

REPORT FOR DECISION

DECISION OF:	OVERVIEW & SCRUTINY COMMITTEE CABINET COUNCIL
DATE:	13 FEBRUARY 2019 20 FEBRUARY 2019 20 FEBRUARY 2019
SUBJECT:	CAPITAL STRATEGY 2019/20 to 2023/24
REPORT FROM:	CABINET MEMBER FOR FINANCE & HOUSING
CONTACT OFFICER:	STEPHEN KENYON, INTERIM EXECUTIVE DIRECTOR OF RESOURCES AND REGULATION
TYPE OF DECISION:	COUNCIL
FREEDOM OF INFORMATION/STATUS:	The report is for publication
SUMMARY:	<p>The CIPFA revised Prudential and Treasury Management Code require, for 2019/20, all local authorities to prepare an additional report, a Capital Strategy report, which will provide:-</p> <ul style="list-style-type: none">• A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services,• An overview of how the associated risk is managed,• The implications for future financial sustainability <p>The aim of this capital strategy is to ensure that all elected members on the full council understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.</p>
OPTIONS & RECOMMENDED	

OPTION	<p>It is recommended that Overview and scrutiny Committee notes the report;</p> <p>It is recommended that Cabinet approves, for onward submission to Council, the Capital Strategy for 2019/20 to 2021/22</p> <p>It is recommended that Council approves the report.</p> <p>Reasons for the Decision: It is a requirement of the CIPFA Code that the Council receives a Capital strategy report.</p>
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IMPLICATIONS:	
Corporate Aims/Policy Framework:	Do the proposals accord with the Policy Framework? Yes
Statement by the S151 Officer: Financial Implications and Risk Considerations:	Capital Management is an integral part of the Council's financial framework and it is essential that the correct strategy is adopted in order to ensure that best value is obtained from the Council's resources and that assets are safeguarded.
Statement by Executive Director of Resources & Regulation:	There are no additional resource implications.
Health & Safety implications:	There are no direct Health & Safety implications
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes
Wards Affected:	All
Scrutiny Interest:	Overview & Scrutiny Committee

TRACKING/PROCESS

EXECUTIVE DIRECTOR: STEVE KENYON

Chief Executive/ Senior Leadership Team	Cabinet Member/Chair	Ward Members	Partners
	Leader / Finance		
Scrutiny Committee		Committee	Council
Overview & Scrutiny 13/2/19		Cabinet 20/2/19	Council 20/2/19

1.0 INTRODUCTION

- 1.1 The CIPFA revised Prudential and Treasury Management Code require, for 2019/20, all local authorities to update or prepare a capital strategy report, which will provide the following:-
- A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services,
 - An overview of how the associated risk is managed,
 - The implications for future financial sustainability.
- 1.2 The Bury Council Capital Strategy report forms a key part of the Council's strategic and financial planning framework. The effective management of capital resources is key to the delivery of the Council's priorities and the Capital Strategy provides a mechanism by which capital expenditure and investment decisions are aligned over a medium term (five year) planning period with the Bury Corporate Priorities:
- *Drive forward through effective marketing and information, proactive engagement with the people of Bury to take ownership of their own health and wellbeing.*
 - *Continue to develop business friendly policies to attract inward investment and new jobs so that Bury retains its position as a premier destination for retail, leisure, tourism and culture.*
 - *Ensure new and affordable housing is developed to support growth in the Bury and Greater Manchester economy.*
 - *Build on the culture of efficiency and effectiveness through new, progressive and integrated partnership working models to drive forward the Council's and Greater Manchester Public Service growth and reform agenda.*
 - *Ensure staff have the right skills to embrace significant organisational change, through embedding a culture of ownership, empowerment and decision making at all levels of the organisation.*
 - *Work toward reducing reliance on government funding by developing new models of delivery that are affordable, add value and based on need.*
- 1.3 The Council's vision and priorities are based on local trends and issues, the results of public consultation, the views of Team Bury, other local organisations and partnerships, relevant national and regional targets/policies, and the Government's shared priorities for public services.
- 1.4 The future Capital Strategy of the Council will be shaped both by the Council's service planning process and by the level of funding that the Council can obtain.
- 1.5 The Capital Strategy links to, and is integral to the success of other Council's strategies and plans with the main ones listed below:
- **The Treasury Management Strategic Strategy** - This report sets out the suggested Strategy for 2019/2020 in respect of the Treasury Management function. It is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor.
 - **The Investment Property Acquisition Strategy (2014-2018)**– This established a fund to acquire properties as investments (non- treasury investments). Details of the property costs and returns will be given later in this Capital Strategy report.
 - **The Medium Term Financial Strategy (2020-2024)** – this will be drafted to support the new Corporate Plan and will set out the overall direction in which the Council's finances will move in the coming three years, identifying key

assumptions and limits within which the Capital Programme for the coming years will be prepared. 2019/20 is a transitional year during which these plans will be prepared. The implications for the Capital Strategy are that the current MTFS will make clear that revenue growth in 2019/20 to 2022/23 will be severely restricted, limiting the Council's ability to fund growth in borrowing, and that budget pressures may mean increasing the extent to which current revenue repairs and maintenance budgets may have to be capitalised. This will reduce the headroom for growth in investment in new assets through traditional routes.

- **The 4 Year Efficiency Plan:** 2016/17– 2019/20
- **The Corporate and Service Asset Management Plans** – these identify the main areas in which gaps exist between investment needs and resources in respect of the Council's main assets.
- **The Housing Review** – this identifies the investment needs, resources and gaps in respect of the Council's housing stock.
- **The Highways Asset Management Plan** - this identifies the investment needs, resources and gaps in respect of the highways and transportation infrastructure.

- **The ICT Digital Transformation Strategy** – this sets out the Council's approach to doing business with its main customers and identifies investment needs in respect of customer access points and related ICT systems. A system development programme has now been approved for future years which aims to achieve a multi-agency customer contact point
- **The Growth Strategy** – this sets out the Council's ambitions to promote economic growth within specific areas of the borough, over the medium to long term.

2.0 CAPITAL OBJECTIVES

- 2.1 The Council is committed through its Capital Programme to maintain, improve and develop the Council's assets in accordance with the Asset Management Plan that aims to assist with the achievement of the Council's ambitions and priorities.
- 2.2 It recognises the key role that the Capital Programme plays in the future delivery of sustainable assets to support the delivery of services to the Borough.
- 2.4 The specific objectives of the Capital Strategy are:
- To provide a clear framework, within the CIPFS codes and statutory legislation, by which new projects are evaluated to ensure all new funding is targeted at meeting the priorities of the Council;
 - Consider options for funding expenditure and how resources may be maximised to generate investment in the area.
 - To determine a prudent and affordable framework, whilst minimising or mitigating the on-going revenue implications of any such investment;
 - To ensure the strategy has an overall balance of risk on a range of projects over timespan, funding mechanism and rate of return.
- 2.5 Historically the Capital Programme has been fully funded, therefore requiring no additional borrowing by the Council.

3.0 NON TREASURY INVESTMENTS

- 3.1 In September 2014 approval was given to the Investment Property Acquisition Strategy (2014-2018), and the establishment of an initial fund to allow the acquisition of properties for investment purposes.

3.2 The council has since acquired 4 properties at a total cost of £8,313k

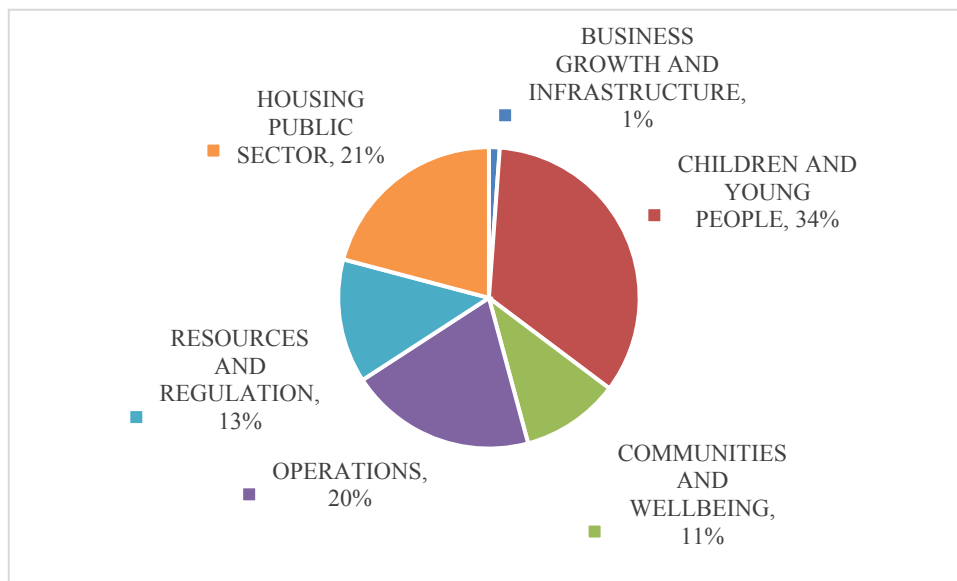
3.3 The following table shows the average rates of return received on these non-treasury investments compared to that received on traditional treasury investments.

Average Rates of Return	2015/16 Actual £'000	2016/17 Actual £'000	2017/18 Actual £'000	2018/19 Estimate £'000
Non Treasury Investments	2.29%	4.24%	5.10%	8.29%
Treasury Investments	0.71%	0.55%	0.29%	0.71%

4.0 CAPITAL INVESTMENT / SPEND PROPOSALS

4.1 The Council’s next three to five year Capital Programme is approved and updated by Council in February 2019. The Council ensures that its Capital Programme is affordable and projects over £250k are assessed on the basis of whole life costs as part of an option appraisal.

4.2 A breakdown by Directorate, of the proposed planned Capital Programme expenditure for 2019/20, is shown below:



4.3 Over the longer term there are a number of additional Growth areas linked to the Strategies listed in Paragraph 1. These areas include:-

- Business Growth – developing the economic growth of specific areas of the borough, using both direct and third party investment.
- Highways – investment in the borough’s highway and transportation infrastructure.
- Digital Transformation – continued development of the Council’s customer access points and related ICT systems

4.4 There is a clear link between long term planning for capital and for treasury management purposes. The council’s debt portfolio contains loans that mature up to 2057-58. The debt repayment profile needs to be managed alongside the longer term expectations for capital expenditure and funding forecasts.

5.0 FUNDING APPROACH TO CAPITAL INVESTMENT

- 5.1 The Capital Programme is funded from five main sources:
- Central Government and City Region grants and contributions
 - Capital receipts from the sale of assets
 - Borrowing
 - Revenue contributions and reserves
 - Lease finance

5.2 Central Government Allocations and External Grants and Contributions

- 5.2.1 Some capital projects are financed through the Allocations received directly from the Government Departments or external grants and contributions which are mostly specific to projects and cannot be used for other purposes. Examples of these would include the allocations for schools, highway maintenance or Disabled Facilities grants from Central Government. Other sources are also contributory such as National Lottery funds, Skills Funding Agency, other agencies and contributions from private sector companies and developers. Grants from European Union were also available subject to bidding on specific projects however it is envisaged that these will cease after Brexit.

New opportunities are expected through the work of the GM Combined Authority and wider GM Devolution activity.

- 5.2.2 Grants from external organisations are a valuable source of capital finance for the Council and have enabled the Council to realise a substantial number of Capital developments in the past that would otherwise have been unable to progress.
- 5.2.3 The Council will continue to explore cost effective opportunities for grants from external bodies. However support through grants cannot be accurately predicted and therefore the Council recognises that it cannot depend on this source. The Council will also ensure that exit strategies are prepared in the case of on-going projects funded through external support, in the event of the support being withdrawn.

5.3 Capital Receipts

- 5.3.1 The Council generates capital resources through the sale of surplus land and buildings. The Council has traditionally relied on a significant number of asset disposals to finance its programme; the majority of the Council's surplus land holdings have been sold in the past to finance investment. It is anticipated that there will be a number of asset disposals over the period of this Strategy although service transformation (e.g. homes for older people, secondary school rationalisation, digital inclusion), the need to invest in alternative service delivery models will result in significant re-investment of capital receipts back into these service areas.
- 5.3.2 The short to medium term asset sales are forecast to be minimal and as result, the ability of the Council to fund investment from within its own funding remains limited. The Council is forecasting reduced levels of Capital Receipts over the next few years, and as such the element of the Capital Programme funded from Capital Receipts will be at risk of being reduced over the coming years.
- 5.3.3 The Council will continue to pool both Housing and General Capital Receipts to reflect its commitment to a priority-led approach to the allocation of resources

and continue to maintain a policy of not ring-fencing the use of capital receipts to fund new investment in specific schemes or service areas. However it does recognise that exceptionally there will be instances in which it will be necessary to earmark receipts to particular schemes and if earmarking is necessary then a report will be taken to the Cabinet for consideration of the specific circumstances.

5.4 Borrowing

5.4.1 From 1 April 2004 authorities have had the discretion to borrow in line with the CIPFA Prudential Code which is known as 'Unsupported Borrowing' and outside the Government's control who will no longer support Authorities with a provision in the Revenue Budget to meet the capital financing costs that arise from this level of borrowing.

The Council can make use of the opportunity for the Prudential Borrowing where it is most cost effective and as long as its capital investment plans are affordable, sustainable and prudent. It hence makes a choice on whether revenue resources are used to fund direct service delivery or reserved to finance costs of borrowing for capital investment.

5.4.2 The Council will consider the use of unsupported borrowing in two particular circumstances:

- **Discretionary unsupported Schemes** – where individual services can meet the full borrowing, and other revenue, costs from within existing resources and where the related expenditure meets with Council ambitions/priorities and would not be able to proceed through and other funding source. Any such schemes must be specifically approved by the Cabinet or Council and be supported by a detailed Business Case.
- **Invest to Save schemes** – where pump priming assistance is required but overall, costs are met from additional revenue/capital income or savings generated by the scheme. Pump priming can be funded from unsupported borrowing or from slippage/internal resources. Again, the specific approval of the Cabinet will be needed before any such schemes proceed.

5.5 Revenue Contributions and Reserves

5.5.1 The Council can also use revenue resources to fund capital projects, although revenue budgets have come under increased pressure over recent years thus limiting in a significant measure the revenue contribution resource. There will be no revenue contributions proposed to fund projects in the Capital programme in the next 5 years.

5.5.2 The Council may finance some capital schemes from reserves such as S106 set asides.

5.6 Lease financing

5.6.1 The Council had traditionally used funding by way of leases to mainly acquire or use vehicles and grounds maintenance equipment where the revenue budget did not allow for a full capital repayment and there was a robust business case for the option of leasing to be considered.

5.6.2 The appraisal of financing expenditure through a lease needs to take into account:

- the overall value of expenditure

- the equipment residual value
- to ensure that the life span of equipment matches the funding proposed / term of lease
- the intention of equipment to be replaced as part of a rolling programme that covers the service area or the type of equipment.
- the associated risks with entering into a lease agreement, such as service discontinuation, loss of equipment where compensation is less than the rental payments.

5.6.3 By 2022 the Council will need to replace all of its vehicles and equipment held currently on operational leases and a strategy to cover replacement over the next seven years is being drawn up in the services involved.

5.7 Other possible financing methods

5.6.1 The Council will actively bid for further specific Government grants, for other external funding, for capital flexibilities and the associated resourced for capital funding. The Council is especially committed to securing additional funding jointly with partners. In looking at how capital investment needs can be addressed the Council will actively evaluate externalisation, asset transfers, trusts, joint ventures and other appropriate company structures.

6.0 PRIORITISING, MANAGING, MONITORING, REPORTING AND EVALUATING THE CAPITAL PROGRAMME

6.1 Prioritising Capital Resources

6.1.1 The Council has continued to embrace the concept of Asset Management and the need to ensure that investment within the Borough maintains and develops assets 'fit for purpose'. It will work to ensure that future investment delivers the ambitions and priorities of the Council. It has been long demonstrated that the demands for capital investment tend to exceed available resources. To alleviate this, a robust mechanism is in place to assess schemes against key criteria and assist in decision prioritisation for use of capital resources.

6.1.2 The scrutiny of capital schemes proposed will take place through the combined work of members and officers, with final decisions for budget setting being taken by the full Council in February each year.

6.2 Prioritising Investment - Project Justification

6.2.1 The Council has in place a comprehensive capital bidding mechanism through which information on the strategic fit, partnership working, revenue consequences, funding profile, statutory drivers and critical success factors are collected for all schemes. In recent years the programme was based on fully funded schemes and a reduced call on Council's own resources through prioritisation methods that are under continuous development.

6.2.2 The capital bidding mechanism ensures that new capital projects are appraised on a consistent basis and are aligned with the priorities set out in the Bury Plan. New capital schemes from the 1st April 2019 will be assessed by completion of a Joint Financial Report (JFR) which will be submitted by departments in accordance with their asset management needs throughout the year, to the Capital Programme

Management Group. The mechanism will ensure across service scrutiny and revenue consequences of all schemes considered as part of assessment process and that each scheme will be affordable and sustainable.

6.2.3 Preparation of the Capital Programme is undertaken in two stages. Firstly, scheme bids are placed into the following categories:

- 100% funded schemes
- Discretionary schemes (Invest to Save)

6.2.4 In line with the priority-led approach previously approved by Executive it is assumed that Members will wish to support the inclusion of schemes that fall into the first category, although this assumption is tested regularly and Members are free to exercise discretion over the inclusion of any scheme (or scheme funding).

6.2.5 The second stage involves assessing the extent of any resources that are available to fund new, discretionary schemes and then using a simple quantifiable scoring model that assesses the extent to which schemes reflect national and local priorities, generate revenue savings/costs and lever in additional external resources.

6.2.6 The Council's priorities form the framework for the prioritisation of capital investment for the Capital Programme. By using this prioritisation process on an annual basis to decide the Capital programme for the following year, it allows the review of the whole 3 year rolling capital programme. This review of schemes allows the addition, withdrawal or deferral of capital investment resulting ensuring available capital resources are focused on corporate priorities.

6.2.7 Reviewing the Capital Programme is an on-going process and in the past several years available resources have been reducing constantly due to new identified funding requirements and a slowdown in available suitable for disposal surplus assets. The market value of available for sale assets has also continued a downward trend with most cash strapped Councils offering additional sales of assets that inevitably increases offer against a constant or low demand.

6.2.8 It is imperative that funding which is available should be focussed on a small number of priority areas. Continuous assessment of Council priorities is necessary when bids for new schemes are put forward.

6.2.9 These priority areas will be reconsidered annually as part of the Council's strategic planning process and may change as Council priorities are realigned.

6.2.10 The Asset Management process provides a comprehensive and rigorous assessment of the Council's assets, their potential use and performance which assists in enhancing and strengthening the process of prioritising investments within the Council.

6.2.11 The Council is currently projecting investment gaps in the next two years and beyond. The combined processes of prioritisation, different procurement and delivery options, remain central to delivering this Capital Strategy.

6.2.12 By linking of the outputs included within the JFRs and the matching of investment to the key priorities shown above, it is intended that Members, partners and stakeholders will be able to monitor the successful outcomes arising from capital investment and take appropriate action in future.

6.3 Monitoring and Reporting on the Capital Programme

- 6.3.1 The Capital Programme is monitored regularly throughout the year by the corporate Capital Programme Management Group, and a summary financial monitoring report is submitted quarterly to the Strategic Leadership Team, the Cabinet and the Resource and Performance Scrutiny Panel to give Members the opportunity to contribute to the effective management of the Programme. This report presents detail of spend, potential re-profiling of the programme and any significant changes in funding assumptions, especially the level of asset disposals which are always critical for the delivery of the Capital Programme.
- 6.3.2 A risk based approach is taken to the monitoring of capital income and expenditure, using a traffic light approach, as part of the wider 'double traffic' light approach that is taken to the joint monitoring of financial and performance information. Attention is focused on areas of highest risk.

7.4 Whole Life Costing

- 7.4.1 The revenue implications of all capital projects are included in the JFR, are appraised as part of the project justification process and built into the revenue budget for those scheme included within the Capital Programme.
- 7.4.2 This approach will ensure the revenue consequences can be built into the budget setting process for the Council on a longer period and avoid shortfalls for the estimated useful life of the asset.
- 7.4.3 For schemes with a capital cost in excess of £250,000 Whole Life Costing is undertaken as part of the project's option appraisal.
- 7.4.4 The whole-life costs of a scheme are defined as the costs of acquiring it (including consultancy, design, construction costs and equipment), the costs of operating it and the costs of maintaining it over its whole life through to its disposal. This is defined as the total ownership cost. This cost should include internal resources and overheads, where relevant; they also include risk allowances as required; flexibility (e.g. predicted alterations for known changes in the authority's requirements), refurbishment costs and the costs relating to sustainability and health and safety aspects.
- 7.4.5 This ensures that all costs are fully recognised and can be built into the Council's Medium and Long term Financial Plan.
- 7.4.6 Using risk management and project management strategies the Council ensures that major construction contracts are commissioned, managed and outcomes measured to obtain best value for the Council.

8.0 PERFORMANCE MEASUREMENT AND EVALUATION

- 8.1 The Council has for many years adopted a long-term approach to capital investment, with capital schemes and priorities often being implemented over a number of years.
- 8.2 The Council will continue to develop a monitoring and evaluation process, which will focus on the results/impact of any investment made (this will be linked to the developing Asset Management process and culture within the Council) and be linked to the Project Initiation Documents (detailed earlier in the report).

- 8.3 Project evaluation in the form of Gateway reviews will also be undertaken for large Capital Schemes. Gateway Reviews are where ongoing projects are reviewed not only at the start and the end but throughout the projects life to ensure that they remain on target.
- 8.4 All capital schemes will be managed using the Bury project management methodology and programme management will be undertaken through the Capital Programme Management Group.
- 8.5 Performance measurement of schemes is monitored annually through the property Performance Indicators (PPI's). They show if projects have been completed within budget and in a timely manner. There is scope to benchmark performance of capital schemes with other Councils and organisations through the PPIs. Further details are set down in the Asset Management Plan
- 8.6 The Council will also monitor performance internally via the PPI's to ensure that best practice is shared across the Council. This will be reported to Cabinet in the Capital Outturn report.
- 8.7 In line with the project Management Methodology, post-completion reviews on Capital Programme projects are undertaken to assess whether the intended objectives were achieved and whether potential improvements can be identified for the future

9.0 RISK MANAGEMENT

- 9.1 There are three main risks recognised as inherent in the Capital Strategy recommended above:
- **Capital receipts are not realised to the level anticipated above.** This is a major risk and is one that has impacted on past programmes. Capital receipts are graded by degree of risk and those included in the Capital Programme for 2019 to 2023 are considered to be low risk. To maintain this low risk it is strongly recommended that schemes reliant on capital receipts do not begin until there is a high degree of certainty that the relevant receipt will materialise.
 - **Future rise in Interest Rates.** Planning for Prudential Borrowing can be affected by rises in interest rates making the borrowing option less attractive as a funding option and putting at risk longer term large capital schemes.
 - **Schemes need re-profiling from one year to the next.** This is considered a normal feature of capital schemes and can occur for a large number of reasons. The risk can be mitigated by slipping corresponding resources between years and is not felt to be high.
 - **Scheme costs increase.** Whilst not unusual, increased costs that can occur due to a number of factors cannot be mitigated without an impact on other schemes within the Programme or an impact on future years' resources. The risk can be reduced by the use of sound costing techniques, effective project management and monitoring schemes using a risk assessment approach.
- 9.2 The Capital Programme Monitoring Group meets regularly to monitor the Programme and monitoring reports are considered by SLT, Cabinet and Scrutiny Panels on a quarterly basis. Should intervention action be required this will be undertaken immediately and may include a moratorium on other scheme starts,

facilitation of further capital receipts or the use of additional borrowing (subject to revenue resources being available).

- 9.3 Risk based parameters are incorporated into the monitoring process so that schemes of highest risk (in terms of spending against budget and/or spending profile) receive highest attention.

10.0 KNOWLEDGE, SKILLS AND DECISION MAKING

- 10.1 Council staff in charge of setting and evaluating the projects included in the capital programme and those in services that benefit from capital investment hold professional qualifications across a range of disciplines: property, finance, legal, who need to demonstrate continuous professional development (CPD) and regularly attend relevant training to maintain their knowledge or learn of new developments and specific skills.
- The projects are established by teams from a range of professionals across the council as required.
 - If appropriate, professional advice is also sought externally
 - The Council will ensure that external specialist advice and guidance will be available in relation to major capital projects or acquisition for commercial property for investment purposes
- 10.2 The Council continues to support its staff with internal and external training and offer similar support to members. This is to ensure that members have up to date knowledge and the required expertise to enable them to understand and challenge capital and treasury proposals and allow for informed decisions to be made.

11.0 SUMMARY

- 11.1 The Council will continue to prioritise its capital spend in accordance with the Corporate Objectives and its Asset Management Plan.

In order to achieve these priorities and continue with the required level of capital investment it is recognised that commitment to partnership working will play a significant part to the Council's Capital programme. The Council has already welcomed close partners in the quest of delivering a whole rounded service to the borough such as the Bury CCG and will continue to align its services to those organisations working toward similar aspirations.

New opportunities for accessing capital finance and future funding for investment need will continue to be explored and expanded with the resultant investment driven to achieve the necessary support for the delivery of local services.

12.0 EQUALITY & DIVERSITY

- 12.1 An initial assessment has been undertaken and it is concluded that there will be no negative impact from this report.

Councillor Eamonn O'Brien
Cabinet Member for Finance and Housing

For further information on the contents of this report, please contact:

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