DRAFT CAPITAL INVESTMENT STRATEGY 2009 TO 2014

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

For Consideration by Council 04 March 2009

1 INTRODUCTION

This Strategy sets out the Council's approach to capital investment over the next five years, taking account of its corporate priorities and objectives for the medium term and also affordability, given that resources are limited and the Council is faced with managing competing demands.

The Prudential Code for Capital Finance in Local Authorities was introduced to support councils in planning for capital investment at a local level. The key objectives of the Code are to ensure, within a clear framework, that:

- the capital investment plans of local authorities are affordable, prudent and sustainable;
- treasury management decisions are taken in accordance with sound professional practice; and
- local strategic planning, asset management planning and proper options appraisal are supported.

By setting out the framework through which capital resources will be allocated and managed, the ultimate aim is to help ensure value for money from capital investment, and to show how such investment will contribute to the achievement of the authority's objectives. Also, it reinforces openness and accountability in the decision-making and management surrounding capital spending.

2 LINKS WITH COUNCIL PRIORITES

As is clear in the 2009/12 outline Corporate Plan, the City Council remains committed to working in partnership, to maximise the positive impact it can have on the quality of people's lives.

The 2009/12 Corporate Plan combines the relevant strategic district-wide aspirations, as set out in the recently updated and adopted Sustainable Community Strategy (SCS), with the Council's own specific proposals and brings these together into seven key objectives, which underpin four key priorities. There has been extensive consultation with the people of the district regarding district-wide aspirations and through this, the key themes and objectives have been determined. These form the heart of the Council's plans.

The themes of the current Sustainable Community Strategy are:

- Children & Young People
- Education, Skills & Opportunities
- Health & Well Being
- Valuing People
- Economy
- Environment
- Safety

The Council's main priorities and objectives in summary are:

Local Economy:	Work in partnership for economic regeneration
Clean & Green Places:	Maintain clean streets & open spaces Develop local responses to climate change
Safe & Healthy Communities:	Work in partnership to make the district even safer Contribute towards health improvement
Local Communities:	Work in partnership to meet differing community needs Improve housing standards, availability & affordability

It is imperative that the investment of capital resources contributes clearly to the achievement of the authority's objectives and supporting activities, and that such investment represents real value for money for people in the district. Therefore the above objectives are used as the basis for prioritising capital investment.

3 PARTNERSHIP WORKING

This Strategy has been prepared in the full knowledge that direct financial support from the Government for capital investment and the Council's asset sales programme will not finance all the Council's capital investment aspirations. The Council has, therefore, formed partnerships, some of which bring specialist knowledge and skills and some of which also provide sources of funding for schemes.

The City Council has demonstrated its strong commitment to partnership working through its Corporate Plan and the Council believes that effective partnership working has a key role to play in the achievement of its objectives. With this in mind, the Council is currently undertaking an evaluation of certain key partnerships and is also developing further a specific framework for partnership performance monitoring and evaluation. The outcome of this may influence the strategy for capital investment in future.

4 PROCUREMENT AND VALUE FOR MONEY

The City Council procures capital schemes via a range of tendering processes, which are carefully appraised and selected to meet the requirements of projects in terms of size, scope and complexity to get the best value for money. As referred to above this includes a partnering approach for specific contracts, where it is considered most effective to do so.

The Council's Procurement Strategy takes account of national procurement targets, and Contract Procedure Rules provide a flexible but robust approach to determining the most effective procurement route for projects.

In terms of value for money, the options appraisal undertaken for each project helps demonstrate the achievement of value for money and where applicable, the 'whole life' costs are also considered for relevant projects. The Council has also recently introduced arrangements to strengthen its support for project delivery and to improve overall co-ordination.

5 CURRENT CAPITAL POSITION

The Council's Balance Sheet is summarised below. The balance sheet pulls together all the Council's assets (*including 'fixed' assets such as property holdings and 'current' assets such as cash holdings and monies owed by debtors)* and its liabilities *(including outstanding borrowing – both short and long term, as well as provisions and reserves, which may or may not be cash backed).*

In financial terms, therefore, the balance sheet shows the 'value' of the authority at that date, but based on accounting conventions and certain valuation principles; these are not necessarily the same as 'market' values. Furthermore, clearly much of the Council's worth is tied up in property holdings, the majority of which are integral to providing services and supporting delivery of the Council's objectives. This means that such assets cannot readily be sold.

A key task within the Council's Corporate Property Strategy is to keep the authority's property portfolio under regular review to ensure that its capital base remains fit for purpose and that any major associated risks or opportunities are identified and managed as appropriate.

Summary Consolidated Balance Sheet	**31 March 2007 £'000**	**31 March 2008 £'000**
Intangible Assets	485	678
Tangible Fixed Assets:		
Council Dwellings	150,436	153,065
Other Land and Buildings	44,992	49,363
Vehicles, Plant and Equipment	4,739	5,022
Infrastructure	19,321	32,503
Community Assets	4,966	7,182
Non Operational Assets	39,752	29,761
Other Long Term Assets	3,266	1,047
Current Assets	25,415	30,149
Current Liabilities	(13,972)	(15,250)
Other Liabilities (including capital related borrowing)	(119,602)	(139,134)
Total Assets less Liabilities	**159,798**	**154,386**
Capital Adjustment Account	172,867	176,161
Revaluation Reserve	--	3,923
Financial Instruments Reserve	--	(975)
Pensions Reserve	(27,803)	(41,517)
Other (Usable) Reserves & Balances	14,734	16,794
Total Equity	**159,798**	**154,386**

The Council's proposed gross Capital Programme and financing (combining General Fund and Council Housing) is also summarised below, analysed over the Council's corporate priorities and other supporting investment:

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	Total £'000
Priority Areas:						
Local Economy	5,118	7,259	7,219	--	--	**19,596**
Clean & Green Places	853	828	20	20	--	**1,721**
Safe & Healthy Communities	449	620	60	--	--	**1,129**
Local Communities	8,811	3,576	3,497	3,477	3,477	**22,838**
Other Supporting Investment	2,501	2,223	1,378	661	107	**6,870**
Total Gross Programme	**17,732**	**14,506**	**12,174**	**4,158**	**3,584**	**52,154**

6 FUNDING FORECASTS AND ASSUMPTIONS

To support affordable, sustainable and prudent capital investment, the Council's approach to planning and forecasting its future capital resources is outlined below. Whilst the Strategy covers all capital investment irrespective of how it is financed, many sources of external funding (mainly through grants and contributions) are tied in with delivering specific schemes; decisions on whether these should be progressed will be based on the options appraisal and prioritisation processes outlined later. With this in mind, at this stage this section focuses on the availability of the Council's resources through borrowing, revenue financing or capital receipts.

6.1 UNDERLYING BORROWING REQUIREMENT TO SUPPORT CAPITAL INVESTMENT

There is no ***supported*** underlying borrowing requirement forecast for the five-year period.

Assumptions underpinning the Council's ***unsupported*** underlying borrowing requirement are outlined below:

i. Taking into account the latest revenue budget and council tax projections in the Medium Term Financial Strategy, and the Council's likely investment needs arising from the condition of its asset base and from progressing its corporate and service priorities, the General Fund capital programme provides for a £1.4M reduction in the underlying requirement for unsupported borrowing from 2009/10 onwards.

ii. As in previous years, the practice will continue by which the Head of Finance will, under delegated authority, assess the most appropriate means of financing for the purchase of new vehicles and equipment. Unsupported borrowing will be selected if this offers a more cost effective solution than leasing, with the Capital Programme being updated as necessary (see also 6.4 below).

iii. Further prudential unsupported borrowing may be considered, but only in context of either:

- providing funding to meet any additional costs arising in connection with Luneside East compensation claims. Cabinet approval would be required before this facility could be called on;

- providing interim funding for any emergency building works, prior to other sources of funding (e.g. capital receipts) becoming available;

- robust, achievable revenue savings being identified or income being generated to at least offset the ongoing (whole life) costs associated with individual schemes, and / or borrowing being required to support the cashflow position of major schemes spanning financial years. This would require further specific Cabinet / Council approval as required.

- No underlying borrowing requirement is assumed for council housing investment.

- Whether or not any of these underlying borrowing needs will give rise to actual additional long-term borrowing or, alternatively, be financed by utilising the Council's cash balances, is a decision that will be made within the framework of the Council's Treasury Management Strategy.

6.2 REVENUE FINANCING OF CAPITAL SCHEMES

Assumptions regarding direct revenue financing (DRF) are as follows:

- Substantial general budgetary provision for direct revenue financing will be made within the Housing Revenue Account (HRA) for council housing purposes. No such general provision will be built into the General Fund revenue budget, though revenue financing related to specific schemes may be considered in appropriate circumstances, e.g. invest to save schemes.

- Revenue financing from reserves will be based on existing earmarked reserve levels (or projections), as long as capital investment proposals match with the approved use of those reserves.

6.3 CAPITAL RECEIPTS FORECASTS

Over the next five years, from 01 April 2009, general capital receipts totalling £10.5M are anticipated, of which approximately £9.3M relates to General Fund property disposals with the remainder relating to Council housing. The assumptions regarding their use are set out below:

- Any council housing capital receipts will be used to support capital investment in council housing stock and supporting assets, and related environmental improvements.

- For General Fund, capital receipts of up to £9.0M will be used over the period to support capital investment generally, with the balance being set aside to provide for contingencies and/or the repayment of debt. Capital receipts will not normally be ring-fenced into reinvestment into particular areas, as this can undermine the prioritisation of investment needs, but there are exceptions to this:

    - Capital receipts arising from the West End Masterplan implementation will be ring-fenced to the further development of projects identified in the Masterplan itself, subject to appropriate Cabinet approval.

- The application of any additional General Fund capital receipts arising (i.e. apparently exceeding the target referred to above and not covered by the specific ring-fencing arrangements outlined) will be considered in context of the likelihood of meeting the overall target. They will not be used to support new spending or commitments. For Council Housing, any additional capital receipts may be used to support the 30-year business plan.

6.4 SUMMARY OF FORECAST CAPITAL RESOURCES

In line with the above assumptions, the forecast of capital resources is summarised as follows. Furthermore, the delegated authority granted to the Head of Financial Services still applies for arranging the most cost-effective means of financing equipment acquisitions, subject to various constraints and reporting requirements. This may result in some switching between funding sources *(Cabinet Feb. 2005 refers).*

	2009/10 £'000	**2010/11 £'000**	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**	**Total £'000**
General Fund:						
Capital Receipts	4,496	2,341	1,408	631	107	8,983
Revenue Financing (incl. reserves)	384	275	70	50	--	779
Reduction(-) in underlying need for Unsupported Borrowing	-1,401	--	--	--	--	-1,401
External Grants & Contributions	10,706	8,344	7,219	--	--	26,269
Funding Forecast	**14,185**	**10,960**	**8,697**	**681**	**107**	**34,630**
Council Housing:						
Supported / Unsupported Borrowing	--	--	--	--	--	--
Capital Receipts	84	164	250	339	348	1,185
Direct Revenue Financing (General)	1,571	1,607	1,728	1,350	1,500	7,756
Reserves	100	--	--	--	--	100
Major Repairs Allowance	1,792	1,775	1,499	1,788	1,629	8,483
Funding Forecast	**3,547**	**3,546**	**3,477**	**3,477**	**3,477**	**17,524**

7 CAPITAL INVESTMENT PRIORITIES

In line with the Council's core values, priorities and associated targets, capital investment for the period to 2014 will be focused into delivering the Council's medium term priorities and objectives as set out earlier. In determining priorities where funding is limited, then preference will be given to those schemes that contribute to delivering the agreed high priorities for capital investment, as set out below:

- Delivering the Council's Economic Vision as set out in the Economic Regeneration Strategy
- Delivering improvements for Cleaner Streets and the Public Realm
- Completion of the phased implementation of the Recycling and Waste Management Strategy
- Delivering schemes that support the Council's Climate Change agenda
- Developing further the district's Cycling Infrastructure

- Delivering the City Council's obligations in the Sustainable Community Strategy, Community Safety Partnership, and the county wide Lancashire Local Area Agreement.

- Progressing the priorities within the Council's agreed Housing Strategy and in particular, in meeting the 'Lancaster' Standard in the provision of Council Housing, in line with the 30-Year Business Plan.

- Refurbishment/ replacement of existing property or facilities required to deliver existing service levels, or to achieve key performance targets as set out in the Corporate Plan or Corporate Property Strategy, or to meet other legislative requirements.

- New (or the expansion of existing) facilities, where they link clearly with the draft Corporate Plan and they are either :

  – at least self financing (both in revenue and capital terms) or

  – invest to save proposals that require some up front capital investment but would generate cashable (and where possible, non-cashable) ongoing revenue savings. As a general guide, payback should be achievable in the medium term, up to 5 years, but longer payback periods may be considered should circumstances warrant it.

8 PRIORITISATION OF SCHEMES

The authority's annual review of its budget, planning and policy framework underpins the development of a five year rolling programme. The prioritisation process ensures that the programme is informed by the outcome of all relevant reviews and improvement/development plans. Additionally, corporate property requirements are identified through the asset management arrangements in place. An outline of the prioritisation process is provided below. As mentioned earlier, this will be supported by the new project delivery and programme management arrangements recently approved:

i. Each year services draw up their capital investment plans and outline project appraisals, in accordance with anticipated service needs and objectives (linked to service business and asset management plans) as well as this Strategy document. Services are required to liaise closely with the Corporate Property Officer, Financial and other Support Services as appropriate. Services' investment plans include a review of the schemes within the existing five year Capital Programme, as well as any potential new needs in line with any emerging priorities or changing circumstances.

ii. In conjunction with relevant directors, Services prioritise their service requirements for consultation with relevant Cabinet Members and discussion at informal briefings such as Star Chamber sessions.

iii. The authority requires all proposed capital projects to undergo a rigorous project appraisal, using a standard framework to ensure that all projects are appraised consistently and are deliverable. ***Annex A*** provides further details on how projects are currently appraised, although this may be updated from time to time.

iv. Through consultation, Members, Committees and key partners may advise on the projects which they wish to put forward for inclusion.

v. A corporate prioritisation exercise (programme appraisal) is undertaken initially through Star Chamber, to compile a corporate list of projects for Cabinet's initial formal consideration. This takes account of the outcome of any project appraisals and corporate property matters, as well as Members' and other Stakeholders' views regarding proposed priorities for the period. Examples of the criteria are also shown in ***Annex A***. The outcome is then reported to Cabinet for formal consideration.

9 FUNDING LEVELS AND ALLOCATION OF RESOURCES

In Cabinet making its initial recommendations to Council regarding the Capital Programme, the principles of prudence, affordability and sustainability are considered fully against prioritised capital investment needs and aspirations. Given that resources are scarce, this process enables the authority to consider and appraise alternative financing levels or strategies and their impact on the Council's revenue budget and medium term financial planning, or the 30-year Business Plan for Council housing.

This is an iterative process (between Cabinet and Council), in line with the requirements of the Prudential Code. Ultimately the General Fund Capital Programme and its financing will be approved by Council at the Budget Meeting to be held in late February / early March, together with the Revenue Budget and resulting Council Tax. Generally the Council Housing Programme will be approved at the meeting earlier in February.

The resources allocated within the five year programme will be based on an assessment of how closely the projects put forward:

- contribute to the delivery of the strategic objectives and corporate priorities
- meet identified needs and opportunity
- draw on the aims of service and corporate asset management plans
- illustrate that options and alternatives have been appraised
- achieve value for money
- have used partnership working to set and achieve the objectives laid down.

The Capital Investment Strategy and Corporate Property Strategy will be essential tools in helping to focus and prioritise capital expenditure. A five year cycle with annual reviews will enable the City Council to work towards a balanced capital programme that addresses all priorities.

10 FRAMEWORK FOR THE MANAGEMENT AND MONITORING OF CAPITAL INVESTMENT

i. Full Council is responsible for approving the Capital Investment Strategy, as part of the Council's overall medium term financial planning arrangements. Cabinet is responsible for formulating proposals, linked with the annual budget and policy framework process. Individual Cabinet Members (as portfolio holders) are responsible for identifying priorities for capital investment and asset management planning that fit within the City Council's overall corporate objectives and its Corporate Plan priorities, and this Capital Strategy.

ii. The Cabinet (through the Performance Review Teams in part) and the Budget and Performance Panel play a key role in the planning and monitoring of the capital programme. This is to ensure that:

- an affordable balance is achieved between the authority meeting local and service needs and responding to any other corporate priorities

- the Capital Programme evolves to reflect changes in circumstances and corporate and service priorities

- officers are held accountable as appropriate for delivering capital schemes on time and within budget.

iii. As an additional safeguard and / or to test the robustness of the processes involved, the Overview and Scrutiny Committee may commission or undertake work or on related issues as part of its Work Programme or take other measures (such as the call-in of decisions) as set out the Constitution.

iv. Detailed Officer responsibilities and the key controls are set out in the Council's Financial Regulations and Procedures, with additional supporting guidance provided on all aspects of contract management and control.

11 MONITORING AND EVALUATION OF PROGRESS

i. All projects are reviewable. Documentation (e.g. the full project appraisal and monitoring reports) will be maintained for each capital project by the responsible service (through the named responsible officer) and will be sufficiently clear to enable a competent third party to review the project with minimum additional explanation. A central register of projects will also be maintained by Financial Services. Each project appraisal will include a delivery plan as necessary, covering the following:

- The project's objectives and target outputs / outcomes
- Key milestones of the project development
- Management and monitoring arrangements
- Financial details, both capital and revenue including financial details
- Post completion review and evaluation arrangements

ii. Services are required to provide comprehensive monitoring information to Financial Services on a monthly basis. Financial Services will also co-ordinate and produce summary monitoring information for Cabinet, Budget and Performance Panel and Officer Working Groups as necessary.

iii. Financial Services will report on a quarterly basis through Corporate Financial Monitoring regarding the overall capital investment and funding position. The fourth quarter (provisional outturn) report will incorporate an annual review of the capital programme performance, covering key performance indicators such as no. of projects delivered on time / on budget, both to monitor and drive continuous improvement.

iv. Financial Services will also report twice yearly on updating this Strategy (once during autumn 2009, and once during the 2010/11 budget process) in line with the MTFS review.

v. Services are responsible for developing, agreeing and implementing further scheme or service specific monitoring into their own performance management and reporting arrangements to relevant directors, individual Cabinet Members or other key Stakeholders, either formally or informally. This includes reporting to their quarterly PRT meetings on their capital projects.

vi. Services are responsible for reporting the outcome of post completion reviews and evaluations as necessary. An update on this will be incorporated in summary into the annual review (as mentioned above).

vii. In addition to the ongoing monitoring and evaluation, the performance of Lancaster City Council's Capital Programme may be measured through the Local Area Agreement, if appropriate.

viii. Nothing in the above monitoring framework overrides the responsibilities or requirements placed on individuals or services as set out in the Financial Regulations. As examples (and not exhaustive):

- Commencement of schemes is still subject to the approval of the Section 151 Officer to confirm availability of funding.

- Separate reporting requirements are in place should schemes significantly overspend, when comparing with contract sums and/or budget provision.

Further details regarding property responsibilities can be found in the Council's draft Corporate Property Strategy.

12 LANCASTER'S APPROACH TO MANAGING PROJECTS (LAMP)

The City Council has adopted a standardised approach to managing projects and this has been rolled out across the Council. All officers who have any involvement with projects, whether as Project Executive, Project Managers, Project Team Members and Project Support, are now required to use and follow as appropriate the processes, structures, tasks and controls set out in LAMP throughout a project lifecycle .

This formal project management methodology will help ensure intended benefits are realised and that individual projects are delivered to time, cost and quality.

The requirements of LAMP will complement this strategy and will provide officers with a structured methodology by which they can fulfil their responsibilities. Wherever possible, LAMP methodology and documentation and the processes outlined in sections 8 to11 above have been fully integrated, thus minimising administrative effort while maximising the benefits to the Council.

Use of LAMP will be supported by the new support arrangements for project delivery and programme management.

ANNEX A

Project Appraisal

The project appraisal procedure seeks to ensure that all projects are appraised consistently and are deliverable. Projects are appraised to address issues such as the following:

- How do they contribute towards the authority's aims and objectives?
- How do they meet the identified requirements of the Capital Strategy?
- How do they meet Members' priorities?
- Does the project form part of an adopted strategy or policy objective of the Council?
- Are there clear objectives for the project?
- How does the project approach take account of consultation?
- Links to Asset Management Planning - has the information obtained from the Corporate Property Officer etc. been considered?
- Have the implications of relevant reviews been taken into consideration?
- What is the timescale for the project – is it realistic and achievable, or appropriate?
- Has there been a risk assessment of the project?
- Will the project achieve value for money (e.g. by cost benefit analysis)?
- Have avenues for alternative or match funding been explored?
- Is it appropriate to deliver this project in partnership with another agency?
- Have the capital costs and revenue implications been assessed reasonably and robustly (on a whole life basis) and sources of appropriate funding been identified where appropriate?
- Have milestones been identified?
- Have project outputs and the method of monitoring / management been set and agreed?
- Are stakeholders involved in the review of targets and achievements?

Corporate Prioritisation

The main criteria of the overall programme appraisal (corporate prioritisation) include:

- How projects meet key policy /priority areas of the Council
- How projects meet the asset management requirements of the Council
- How projects contribute to raising the performance of the council in any areas of weakness
- How projects impact on the revenue budget (present and future)
- The impact on service delivery and urgency of the project
- Evidence and challenge of consultation and performance measures to achieve outcomes/outputs
- Evidence and challenge of providing value for money
- Evidence and challenge of whether external funding opportunities have been explored
- Evidence and challenge of project appraisal
- Evidence and challenge of whether opportunities of partnership working have been examined.