

Capital Investment 2011/12 to 2013/14



EPSOM AND EWELL BOROUGH COUNCIL

CAPITAL STRATEGY STATEMENT  
February 2011

## **Capital Investment 2011/12 to 2013/14**

### **1. Introduction**

The Council's Capital Strategy provides a broad framework for asset planning and for decisions on capital investment – expenditure on larger projects or schemes which generally leads to improved corporate or community assets.

The Council undertook a capital expenditure review in 2007 to inform service and budget planning for 2008 to 2012. This assisted the preparation of the Medium Term Financial Strategy and Four Year Financial Plan for 2008-2012. The review included a forecast of the level of resources available to fund capital investment between 2008 and 2012.

The Financial Policy Panel provides guidance on the level of investment that is consistent with the Council's medium term financial strategy. The programme will be reviewed annually so that a rolling four year investment programme is maintained and investment options reassessed with specific reference to the Key Priorities in the Corporate Plan, the Community Strategy and the Asset Management Plan.

The development of the Capital Strategy and the Asset Management Plan assists the Council in major investment decisions. The Asset Management Plan was updated in 2010/11 to reflect progress made on property and energy management.

Due to the current economic environment the capital programme 2011-2014 has been limited to priority 1 and externally funded schemes. The position will be reassessed in the 2011 service expenditure review but public sector funding constraints are expected to limit investment in the medium term.

### **2. Development of the Capital Strategy**

Member and officer capital groups have been established to oversee the capital programme and monitor capital schemes. The Capital Member Group is made up of Members nominated by the Financial Policy Panel, supported by the Head of Financial Services and attended by Directors as appropriate. The Officer Capital Management Group (OCMG) is chaired by the Head of Financial Services and comprises representatives of the main service, operational, procurement and policy areas.

Revenue and capital financial planning timetables are submitted to Financial Policy Panel annually. The Capital Strategy is presented to the Council for approval each year.

### **3. Capital Programme Review**

The Council carried out a full review of capital investment requirements and financing in 2007 to ascertain the extent of capital investment required for the four year period 2008-2012 and how these would meet the Council's statutory requirements or Key Priorities over that period.

The review considered the following areas:-

- availability of capital reserves and other sources of funding for capital schemes
- forecast of new expected capital receipts and the need to generate additional receipts
- capital investment options and the criteria to prioritise this investment
- the impact of changes in legislation/government policy
- the impact of revenue costs and whole life costing

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**4. Capital Programme 2010-13**

Options for additional capital investment for the last year of the four year programme 2008-12 were developed from the Corporate Plan Priorities, the Asset Management Plan, Best Value Reviews of Venues and performance management reports. Provisional investment was on the same basis for 2012/3.

Based on the currently available capital resources and subject to funding from external grants including developer contributions and securing revenue savings, Council approved the following updated programme for 2011-14 in February 2011.

	2011/12 £'000	2012/13 £'000	2013/14 £'000	Total £'000
Energy Saving Lighting - Various Sites*	75	75	75	225
Fit Voltage Optimisers - Various Sites*	30	0	0	30
Information Technology & Electronic Service Delivery	205	210	210	625
Container and bin replacement	60	60	60	180
Replacement of Pay on Foot System at Ashley Centre Car Park *	150	0	0	150
Conversion of Hook Road Car Park to Pay on Foot *	75	0	0	75
Housing and Disabled Facility Grants **	350	340	335	1,025
Contribution to Affordable Housing Scheme **	1,130	0	0	1,130
Contaminated Land Strategy **	50	50	50	150
Harrier Track Refurbishment	85	0	0	85
Recover Gibraltar Rec Pavilion Roof	80	0	0	80
New Film Projectors at Epsom Playhouse **	80	0	0	80
Ewell Court Lake Environmental Improvements	20	0	0	20
Hogsmill Local Nature Reserve - Green Lanes Bridge **	30	0	0	30
<b>Total</b>	<b>2,420</b>	<b>735</b>	<b>730</b>	<b>3,885</b>

\*subject to approval of Spend-to-Save business case

\*\*subject to external funding

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Schemes may be added where:-

- there is a carry forward from 2010/11 with specific funding already allocated
- recommended for business case (self-financing) review during 2011/12, or
- they can be funded by additional external funding sources e.g. Section 106 agreements or specific grants

Funding for the approved programme is set out below.

	2011/12 £'000	2012/13 £'000	2013/14 £'000	Total £'000
Capital Reserves and Receipts	584	370	365	1,319
Government Grants	376	290	290	956
Section 106 Contributions	1,130	0	0	1,130
Capital Reserves for Spend to Save Schemes	330	75	75	480
<b>Total</b>	<b>2,420</b>	<b>735</b>	<b>730</b>	<b>3,885</b>

**5. Use of Capital Reserves**

The Council's financial position is reviewed annually following the closure of accounts and prior to service and financial planning for the following year. This includes a review of the projected capital receipts position and other sources of funding for capital schemes.

The Council's Financial Strategy 2008-12 set out a minimum balance for capital reserves of £7 million, to be used as a contingency for unplanned capital commitments over the four year period and to generate investment income to support the Council's revenue budget. This minimum balance is subject to annual review and may be varied:-

- where capital reserves are the only source of funding for essential schemes prioritised in the capital programme
- where there is a variation to the treasury management investment required to help finance the revenue account

Due to the current economic recession the Council has experienced a low level of receipts from the disposal of property assets since 2009. The Capital Member Group has limited investment from reserves to high priority and spend-to-save schemes. The forecast of reserves at 31 March 2012 is £4.2 million assuming full delivery of the 2011/12 capital programme and new capital receipts in year of £250,000.

**6. Capital Resources**

Potential capital resources have been identified from:-

- capital reserves at the end of March 2011
- approved sales of property assets, subject to market recovery
- external funding, including grants and commuted sums

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The Council needs to achieve additional receipts from sale of assets or other external funding if all capital investments identified for future years are to proceed. The Council will review its property through the Asset Management Plan.

The Council seeks to maximise partnership funding in the delivery of its key priorities and will commit capital reserves to: -

- finance prioritised capital investment where funding is not available from other sources
- attract partnership funding and/or to achieve partnership objectives
- finance investment that is 'self-funding', for example investment that improves performance and reduces running costs or investment in the maintenance of service assets

The Council will seek to maximise effective investment from all potential funding sources. External sources of financing include monies received in negotiations on the Hospital Cluster site, Section 106 agreements, government grants for Disabled Facilities and Contaminated Land surveys, partnership funding from other Local Authorities or Public and Voluntary organisations.

#### **7. Criteria for Assessing Capital Programme Priorities**

The following criteria have been used for appraising future capital investment options and reviewing the on-going capital programme. As a minimum all investment proposals must meet one of the following baseline criteria: -

- investment where there is a guarantee of the scheme being fully externally funded and is classed as a high priority
- investment required to meet Health and Safety or other new legislative requirements
- investment required to continue to deliver the services of the Council (eg minimum level of building maintenance)
- investment in 'Spend to Save' schemes that will generate cost savings or additional income generation, providing;
  - there is payback of the capital invested within 5 years;
  - there is a low risk of not achieving return on investment
  - there is a clear definition of the cost/benefits of the scheme

Prior to schemes being assessed for approval, a detailed project appraisal must be completed and recommended by the appropriate policy committee. A standard capital appraisal form has been developed which requires details of the scheme (cost estimates, revenue impact, project management resources and expected timescales). It also requires an explanation of how the scheme fits within the baseline criteria. In recommending investment proposals policy committees must ensure they can fund any additional operational costs from within their revenue budget targets.

Where schemes are prioritised for inclusion in the capital programme prior to a detailed evaluation of revenue costs, commitments will not be made until estimates of operational costs have been evaluated and financing in the revenue budget identified. The Council will continue to develop a whole life costing approach to project appraisal.

Capital schemes funded wholly or in part from external sources e.g. Government Grants, Section 106 monies or other contributions are also subject to the same requirements in respect of meeting the baseline criteria and the completion of project appraisals recommended by service Committee.

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Schemes added to the capital programme may be subject to a detailed business case being submitted to the relevant service committee. These schemes can only progress once approval is granted for the project by the service committee.

#### **8. Timetable for Approval of Capital Programme**

The timetable and process for approval of capital programme following annual review is as follows:-

- update on level of resources / reserves at end of previous year reported to Financial Policy Panel and Strategy and Resources Committee in June and July
- Members elected onto the Capital Member Group
- a forecast of resources available reported to Financial Policy Panel and Strategy and Resources Committee in September
- budget targets agreed by the Council in September
- Officers in consultation with Directors submit new or updated draft summary capital bids to the Capital Member Group to review in September
- Capital Member Group meet in September to agree approach and identify which of the summary bids should be progressed into full bids for review in November
- Officers in consultation with Directors submit full capital bids to the officer capital management group to validate in October
- Capital member group review all bids in November and prepare recommendations of funding position to Financial Policy Panel in early December
- prioritisation of all investment proposals within the available resources advised by Financial Policy Panel in December
- detailed scheme proposals and project appraisals, including identification of how any revenue funding requirements could be met for each scheme, to be recommended by service committees in January
- capital programme to be recommended by policy committees in January
- capital programme for the following year and the remaining years of the four year capital programme agreed by Council in February

Any approved capital scheme which has not been committed by the mid year point of the year in which funding is agreed is subject to review by the Capital Member Group / Financial Policy Panel.

Any approved capital scheme where additional capital or revenue costs are identified prior to commencement of the scheme should be referred back to the relevant policy committee and, if additional funding is required, to Strategy and Resources Committee as soon as possible during the year.

Investment proposals funded wholly from external sources may be submitted for approval at any time during the year. The investment requirements and funding available from section 106 and Hospital Cluster monies are reviewed annually in December by Financial Policy Panel.

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### **9. Approach to PFI and Procurement**

The majority of capital schemes fall below a level of investment normally relevant to PFI. PFI options will be actively considered on any major investment decisions of significant financial value e.g. projects with a cost over £5 million.

The Council has developed its Procurement Strategy and strengthened procurement arrangements. As part of this strategy a number of principles and guidelines have been developed to assist all managers including capital scheme budget holders in the purchase of goods and services. The main areas covered include review of procurement options, risk/benefit analysis, risk management, potential for partnership, cost and quality options and assessing the need for specialist skills.

### **10. Managing and Monitoring the Capital Programme**

Detailed monitoring and performance review of the capital programme is the responsibility of the Officer Capital Management Group, overseen by the Capital Member Group. The officer group sets performance and delivery targets for the year, reviews monitoring information and recommends action where appropriate for reporting to Directors, Members, the Financial Policy Panel and policy committees.

Financial monitoring reports are submitted to Members on a quarterly basis. This includes expenditure monitoring, uncommitted balances held on s106 funds and progress on capital receipts against income targets. Budget monitoring reports show the projected outturn and profiled spend for each scheme, highlighting significant variations and slippage and identifying recommended action. Summary reports are sent to all Members at the end of each quarter and recommended changes to the programme are submitted to committees during the year. Financial Policy Panel will consider major variances from revenue or capital programmes.

Detailed information on the delivery of individual schemes, including assessment of financial and delivery risks and profile of works and expenditure during the year, is agreed with budget holders. This will form the basis against which schemes are monitored during the year. For those schemes considered as most significant, a detailed timetable and milestones will be agreed by the relevant committee at the beginning of the financial year.

For major schemes the Council will employ external consultants to assist in project management.

The Council conducts post implementation reviews on certain capital projects, specifically where the scheme has a high cost or value or there has been a significant variation in cost or time to implement.