Corporate Leadership Team and the Policy Committee by the Strategic Manager – Financial Services.
- 13.2 The Asset Management and Capital Working Group is also responsible for monitoring performance against the annual capital programme throughout the year.

- 13.3 Service Managers are responsible for managing capital projects. Performance monitoring clinics are held with individual budget holders on a quarterly basis. This includes capital financial performance, as well revenue budget and other key service performance indicators.
- 13.4 Support from the Financial Management service is provided on a regular basis in the form of regular monitoring statements and follow up meetings.

## **14 PARTNERSHIP WORKING**

- 14.1 The Council recognises the importance of partnership and joint working in order to deliver its own priorities. Through working in partnership the Council can also seek to influence, ensuring all opportunities are maximised and funding opportunities are realised.
- 14.2 The Council has a diverse range of partners including North Yorkshire County Council, the district councils of North Yorkshire, local town and parish councils, North Yorkshire Police, the Yorkshire Dales National Park Authority, North Yorkshire Fire and Rescue Service, Registered Providers of Social Housing operating in the district, representative groups of the local business community and the voluntary sector. The Council also has a Concordat agreement with Harrogate and Selby Councils for the delivery of shared services.
- 14.3 The Local Area Agreement (LAA) involves the County Council and District Councils in North Yorkshire and a number of key public sector partners in working together to identify areas where strategically the organisations should be working more closely together to meet common goals. The emerging LAA will contain aims and targets to be pursued jointly by the partners. As these are developed they may need to be reflected in the Council's capital spending plans. Examples could include Waste Management services or proposals to enhance citizen access to public services within the District.
- 14.4 Leeds City Region Local Enterprise Partnership (LEP) brings together the ten city region local authorities and North Yorkshire County Council to work together towards common aims in areas such as transport, skills, housing and spatial planning. The LEP proposal draws on current city region arrangements and proposes taking on further responsibilities for strategy, funding, investment, planning and commissioning of economic development and regeneration activities.
- 14.5 The York and North Yorkshire (Economic) Partnership brings together a number of agencies working to improve economic and community regeneration across York and North Yorkshire. The Partnership has recently submitted a bid to become the Local Enterprise Partnership (LEP) for the York and North Yorkshire area. The partnership is working together to deliver the York and North Yorkshire Economic Strategy. As a member of the partnership, Craven District Council will make a significant contribution to the delivery of this strategy.

## **15 LINKS TO ASSET MANAGEMENT**

- 15.1 The Capital Strategy is intrinsically linked to the Asset Management Plan (AMP) which sets out the Council's strategic objectives for its property portfolio.

- 15.2 The Asset Management and Capital Working Group has responsibility for initial vetting and verification of potential schemes and has a role in the overall management of corporate property. The Group considers new asset acquisitions, as well as asset disposals. This corporate approach seeks to ensure that the Council gets value for money from all its assets.

## **16 RISK**

- 16.1 The identification, evaluation, management and monitoring of risk is an important element of a robust Capital Strategy.
- 16.2 The Council has a well established Risk Management Framework. The Corporate Risk Register is updated bi-annually and presented to the Corporate Leadership Team and the Audit & Governance Committee. For capital projects, any associated risks and opportunities are identified, monitored and reviewed. Large capital schemes, such as the Town Hall, will feature on the Corporate Risk Register as well as on a detailed separate register, to ensure effective risk management.

## **17 CONCLUSIONS AND REVIEW**

- 17.1 The Capital Strategy indicates how the Council plans to make best use of its capital resources to meet the Council's priorities. The Strategy will run for a four year period. In order to ensure that changing Council priorities and political and financial influences are reflected in the Strategy, it will be reviewed annually following the review of the Council Plan. Any changes to the Strategy will be reported to Members.