

Key Decision Required:	Yes	In the Forward Plan:	Yes
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CABINET

28 SEPTEMBER 2011

REPORT OF THE FINANCE AND ASSET MANAGEMENT PORTFOLIO HOLDER

A.1 CAPITAL STRATEGY AND ASSET MANAGEMENT PLAN (CSAMP)

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide an update to the Council's overarching approach to the Capital Strategy and Asset Management Plan along with a recommended revised approach from 2012/13 onwards.

EXECUTIVE SUMMARY

As part of the annual review it is proposed to split the CSAMP into its constituent parts which, by having standalone documents, will support the strategic focus on the Council's use of its assets. This has started with an asset stock take.

The standalone Asset Strategy is currently being reviewed and will be presented to Members in due course.

An updated standalone Capital Strategy is set out at **Appendix A** which has been formed from the relevant part of the existing CSAMP. It is proposed that the new standalone document will be on a rolling basis unless significant changes are required in which case it will be brought back to Cabinet for approval.

Given the relative stability of high level documents, it is recommended that both the Capital Strategy and Asset Strategy are removed from the Council's policy framework although a revised Asset Strategy will be presented to Members in due course.

RECOMMENDATION

It is recommended:

a) That the updated Capital Strategy element of the existing CSAMP is approved as the new standalone Capital Strategy with delegation to the Head of Resource Management in consultation with the Finance and Asset Management Portfolio Holder to refresh and keep the document up to date as appropriate.

b) That a separate Asset Strategy be prepared for consideration by Members in due course.

c) That subject to a) and b) above, Cabinet recommends to Council that both the Capital Strategy and Asset Strategy be excluded from the Council's Policy Framework.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Capital Investment and Asset Management both have a key role in supporting the delivery of the Council's Priorities.

Capital Investment policies set out the structure and high level framework within which other processes operate.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

There are no direct financial implications as these would form part of the Financial Strategy and Treasury Management processes during the course of the year as appropriate.

Risk

Agreement of the policies has limited risk directly. However, any capital investment must be considered to make sure that it is affordable and the relevant risks must also be considered in the retention, management or sale of assets.

LEGAL

The Local Government Act 2003 sets out the requirements in relation to capital expenditure and financing.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no other direct implications although all of the above would form part of the assessment when considering individual capital projects / investments.

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The current Capital Strategy and Asset Management Plan (CSAMP) was approved by Council on 8 February 2011 and in accordance with best practice sets out a high level process covering:

Capital Strategy

- 1) *Setting out how schemes are evaluated and prioritised within the resources available.*
- 2) *Ensuring that any investment decision is prudent, sustainable and affordable in accordance with the prudential code and therefore represents value for money.*
- 3) *Setting out the performance processes in place to ensure that projects are delivered on time and within budget*
- 4) *Ensuring that upon completion a review is undertaken to ensure that the benefits/service improvements promised have been delivered and lessons learned.*

Asset Management Plan

- 1) *Identify the investment needed in the Council's assets to ensure that they can be used to provide services consistent with the Council's corporate objectives.*
- 2) *Identify the need for additional or replacement assets to ensure that services can be provided which are consistent with the Council's corporate objectives.*
- 3) *Identify opportunities to work with other partners to re-invigorate assets.*

The CSAMP is currently designated in the constitution as a document within the Council's Policy Framework. As such the document is required to be agreed by Cabinet for consultation with the Corporate Management Committee before being considered by Full Council for approval.

Annual Review and Proposed Changes

In reviewing the CSAMP as part of the annual review process, a number of changes have been identified set against the background of challenging our procedures and processes to ensure greater efficiency within the resources available but without compromising good governance.

In balancing these key issues it is proposed to split the CSAMP into its constituent parts i.e. 1) Capital Strategy and 2) Asset Strategy to reflect the renewed focus on the Council's use of its assets including an asset stock take, which having a standalone document would assist in terms of clarity, communication and completeness. It is still however recognised that both a Capital Strategy and Asset Strategy would still need to compliment each other.

Splitting the two elements out of the existing document provides a further opportunity to review the decision making process.

Based on the renewed focus mentioned above it is proposed to bring forward the standalone Asset Strategy for consideration by Members in due course. It is proposed to exclude the document from the Council's policy framework but the report referred to above will set out an appropriate decision making and scrutiny process.

In respect of the Capital Strategy, taking a step back and reviewing its overall purpose has been undertaken and in summary the Capital Strategy:

- Provides a high level framework within which capital investment decisions are made.
- Includes a number of general principles such as:
 - Statutory Framework and link to Priorities
 - Roles and Responsibilities
 - Capital Projects processes
 - Options for funding

Based on the purpose and content of the Capital Strategy as highlighted above, it remains relatively stable over the medium term for example roles and responsibilities, high level processes and the generic options available for funding capital investment remain largely unchanged from year to year. Therefore it is proposed to remove the Capital Strategy from the Council's Policy Framework and agree as the new standalone Capital Strategy, the relevant part of the existing CSAMP albeit refreshed and updated for changes such as Portfolio Holder Titles and those emerging from the organisational review that remains on-going. An updated Capital Strategy is set out in **Appendix A**.

It is also proposed that in future the Capital Strategy is only submitted to Cabinet for approval when it requires significant amendment with a recommended delegation to the Head of Resource Management in consultation with the Finance and Asset Management Portfolio Holder to refresh the document in the interim periods.

Although it is proposed to remove the Capital Strategy and Asset Strategy from the

Council's policy framework, it is worth emphasising that in practical terms any actual capital investment or borrowing decisions will be made within the existing Financial and Treasury Strategy processes. These will continue to be done on an annual basis and subject to the approval of Full Council each year.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

APPENDIX A - Capital Strategy

Tendring District Council Capital Strategy

INTRODUCTION

The Capital Strategy is an overarching document that sets out the Council's approach to Capital Investment.

The document is divided into two sections:

Section A provides an introduction and sets out the context for the Capital Strategy. It sets out how the plan links to corporate priorities and shows how they link to other key resource strategies and the related roles and responsibilities of members and officers.

Section B covers the framework of the Prudential Code within which capital financing decisions are made and explains how capital bids are made and prioritised through the Financial Strategy process. It provides background as to the funding sources available to meet the costs of capital projects.

A. STRATEGIC CONTEXT AND THE COUNCIL'S PRIORITIES

A1.1 CORPORATE PRIORITIES

The Capital Strategy is subject to on-going review and has a key role in supporting the delivery of the Council's Corporate Priorities.

The Capital Strategy aims to set out the arrangements and processes in place to manage capital resources, the relationship with the Council's other key resource strategies and the practical outcomes of those arrangements and processes.

A1.2 CONSULTATION

The views of the local community are an important element in developing the priorities for the Council. A new approach to budget consultation was implemented in 2010 that engages further with residents on areas that are considered priorities for spend and those where reductions would be accepted. This process will be continued in future years and will inform the annual Financial Strategy and budget setting process. This will be in addition to any other consultation processes that the Council decides to undertake.

A2. THE PURPOSE OF A CAPITAL STRATEGY

A2.1 Against the strategic and priority context of the Council, the **Capital Strategy** sets out the arrangements and process the Council will apply to support its capital investment requirements which in turn support the delivery against its priorities by:

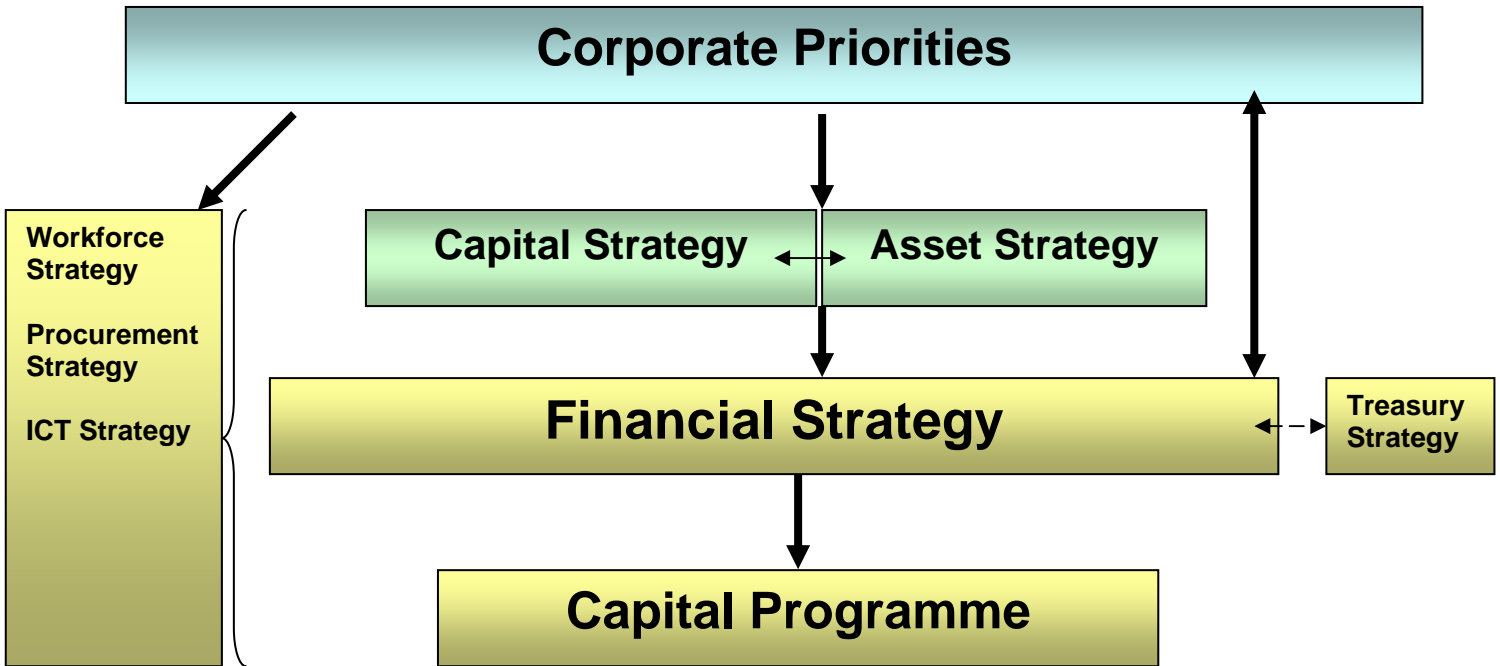
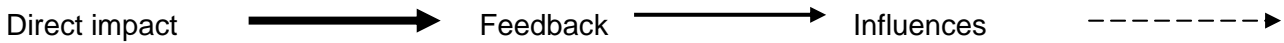
- 1) Setting out how schemes are evaluated and prioritised within the resources available.
- 2) Ensuring that any investment decision is prudent, sustainable and affordable in accordance with the prudential code and therefore represents value for money.
- 3) Setting out the performance processes in place to ensure that projects are delivered on time and within budget
- 4) Ensuring that upon completion a review is undertaken to ensure that the benefits/service improvements promised have been delivered and lessons learned.

A3. OTHER KEY RESOURCE STRATEGIES AND ROLES AND RESPONSIBILITIES

A3.1 LINKS TO OTHER KEY RESOURCE STRATEGIES

The ability of the Council to undertake capital investment to deliver its corporate objectives will be influenced or have direct links to a number of strategies, which is set out graphically below:

The key to the symbols used is:



Workforce Strategy – the Workforce Strategy supports Capital Investment in seeking to ensure the right resources are available to enable the Council to achieve its objectives effectively and efficiently and economically.

Procurement Strategy – This is a framework for procuring contractors, suppliers, builders, etc at the most cost effective price. This strategy ensures that capital investment is carried out with the appropriate technical expertise and within budget.

ICT Strategy – This sets out how the Council intends to use technology to support service delivery and to change and improve the way it delivers services and is run as an organisation. Technology alone will not deliver change, but as part of a wider capital projects agenda alongside asset management, the Workforce Strategy and business process improvements it is a key enabler.

Financial Strategy – Although the above strategies strongly influence capital investment, there is a direct impact in respect of the relationship with the Financial Strategy. Not only does the Financial Strategy determine the financial resources available to fund capital investment, both in terms of the initial investment and any revenue consequences of the capital investment itself, it also provides a framework for the consideration and prioritisation of capital projects.

Treasury Strategy – In terms of capital investment, the Treasury Strategy includes the Council’s overall approach to debt and borrowing. This approach along with affordability form part of the investment decision that is brought together via the Financial Strategy process.

Other significant influences include the **Local Development framework (LDF)** which sets out the Council's vision for change and new growth in the Tendring district in the long term which will investment decisions.

A3.2 ROLES AND RESPONSIBILITIES IN RESPECT OF THE CAPITAL STRATEGY AND THE FORMULATION OF THE CAPITAL PROGRAMME

Council – Approves the 5 year Capital Programme as part of the Financial Strategy and budget setting process in February each year.

Cabinet (including Portfolio Holders acting independently) – The Cabinet recommends the 5 year capital programme to Council. The Cabinet and Finance and Asset Management Portfolio Holder can, within the limits set by the Council's Financial Procedure Rules, approve supplementary estimates to increase the costs of approved schemes or add new schemes or approve virements between schemes. The Housing and Customer and Central Services Portfolio Holders have the authority to approve specific schemes within the overall capital budgets for Housing the ICT programme respectively. The Cabinet will be required to approve the Capital Strategy as and when significant changes are necessary.

Management Team – As the most senior officer team of the Council the Management Team approves the Capital Strategy for submission to Cabinet and having regard to the Council's priorities, recommends the projects for inclusion in the Capital Programme (via the Financial Strategy Process). The Team also considers all investment / asset management related decisions prior to formal reporting to Members.

Departments support Management Team in the above process including specific officer groups such as

- **Development Team** which is a group of senior officers that focus on major developments in the District to establish the requirements for Section 106 Legal Agreements; the implications for the services of the Council; and, land use planning matters.
- **Asset Management Team** which supports the strategic review and management of assets.

In terms of performance and monitoring the delivery of key projects of the Council, this is primarily achieved through the existing and comprehensive financial processes such as the Financial Strategy and budget setting process, outturn review and the Corporate Budget Monitoring process. In respect of the Corporate Budget monitoring process an update on the delivery of projects and the position against the budget is included along with specific details regarding S106 funded schemes. The Corporate Budget Monitoring Report is reported to both Cabinet and the Corporate Management Committee on a Quarterly basis during the year.

B. CAPITAL INVESTMENT AND SOURCES OF FUNDING

B1. CAPITAL INVESTMENT EVALUATION AND PRIORITISATION

B1.1 The Council's capital investments are made in accordance with the Prudential Code, which aims to ensure that the capital investment plans of local authorities are affordable, prudent, and sustainable, and follow good practice including a prioritisation and appraisal process. Under the code the Council is free to determine the amount it borrows to finance capital investment.

B1.2 All of the Council's capital investment is managed in accordance with the requirements of the Prudential Code. The prioritisation of capital investment is directly linked to the Financial Strategy as previously explained and undertaken in an open and transparent manner.

B1.3 Proposed capital investments for all services are brought together and considered via the Financial Strategy process including those in respect of the Housing Revenue Account and those met by external funding such as coastal defence works which are determined by the Environment Agency.

B1.4 The capital investment appraisal and prioritisation process within the overall high level framework of the Capital Strategy and Asset Strategy is shown diagrammatically in B4. Also shown are the criteria which are used in this process and the links with the development of the capital programme during the budget setting process.

B1.5 These criteria are explained in more detail below:

- a) **Corporate Priorities** – clear contribution to those priorities set out in the Council's Corporate Plan and Community Strategy
- b) **Continuous Improvement and Customer Service** – a demonstrable enhancement to the current provision of service to customers and the wider community. Provision of a service that is currently under - or inadequately provided.
- c) **Financial Strategy** – supporting the Council's Financial Strategy using capital investment to generate additional income or save revenue spending, such as through modernisation of a service or facility to reduce running costs.
- d) **Efficiency** – enabling the Council to do more for the same resources, the same for less, or reducing the level of subsidisation or cost per visit/use.
- e) **Local Priority** – local support for scheme from Members and/or partners
- f) **Deliverability** – The Council's capacity to deliver

B2. SOURCES OF FUNDING

B2.1 Any capital investment will have to be undertaken within the Council's limited resources and challenging financial environment.

B2.2 In limited cases the cost of capital investment is supported by government grant such as coast protection schemes approved by the Environment Agency which have historically been 100% grant funded.

B2.3 Any other capital investment the Council wishes to make has to be funded from its own resources, by borrowing (the cost of which is met entirely by the Council) or from other external funding. The Council's Financial Strategy includes consideration of a five-year forecast, taking into account the revenue implications of capital investment plans and the resources available to fund capital investment. The level of capital investment will be constrained by the available resources

identified via the Financial Strategy process including revenue contributions or the ability to attract external funding and generate capital receipts. Any decision to invest in capital projects will need to match the available resources against corporate priorities.

B2.4 In planning any capital investment to contribute towards the achievement of the Council's priorities, the following resources are available:

- a) **Borrowing within the Prudential Framework (Prudential Borrowing)** - The Government does not now support borrowing through the Formula Grant settlement. The Council has the freedom to borrow to finance its capital expenditure provided it can demonstrate the prudence of the investment and its affordability.
- b) **Coast Protection capital grants** – Historically and potentially one of the largest future capital investment decisions will be Coast Protection, which is 100% grant funded in respect of the schemes that are supported by and will need the Environment Agency's approval. To obtain the Environment Agency's approval schemes must meet specific cost benefit criteria.
- c) **Housing Supported Capital Expenditure and Capital Receipts from Right to Buy and housing land sales** - Expenditure on Housing is funded by capital receipts, borrowing and specific grants. Unlike in previous years where borrowing was supported by the Government, the cost of borrowing in the future will need to be met by the Council / Housing Revenue Account under the new self financing rules that are due to replace the housing subsidy system from 2012 onwards. In respect of capital receipts, the Council retains 25% of the sale proceeds from the 'Right to Buy' sale of Council Housing with the remaining amount paid (less allowable deductions) to the Government under 'pooling' arrangements that will continue under the new self financing rules. For non 'Right to Buy' sales, the Council can keep all of the sale proceeds if a capital allowance deduction can be made. It is anticipated that capital allowance deductions will be able to be made in the long term ensuring sale proceeds from non 'Right to Buy' sales can be retained by the Council.
- d) **Other capital grants/contributions** - These have contributed significantly to past and current capital projects and many aspects of the Council's and its partners' objectives can only be met if this funding source continues to be pursued. Recent community objectives have been met by successful grant applications. Section 106 money flowing from the planning process is now also a significant source of external funding. However it is recognised that projects and schemes supported by this income must meet the tests set out in government guidance and there may be financial contributions from other sources. This source of funding is expected to be supplemented in future by the new Community Infrastructure Levy (CIL) arrangements.
- e) **General Fund Capital Receipts** - Other than operational office buildings, whose sites are not particularly valuable, the Council is not a landowner with high value assets suitable for disposal. Nevertheless the Council recognises this important funding source and is continually reviewing its assets and will consider opportunities to dispose of any assets that are surplus to requirements and not contributing to the delivery of the Council's priorities.
- f) **Revenue Funding** – This will be limited in future years given the challenging financial environment and formula grant reductions although it will need to be considered as part of the overall Financial Strategy Process.
- g) **Public Private Partnerships/PFI** – These can provide effective capital investment routes, although they are designed for major investment projects. To date there have been no local initiatives in this area.

- h) Leasing** – This can provide an additional source of finance and will be utilised where viable and cost efficient. Currently leases are or have been used for vehicle and plant acquisitions, fitness equipment and CCTV installations. The Council will work with leasing advisors to maximise the potential for this financing option in demonstrating value for money.
- i) Major Repairs Allowance (MRA)** – The Government introduced this allowance in April 2001 as a capital resource to be spent on maintaining the Housing stock. It is cash backed and paid annually through the subsidy system. This will no longer be applicable from 2012 under the proposed self financing arrangements for the HRA and the future cost of improvements to housing stock will have to be met directly by the HRA.

B3. CAPITAL STRATEGY CONCLUSION

The Capital Strategy sets out the high level arrangements and processes to ensure that capital investment is managed within the framework of the Council's Financial Strategy. It aims to ensure that limited resources are applied consistently and effectively towards delivering the priorities of the Council. It links together the capital expenditure implications of various plans and strategies. There is a direct link with the Asset Strategy in that the strategy ensures capital investment is consistently evaluated against other investment proposals.

B4 – Capital Investment Processes

