

CAPITAL INVESTMENT STRATEGY 2005-2006 TO 2007-2008

1. BACKGROUND

- 1.1 The Capital Strategy is an overarching corporate strategy which guides the development of all service related capital strategies, together with “corporate” schemes which are developed pursuant to the agreed corporate capital priorities. This strategy sets out the policies and practices which the authority uses to establish, monitor and manage the Council’s entire future capital programme for the period 2005/06 to 2007/08 and sets out the ambitions of the authority.
- 1.2 The Council has had a capital investment strategy since 1998. Since the strategy was introduced the Council has operated a 3-year programme, which has been based on the principles and priorities within the agreed strategy, and this will be continued in the capital programme covering 2005/06 to 2007/08. The current three year capital programme expires at the end of March 2005.
- 1.3 The strategy links closely with, and should be read alongside, the Council’s Asset Management Plan (AMP). Both documents are aligned to the Community Plan, the (Best Value) Performance Plan, the Corporate Plan and major Council Policies and Plans.
- 1.4 This strategy encompasses the requirements and opportunities afforded by the Prudential Framework which came into effect from April 2004.

2. CAPITAL PRIORITIES

- 2.1 The Council’s aim is to make Leicester more attractive for our diverse communities to live, work and invest in. The capital investment strategy directly helps to achieve this aim.
- 2.2 Strategic Objectives of the Council are to:

Raise educational standards and skills irreversibly so that all schools are good schools and individuals are committed to learning throughout life.

Improve our environment to make local neighbourhoods and the city centre places for people to be proud of.

2.3 Key Priorities

To achieve our strategic objectives we will:

- Improve quality and equality in teaching and learning;
- Make our city's developments sustainable so that we do not close down choices for our children and grandchildren;
- Build on Leicester's history of including people from all backgrounds in a cohesive community free to pursue peace and prosperity;
- Support children and parents, especially protecting the most vulnerable children;
- Help people with disabilities and the growing number of older people to experience more independence;
- Develop a safe, clean and creative city with wider access to culture and recreation;
- Regenerate the city's housing, open spaces, public transport and access to work and services;
- Promote prosperity and new jobs, while safeguarding people's health and development interests;
- Invest in continuous improvements in a well-managed organisation.

2.4 The 9 priorities are supported by 42 specific goals, which will help deliver those overarching priorities. Of these goals, 17 are a direct driver of capital investment:

Education

- Raise standards for all
- Transform and modernise provision
- Widen participation
- Improve outcomes

Sustainability

- Improve quality of environment
- Cultural activity and opportunity

Supporting children and parents

- Use of additional resources
- Support users of services

Helping people with disabilities and older people

- Effective use of additional resources
- Develop services

Safe, clean and creative city

- Increase recycling of waste
- Protect and better utilise existing resources

Regeneration

- Regenerate the city
- Meet need of affordable housing
- Improve Leicester's housing stock
- Develop a transport system

Continuous improvement

- Optimise the use of resources

- 2.5 The Council's overarching priorities for investment of "corporate" resources (those which the Council can spend at its own discretion) are:-
- a) spending which meets the second of the two strategic objectives – improving our environment. Particular emphasis will be placed on schemes which enhance the quality of the local environment and which have a visible, lasting effect.
 - b) spending which enables us to make continuous improvements in a well managed organisation, particularly making appropriate investment in our stock of buildings and assets; and in modernising service delivery through technologies.
- 2.6 Education is allocated significant resources for schools' capital directly by the DfES. It is not envisaged that corporate resources will be made available to supplement schools programmes, with the possible exception of resources required to manage the Building Schools for the Future (BSF) project.
- 2.7 The Council will not use corporate capital resources to fund major new projects – they will be used to finance small to medium scale investment which achieves the maximum return for the initial outlay. More substantial investment will need to be justified through the Council's approach to the prudential framework (see below).
- 2.8 Service Priorities
- 2.8.1 Within the context of the 17 goals which drive capital investment, the authority has determined the following priorities for each service area for capital funding (subject to affordability) and these priorities are reviewed annually. A significant proportion of these priorities reflects the Council's commitment to maintaining its key assets identified through the Asset Management Programme (AMP). It is recognised that some themes are common to more than one department: these are reflected in the Council's overarching objectives.

Culture and Regeneration

- Property Maintenance and improvement, Highways
- Maintenance, delivery of the Local Transport Plan.

Education and Lifelong Learning

School improvement and amalgamation, Central Library.

Housing

Provide decent homes in private and public sector; adaptations to homes of disabled people, New Affordable Housing.

Social Care and Health

Maintain and improve existing premises, development of ICT systems, investment of infrastructure to support new ways of working.

Resources, Access and Diversity

Development of ICT systems; Rationalise, maintain and improve property, New ways of working.

2.8.2 In addition to the above, the capital programme 2005/06 to 2007/08 will include a pre-commitment of £1million to ensure the completion of the Performing Arts Centre.

2.9 A Capital Stock-take exercise was carried out during autumn 2003 to establish a “baseline” of capital spending need. The stock-take considered the position over a number of timeframes, up to a maximum of 10 years. Now that a baseline has been established, the Council should keep this under review and this will be achieved by the stock-take being undertaken every 2 years.

3. CORPORATE POLICIES

3.1 Service and Corporate Programmes

The Council has determined two types of capital resources:

“Corporate” resources, being those resources that the Council can spend entirely at its own discretion, and

“Service” resources, being those resources ring-fenced to a particular service or scheme by legislation or local policy.

3.2 Capital Receipts

3.2.1 Resources generated from Capital Receipts (sums received in respect of the disposal of any capital asset) help to fund the capital programme.

- 3.2.2 Surplus or redundant assets are identified through the Asset Management Planning process by joint working with departments in reviewing their occupation and future needs. Income generated from these receipts funds approximately 50% of the present corporate capital programme.
- 3.2.3 The AMP itself will only list those known at a given time, and is therefore a snapshot, though in effect work continues proactively throughout the year to release surplus properties. It is those processes that are identified in the plan with known results.
- 3.2.4 There are schemes where the provision of a new asset is dependent upon the sale of an existing asset. In these cases the capital receipt for this will generally contribute directly to the scheme.
- 3.2.5 An incentive scheme to generate capital receipts does not exist, although the Council may consider introducing such a scheme if needs be: the proportion of any receipt retained by services as an incentive will not be significant. Housing services, however, will be able to retain a pre determined level of housing capital receipts which will provide the housing service with a stable level of receipts. The corporate programme will benefit from resources in excess of this level.

3.3 Single Capital Pot

- 3.3.1 The single capital pot (SCP) continues to identify funding support for local authorities' capital programmes. Under the SCP, individual government departments set allocations based on plans submitted by councils for Housing, Transport and Education. Notwithstanding these allocations, authorities are theoretically free to spend them on whatever capital purposes they determine. The Government will provide revenue support for these capital allocations under the new prudential code. Authorities may supplement these allocations with additional borrowing funded from their own resources so long as they are affordable.
- 3.3.2 The authority's presumption is to ring-fence the allocations in the SCP to the services to which they are notionally allocated (Housing, Transport – including highways maintenance, and Education), subject to an appropriate case being made. This is for two reasons: -
 - a) There is a substantial service requirement for investment, specifically
 - The need to ensure that educational achievement is supported by buildings and infrastructure which are fit for purpose.
 - The need to address the decent homes standard and to create new affordable housing.
 - The need to improve the city's road conditions, a performance indicator (PI) on which the authority is struggling; and to achieve the Local Transport Plan.

b) This appears to be the expectation of the government department which issue the allocations. In the case of DfES, the Secretary of State has reserve powers to enforce this. The DoT and Regional Housing Board are each able to back up their expectations with reference to future years' allocations.

3.3.3 The presumption of ring fencing can be overridden however, and will only be given effect if supported by robust asset management plans for each of the 3 services.

3.3.4 Resources available to Housing, Education and Transport will not be supplemented from corporate resources, except where there is a spending need that is outside the scope of the allocation. (Education allocations, for instance, tend to exclude adult learning)

3.4 Prudential Framework and Borrowing

3.4.1 Background

The Local Government Act 2003 sets the framework for the new local government capital finance system. The new system allows authorities to borrow whatever sums they see fit to support their capital programmes subject to their being able to afford the revenue costs. As such, local authorities are required to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. The Prudential Code itself introduces a range of indicators and limits for up to three years ahead that authorities must set before the start of a financial year. The Council will comply with the code.

As well as the controls, the framework offers opportunities for the Council to consider the innovative use of the new system to address a number of capital spending needs.

Subject to being satisfied that a robust business case exists, the Council will be able to borrow additional money to make the investment and repay principal and interest costs through savings accruing to the project.

3.4.2 Council's Application of Framework

The Council will use the prudential framework to finance capital investment in the following circumstances: -

a) "Spend to Save" schemes, where principal and interest costs of unsupported borrowing can be met from savings achievable from up front investment. A specific local protocol has been adopted (see Appendix A);

b) "Once in a generation" investment opportunities, and a small handful of significant development projects which meet corporate priorities. It is anticipated that unsupported borrowing in this context will only be used to support substantial projects which can attract significant leverage. Such opportunities will be assessed when the capital programme is developed triennially (and it may well be that none exist, or are affordable);

c) As a last resort, as a cost avoidance measure.

3.5 Capital Prioritisation

3.5.1 The Council will set its corporate capital programme for 2005/06 to 2007/08 during the Autumn 2004. The programme will be established through the use of the Council's prioritisation system.

3.5.2 A 2-stage process is used to formulate the programme

Stage 1

Stage 1 considers whether schemes can demonstrate quantifiable benefits that further the agreed corporate capital priorities. The main purpose of stage 1 is to reduce the number of schemes bid for to a manageable number, which can then be considered in more detail at stage 2.

Stage 2

Stage 2 includes a financial and qualitative assessment of each potential scheme.

Financial Assessment

There are two main financial assessments: Net Present Value (NPV) assessment and Affordability assessment (within the context of the Council's Revenue Strategy). Issues such as financial risk and leverage of external resources are also considered as part of this assessment.

Qualitative Assessment

This part of the assessment considers other issues, such as the effectiveness of the scheme, where it is not possible to ascribe a financial value. The following issues are considered: -

Statutorily Required Expenditure and proven service need: is there a legislative requirement or a strong service argument for the expenditure?

Fit with corporate capital priorities: further consideration is given to how well each scheme meets priorities, and whether there are any priorities that it conflicts with. Considerable weighting will be given to spending

which furthers the Council's overarching priorities. Weighting will also be given to spending which meets the service priorities.

Improvement: does the expenditure deliver improvements in services where the Council is known to be in lower quartile performance?

Meeting government expectations: does the scheme meet specific government policy aims?

Community Impact: is there other corroboratory evidence that the scheme will deliver significant benefits to communities?

Public consultation: findings from public consultation are considered and given weighting.

EMAS: how well does the scheme deliver to EMAS considerations?

3.5.3 Property improvement and maintenance bids will be subject to separate pre-analysis to ensure they are consistent with the corporate asset management plan, and will not be considered against other bids until this has been completed.

3.5.4 As part of this analysis consideration will be given to whether schemes could fit within the "Spend to Save" guidelines under the Prudential Framework. Such schemes will not necessarily be competing against other schemes. Proposed use of the prudential framework which does not pay for itself will be considered with reference to the above criteria, but will be expected to score exceptionally highly. Affordability of such schemes will be assessed in the context of the 3 year corporate revenue strategy.

3.6 External Funding

3.6.1 Services can bid for external resources provided they are able to contain the revenue implications within their approved Departmental Revenue Strategy (DRS) and they can provide any necessary match funding required. Where match funding cannot be identified the Council will assess the match-funding requirement with the prioritisation framework, as would be done for any other scheme. It is anticipated that such schemes would have a "head start" in that more can be achieved for less council money.

3.6.2 The prioritisation process considers opportunities for more cost-effective delivery through Private Finance Initiatives (PFI) and Public Public Partnerships (PPP). The Council has recently procured an integrated waste project through PFI involving the collection, treatment and disposal of municipal waste. The Council will continue to identify such opportunities in the future based on a rational assessment of procurement options.

3.6.3 In order to encourage creative means of increasing resources, the Council has recruited RSM Robson Rhodes as external funding advisors, whose main aim is to identify funding sources and scrutinise bids to the programme with a view to profiling schemes in order to maximise external funding opportunities.

3.7 Partnerships

3.7.1 Partnership working will be even more critical in order to link in to future funding regimes.

3.7.2 The Council has an impressive record of successfully working in partnership with many organisations in the public, private, voluntary and community sectors.

3.7.3 The formation of the Local Strategic Partnership, Leicester Partnership, is one example which has enabled the Council to develop schemes funded by the Neighbourhood Renewal Fund, and Public Service Agreements (PSA), funded by the ODPM.

3.7.4 The Council will build from this platform to develop schemes for the second wave of PSAs and the second tranche of Neighbourhood Renewal schemes and explore further partnership opportunities.

3.8 Management of Risk

3.8.1 There are a number of risks that will have to be managed:

- a) New resources actually deliver the corporate objectives. (This will be addressed by operational plans and quarterly monitoring reports. Key schemes have agreed outputs, which are identified at the initial approval stage, and which are subsequently reported);
- b) On-going spending and income are controlled to budgets. (This will be achieved if operated to the Council's Financial Procedure Rules);
- c) The required level of capital receipts is achieved. (These will be actively pursued and monitored regularly);

3.8.2 All major projects are managed using PRINCE2 methodology. (Key schemes have agreed outcomes, which are monitored and reported).

3.8.3 The Council will maintain a level of contingent corporate capital resources dependent upon the level of overall risk inherent in the programme.

3.9 Monitoring

3.9.1 The Council has effective capital and revenue monitoring procedures that are set out in the Council's Financial Procedure Rules.

- 3.9.2 Corporate Directors are designated as being responsible for the effective management of capital schemes. They are also responsible for delivering schemes to budget, time-scale and overall requirements and report such progress to committee routinely. Scrutiny Committees and the Cabinet receive regular financial monitoring reports throughout the year, culminating in an out-turn report at the end of the financial year.
- 3.9.3 The Chief Finance Officer co-ordinates and monitors the overall progress of the capital programme, including its financing. This is again done through regular committee reports as defined in the Finance Procedure Rules.
- 3.9.4 The formal reporting structure is also supplemented by further reporting of scheme progress, where appropriate, to specific stakeholders. All schemes have agreed milestones to aid monitoring and progress.
- 3.9.5 As well as monitoring specific capital schemes the Council, through the process of asset management planning, carries out benchmarking activities in relation to capital projects and property use. Benchmarking of capital programme spending performance is also carried out.

4. RESOURCE PROJECTIONS

- 4.1 Corporate Capital Resources for the period covered by the strategy is estimated as follows:

	2005/06	2006/07	2007/08
	£m	£m	£m
Single Capital Pot	0.2	0.2	0.2
Public Service Agreements	1.1	1.1	
Capital Receipts	<u>4.0</u>	<u>4.0</u>	<u>4.0</u>
Less pre-commitment to Cultural Quarter	<u>(1.0)</u>		
TOTAL	<u>4.3</u>	<u>5.3</u>	<u>4.2</u>

- 4.2 The resources estimates above assume: -

- the presumption that resources will be ring-fenced within the Single Capital Pot is applied, leaving £0.2m per annum of residual corporate resources;
- the authority successfully achieves 7 of the 12 local PSA targets, receiving £2.2m over 2 years;
- capital receipts as estimated by the Corporate Property Officer.

- 4.3 The resources required to finance the Council's total Capital Programme 2004/05, including Corporate Resources and the Single Capital Pot, are as follows:

Education and Lifelong Learning	£ 22.196m
Regeneration and Culture	£ 34.796m
Housing	£ 35.695m
Social Care and Health	£ 0.857m
Resources, Access and Diversity	<u>£ 13.450m</u>
Total	<u>£106.994m</u>

- 4.4 The potential for the development of large schemes such as Building Schools for the Future, NHS Lift and others will mean that the overall Capital Programmes for 2005/06 to 2007/08 could be significantly higher than the current level.

5. WIDER AMBITIONS

5.1 Property Strategy

The Strategic Framework sets out four key property aims:

To optimise the contribution the Council's property resources make to the aims, priorities, policies and programmes of the authority at corporate, service and community levels.

To produce a quality Corporate Asset Management Plan, to facilitate optimum utilisation of assets in terms of service benefits and financial return, and which meets the requirements of ODPM.

To continue to work towards achieving Best Value in Property Management and ensure the efficient, effective and sustainable long term use of all land and buildings.

To actively seek opportunities to contribute to the economic prosperity of the City, to facilitate regeneration and the development of a quality environment for the citizens of Leicester by working with partners, stakeholders and with the community.

5.2 Partnership Working

- 5.2.1 The Council will continue its commitment to improving performance by generating funding by means of PSAs and to this end will formulate

schemes that will improve service delivery and performance across all areas of the council's work.

5.2.2 The Council will continue to work in, and develop new, partnerships with organisations from the public, private, voluntary and community sectors, where it considers this will benefit the people of Leicester.

5.3 One-Off Opportunities

5.3.1 The government has identified the Council for a number of large-scale projects including Building Schools for the Future, Public Service Agreements and NHS Lift, all highly levered schemes that come with opportunities to enhance the quality of life in the city.

5.3.2 The Council will continue to look for innovative ways to deliver improvements to the quality of life in the City and is likely to seize one-off opportunities provided there is a strong business case and appropriate resources can be identified.