

Taunton Deane Borough Council

Executive – 7 December 2011

Capital Strategy 2012-2015

Report of the Strategic Finance Officer

(This matter is the responsibility of Executive Councillor John Williams, Leader of the Council)

1. Executive Summary

- | |
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| <ul style="list-style-type: none">• Attached at Appendix A is the draft Capital Strategy for 2012-15.• The Executive Is requested to consider and approve the Strategy. |
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2. Background

2.1 A Capital Strategy is a council's high level approach to capital investment, ensuring it is in line with the Council's priorities and it lays out rules against which capital schemes are evaluated and monitored.

2.1 There is no statutory requirement for the Council to prepare a Capital Strategy, however in terms of setting direction for the use of the Council's capital resources the strategy is seen as a "must have" document.

2.2 *The Capital Strategy is a summary of the Council's approach to capital investment including:-*

- *Our Vision,*
- *The identification of needs and our needs gap,*
- *The management and monitoring of the capital programme,*
- *The capital programme and the level of resources available,*
- *Our approach to procurement and partnership working,*
- *Linkages to other corporate plans.*

3. Capital Strategy 2012-2015

- 3.1 The draft Strategy for 2012-15 is attached at Appendix A. It has been updated from the previous strategy and includes refreshed financial data.
- 3.2 A review of comments made on the Capital Strategy item within the Budget Review Pack given to all Councillors has resulted in the following statement being written. "The Council needs to be clear on its capital spending priorities and should aim to set a proportion of capital aside for investment into capital schemes that provide a revenue return." This has been reflected in the Capital Strategy.

4. Finance Comments

- 4.1 This is a finance report and there are no further comments.

5. Legal Comments

- 5.1 There are no legal implications within this report.

6. Links to Corporate Aims

- 6.1 As part of the capital appraisal projects identify their links to corporate aims.

7. Environmental Implications

- 7.1 There are no environmental implications of the Capital Strategy; however individual capital schemes may have environmental implications which will be identified as part of their appraisal.

8. Community Safety Implications

- 8.1 There are no community safety implications of the Capital Strategy; however individual capital schemes may have community safety implications which will be identified as part of their appraisal

9. Equalities Impact

- 9.1 The Capital Strategy has no equalities issues; however each capital scheme has its own equality impact assessment.

10. Risk Management

- 10.1 There are no risk management issues.

11. Partnership Implications

- 11.1 Southwest One finance advisory help managers to monitor budgets including capital budgets and report on these each quarter. They also

collate and summarise the capital bids received annually through the budget setting process and summarise these for the Corporate Management Team.

12. Recommendations

12.1 That the Executive approves the Capital Strategy.

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**TAUNTON DEANE BOROUGH COUNCIL
CAPITAL PROGRAMME PROJECT APPRAISAL REPORT 2012/13 TO 2016/17**

Section 1 - Key Details

Service
Service Manager
Portfolio
Date

CAPITAL

Accountant

Scheme/Project Name

Section 2 - Background Information

2.1 General Fund or HRA
2.2 Is this a new item or an update to an existing item?
2.3 Please select a category / driver for this item

2.4 Description of the Project

2.5 Link to Corporate Strategy 2010-2013 Objectives

2.6 Expected Benefits

2.7 Implications of not carrying out the project

2.8 Options for carrying out the project

2.9 Project Duration

Start Date

Expected Completion Date

Comments

2.10 Risks associated with the project

2.11 Recommendations and preferred course of action

2.12 Status of an Asset purchase

If this is for the purchase of an asset, please state if this will be bought/owned or leased

2.13 Estimated Useful Life of the Asset

What is the estimated useful life of the asset? Years

TAUNTON DEANE BOROUGH COUNCIL
CAPITAL PROGRAMME PROJECT APPRAISAL REPORT 2012/13 TO 2016/17

Section 1 - Key Details

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CAPITAL

Section 3 - Financial Information

Please provide your best estimate of the expected costs for the project, any revenue implications of the project and the planned sources of funding. Amounts should be shown as the total spend and income per year over the life of the project.

3.1 Capital Expenditure

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	Later Yrs £'000	Total £'000
Expenditure:							
Preliminary Costs e.g. Surveys, Fees							0
Land and Buildings							0
Vehicles							0
Plant and Equipment							0
IT Hardware and Software							0
Grants Paid to Others							0
Other							0
Total Costs		0	0	0	0	0	0

3.2 Revenue Implications of Capital

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	Later Yrs £'000	Total £'000
Expenditure							
Additional revenue costs							0
Impact on MRP (to be completed by finance)							0
Loss of Interest (to be completed by finance)							0
Savings/Income							
Additional revenue income (e.g rental income)							0
Revenue expenditure savings							0
Total Revenue Expenditure/Savings		0	0	0	0	0	0

3.3 Funding Source

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	Later Yrs £'000	Total £'000
Planned sources of funds for this project							
Borrowing							0
Revenue Contribution to Capital							0
Government Grant							0
Contributions from Other Local Authority							0
s.106 Contributions							0
Other external contributions							0
Use of Earmarked Reserve							0
Total Funding		0	0	0	0	0	0

3.4 VAT Implications of Project (Please contact Gill Stratford on 01823 355565 to discuss)

Section 4 - Additional Information

4.1 Equalities Impact Assessment

Has an Equalities Impact Assessment been completed for this project?

If the answer to the question above is no please provide an explanation as to why one has not been completed.

4.2 Further Information

Please provide any further information that will help support a decision-making related to this item.

TAUNTON DEANE BOROUGH COUNCIL

CAPITAL PROGRAMME PROJECT APPRAISAL REPORT

Service Manager

Scheme/Project Name

Section 3 - Financial Information

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3.1 Capital Expenditure

	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000
Expenditure:				
Preliminary Costs e.g. Surveys, Fees				
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Vehicles				
Plant and Equipment				
IT Hardware and Software				
Grants Paid to Others				
Other				
Total Costs	0	0	0	0

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Use of Earmarked Reserve				
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2012/13 TO 2016/17

*implications of the project and
come per year over the life of*

2016/17	Later Yrs	Total
£'000	£'000	£'000
		0
		0
		0
		0
		0
		0
		0
		0
0	0	0

2016/17	Later Yrs	Total
£'000	£'000	£'000
		0
		0
		0
		0
		0
		0
		0
0	0	0

2016/17	Later Yrs	Total
£'000	£'000	£'000
		0
		0
		0
		0
		0
		0
		0
0	0	0

(to discuss)

led to this option.

TAUNTON DEANE BOROUGH COUNCIL

CAPITAL PROGRAMME PROJECT APPRAISAL REPORT

Service Manager

Scheme/Project Name

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		0
		0
		0
		0
		0
		0
		0
0	0	0

2016/17	Later Yrs	Total
£'000	£'000	£'000
		0
		0
		0
		0
		0
0	0	0

2016/17	Later Yrs	Total
£'000	£'000	£'000
		0
		0
		0
		0
		0
		0
0	0	0

to discuss)

ed to this option.



CAPITAL STRATEGY 2012 - 2015

1 INTRODUCTION TO THE CAPITAL STRATEGY

1.1 Purpose and Aims of the Capital Strategy

The Capital Strategy outlines the Council's approach to capital investment, ensuring that it is in line with the Council's corporate priorities. It is good practice that Capital Strategy and Corporate Asset plans are regularly reviewed and revised to meet the changing priorities and circumstances in Taunton Deane. The strategy takes into account other relevant Council strategies, policies and plans. It also takes account of the resources which are likely to be available to the Council to fund capital investment and the effect of that investment on the Council's revenue budget.

1.2 The key objective of Taunton Deane's Capital Strategy

The key objective of the Capital Strategy is to deliver a capital programme that:

- Ensures the Council's capital assets are used to support the delivery of priorities within the Corporate Plan and the Council's vision;
- Links with the Council's Asset Management Plan;
- Is affordable, financially prudent and sustainable;
- Ensures the most cost effective use is made of existing assets and new capital investment;
- Supports other service specific plans and strategies

The resources to deliver capital strategy are allocated through budget review process that sets the four year rolling capital programme as part of the annual budget setting process

1.3 Links to The Council's Statutory and Corporate Plans

The Council's Corporate Strategy explains what the Council is planning for the future. The Corporate Priorities are used as part of the evaluation criteria of the Capital Strategy. Each capital proposal is required to specify on its appraisal form clearly how the project links to the corporate plan. The key themes and visions of the Corporate Strategy are:

T - Tackling Deprivation and Sustainable Community Development -

Deprivation will be tackled so that disadvantaged communities will have better access to jobs, training and local services

R – Regeneration - The regeneration and growth of Taunton Deane will have been planned and successfully managed. Nationally we shall be recognised as a leading 'Green Knowledge Economy'. Businesses will have moved to the area to provide jobs in line with housing growth. Homes will have been provided to cater for the needs of an expanding and diverse population within communities that people are proud of.

A - Affordable Housing - Everyone will have access to a decent home at a price they can afford, in a place where they want to live and work

C - Climate Change - Carbon emissions across the Deane will have been reduced through partnership and community action. Local communities will be more resilient to the twin threats of climate change and peak oil.

The Community Plan and Service Plans serve to help develop and deliver the Corporate Strategy

1.4 Financial Context

The Strategy has been prepared against a continuing background of unprecedented reductions in funding provided to local authorities by central government and its agencies, arising from the need to restrain public expenditure owing to the ongoing economic recession and to rebalance public finances.

At the time of writing this strategy there is £60k of Housing Planning Delivery Grant which has not been allocated. For the Housing Revenue Account there are no unallocated resources as any resources unspent at the end of the year will be required to fund future years programmes. The Council expects to receive some significant capital receipts through the sale of surplus assets during 2012/13 but given the recent economic downturn the level and timing of these receipts is uncertain. Once confirmed the Executive will consider the use of these receipts for future investment

2 APPROACH TO INVESTMENT PRIORITISATION

2.1 The Capital Programme

The existing capital programme covering 2011/12 was agreed as part of the budget setting process at Council on 22 February 2011. This current Capital programme is being updated at present as part of the 2012/13 budget process and will be agreed at Council on 22 February 2012. The revised capital programme going forward will cover the years 2012/13 to 2016/17.

2.2 Identification and prioritisation of Capital Investment needs

Before the Council is asked to approve a capital project, a full evaluation will have taken place. Amongst other things the evaluation will consider: what the project is, when it will take place, how does it contribute to key commitments, how much it will cost, how it will be funded and can the council afford it.

The basis of the Capital Programme has been driven by the budget and service planning process in the past but for this year and future years is being driven by the Budget Strategy that was agreed by Council 5 October 2010. The size of the Capital Programme is determined by:

- The need to incur capital expenditure
- Capital resources available
- The revenue implications flowing from the expenditure.

For several years the Council has used an established system to enable Corporate Management Team and the Executive to prioritise bids for new capital schemes.

Managers are asked to complete a Capital Bid Form (a copy of which is shown in Appendix A). This form provides information on what the scheme is, when it will take place, costs and how it will be funded (if known), therefore enabling informed choices to be made.

2.3 Capital Projects Evaluation and Scoring Matrix

Effective capital prioritisation will help ensure that scarce resources are targeted towards key schemes, which will deliver our priorities.

The proposed Capital Programme for both the general fund and Housing Revenue Account is considered by Members (along with the Revenue budgets) in February of each year. Prior to that, capital schemes are invited, internally appraised and prioritised to assist members with their decision making.

Capital Bid Forms will be used to help capture information to allow an evaluation/project appraisal to take place.

- Managers are asked to complete Capital Bid Forms by a specified date.
- These are summarised and the summary reviewed by the Corporate Management Team (CMT).
- Following the review capital bids are submitted to members as part of the budget setting process.
- Once approved by Full Council, managers are notified that their bid has been successful or unsuccessful.

Should a large scheme be identified a separate working group will be convened including relevant officers and members to fully appraise the bid.

3 FUNDING SOURCES AND INVESTMENT DECISIONS

Capital schemes are funded in an entirely different way to that of everyday Council services

Capital schemes may be financed by any one or a combination of the following:

- Borrowing
- Use of Capital Receipts (from the sale of council assets)
- Use of Reserves
- Government Grants
- Contributions from External Parties
- S106 agreements
- Directly from the General Fund Revenue Account

3.1 Borrowing

The Council seeks to minimise the level of borrowing required to finance capital expenditure by maximising grants and contributions received and ensuring that any surplus assets are sold. The Council can decide how much they borrow to fund their capital programme. The current policy is to borrow the amount that the Council consider to be prudent and affordable.

The Prudential Regime requires each local authority to decide their own borrowing limits. These must take account of the authorities financial situation, medium term plans and in particular affordability, as funding of capital expenditure has an ongoing revenue cost which must be met from either Council Tax or housing rents.

The Local Government Act 2003 requires the Council to determine and keep under review the amount of money that it can afford to borrow for capital investment and the maximum it can afford to allocate to capital expenditure. The Council must comply with the Prudential code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which requires Prudential Indicators to be calculated and approved. The Prudential Indicators are prescribed by the Prudential Code and have to cover the affordability of the financing of the capital expenditure. Prudential indicators are calculated by using information from the Councils Statement of Accounts and future capital programme.

The Prudential Indicators must be approved in the same way that the Councils budget is approved – by full council. Prudential Indicators can be revised at any point in the year if appropriate. Prudential Indicators for the current year can be revised at the same time the Prudential Indicators are set for the following year

3.2 Capital Receipts

A capital receipt is an amount of money that is generated from the sale of an asset. The need to generate capital receipts is a fundamental part of the asset management strategy. The rationalisation of the asset portfolio has benefits such as reducing revenue costs that relate to surplus assets and also releases assets for disposal. Capital receipts are an important funding source for any capital programme.

The Council's policy is to treat all capital receipts as a corporate resource, enabling investment to be directed towards those schemes or projects with the highest corporate priority. This means that individual services are not reliant on their ability to generate capital receipts.

Current rules require 75% of right to buy receipts to be pooled, so that only 25% is usable by the Council. In addition 50% of other housing receipts have to be pooled unless the Council has released the whole of the receipts for affordable housing or regeneration schemes. Therefore rather than pay 50% to the government the Council uses the entire proceeds to either fund affordable housing developments or undertake works to its own housing stock.

The timing and value of asset sales is the most volatile element of funding. As a result, the s151 Officer closely monitors progress on asset disposal. Any in-year shortfalls need to met from increased borrowing, up to the "Authorised Borrowing Limit".

3.3 Capital Reserves

The HRA Capital Reserve is currently £79k and the General Fund Capital Reserve is currently £762k. These reserves contain funding for committed capital schemes and at the time of writing this strategy both are fully committed. Each year these reserves are reviewed to ensure that all the funds are still required. Should any surpluses be identified these are used to fund other schemes.

Holding of committed balances, where spending is restricted to capital schemes, supports cashflow and investment income.

3.4 Government Grants

Following the Comprehensive Spending Review grants from central government have reduced. However, where there are grants to fund capital schemes this information will be provided on the Capital Bid Form.

3.5 Contributions from External Parties

There may be the opportunity to gain contributions to a capital scheme from external sources. Where this is possible this information will be provided on the Capital Bid Form.

3.6 Section 106 agreements

S106 agreements are legal agreements between Local Authorities and developers that are linked to a planning permission. Negotiated S106 agreements can fund capital schemes. Again this information will be provided on the Capital Bid Form.

3.7 Directly from the General Fund Revenue Account

Although the opportunity to fund capital expenditure from the general fund revenue budget is limited there are examples of this funding source being used within TDBC e.g funds are allocated from the Housing Revenue Account to supplement the capital resources allocated to improving the Council's housing stock. Funds are also currently allocated from the General Fund for reoccurring schemes.

4 MONITORING OF THE CAPITAL PROGRAMME DELIVERY

The Council has a robust system of performance management across all projects, budgets and performance indicators.

Every month, managers of capital schemes are required to complete a budget monitoring forecast to indicate the forecast spend for the year (under and over spends), any slippage in the scheme, provide an explanation for variances and when the project will be completed if slippage is shown.

Each quarter, as part of the budget monitoring report, members are updated on both the General Fund and Housing capital schemes. This report gives details of the forecast spend each quarter, an explanation of variances and details of any management action to be taken.

All processes and procedures relating to the monitoring of the capital programme are set out in the Council's Financial Regulations. The following are key controls

- All capital expenditure must be carried out in accordance with contract procedure rules and financial regulations
- The expenditure must comply with the statutory definition of "capital purposes" as interpreted in guidance issued by the s151 Officer.

- Officers must ensure that the budget for each capital scheme is under the control of a nominated project manager.

5 LINKS TO THE MEDIUM TERM FINANCIAL PLAN (MTFP)

All capital investment must be sustainable in the long term through revenue support by the Council or its partners. All capital investment decisions consider the revenue implication both in terms of servicing the finance, income generation and running costs of the new assets. The impact of the revenue implications is a significant factor in determining approval of projects.

The Council wishes to set a proportion of capital aside for investment into capital schemes that provide a revenue return.

The use of capital resources has been fully taken into account in the production of the Council's MTFP.

FURTHER INFORMATION

For further information in relation to this strategy please contact:

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