CAPITAL INVESTMENT STRATEGY

July 2011

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Purpose of the Capital Investment Strategy

The purpose of the capital strategy is to ensure that all capital investments are in line with the Council's priorities and service delivery strategies, consider associated risks, recognise financial constraints over the longer term and represent value for money,.

This strategy has regard to the medium and long term. However, its focus is on the period April 2011 to March 2013 in line with the corporate plan and current funding settlements.

The Current Context

As at the 31 March 2011, the value of the assets on the Council's balance sheet was almost £1 billion and the efficient delivery of Council services requires on-going investment in these assets. Changes in the valuation of Transportation assets introduced through the Infrastructure Code will increase the value of these assets on the balance sheet by £3 billion.

Buckinghamshire County Council's position as a "floor" authority has meant that between 2006 and 2011 the Council received only the minimum increase in revenue funding and effectively no support for its approved borrowing. This placed great pressure on the Council's ability to maintain assets and resulted in a significant increase in the maintenance backlog.

The government decision in the funding settlement announced December 2010 to make all funding for integrated transport and highways capital maintenance grant rather than supported borrowing will provide the council with £24 million of unringfenced capital funding over the next two years, with indicative allocations for a further two years.

The December 2010 settlement recognised the need for capital investment in schools to increase pupil places (basic needs) and to prevent a backlog in property maintenance building up, and that local authorities were best placed to support local prioritisation and larger projects, with coordinated and efficient procurement. The settlement allocated Buckinghamshire £10.6 million for Capital Maintenance and £8.6million for Basic Needs in 2011/12. Again both these amount are unringfenced. Whilst the allocations for future years are subject to the Government's response to the James Review, the minister has indicated that total amounts available from 2012-13 to 2014-15 will be broadly in line with the 2011-12 settlement. The report from the James Review suggests that the Government may seek greater operational efficiency by centralising the design and procurement of larger projects, but still allow local decision over priorities. If the DfE choose to adopt such an approach it would make the funding allocations more notional than in cash and effectively create a ringfence round these resources.

Over the last three years, the downturn in the economy has had a significant effect on the construction industry and whilst activity has recently increased, the recovery may take a number of years. This has reduced the Council's ability to dispose of surplus assets and delayed S106 contributions expected from developers. Over the next three years reductions in government revenue grants, inflation and service pressure will result in the council needing to reduce it revenue expenditure by £56million (approximately 17%).

Following the scrapping of the South East Plan, it is likely that less new homes will be built in the county; however, the majority of those built are likely to be in the Aylesbury area.

Over the last two years, the cost of the Council's energy has increased by approximately 20% and price rises above overall inflation are expected to continue. From April 2011 the Council is being required to purchase allowances for each tonne of CO_2 emitted as a result of it use of use of energy from fossils fuels. Whilst the cost of allowances is fixed at £12 per tonne for the first two years, the price will then increase by £2 per annum reaching £30 per tonne by 2020/21. Given this and the pressure on revenue, it will become increasingly important that the Council takes action to reduce its energy consumption. The £1.76 million Salix Fund can help with this, but the scheme has strict criteria and sometimes part of the project costs may not comply and be eligible for funding. To achieve the benefits from recycling the funds, it may be necessary to use other capital resources to fund the non-compliant aspects of energy saving projects.

New Ways of Working may also help reduce energy consumption, as the Council seeks to rationalise its property portfolio and at the same time generate capital receipts. Linked to this are investments in technology to facilitate "lean" processes.

With the increasing costs of disposing of waste in landfill, due to increases in Landfill Tax, and potentially large fines for not diverting sufficient waste from landfill, this is an area of major importance. A procurement exercise is currently being undertaken to provide a long-term solution to waste disposal in the County. This is likely to require a very significant capital investment from the County Council in 3 to 4 years time.

The Current Horizon

The next few years will see huge changes in the role of local government and other public service providers. The Big Society is the Government's vision of a society where individuals and communities have more power and responsibility, and use it to create better neighbourhoods and local services. The Localism Bill forms a key part of this agenda and the general power of competence within the act will allow councils to do anything that is not specifically forbidden by law.

Education and health reforms are likely to result in a significant number of schools becoming independent of the Council as academies and the Council playing a greater role in local health provision. The government also intend to move towards Community Budgets where local areas get a single pot of money to spend as they see fit.

Within this context there may be opportunities for joint delivery and partnership working which may require capital investment in assets or may free up surplus assets for disposal and reinvestment.

Opportunities exist to increase overall contributions from developers through the introduction of local Community Investment Levy's (CIL), which will generally replace S106. CIL's are a tariff based levy that applies to all developments, not just those that currently attract s106 agreements and whilst District Council are responsible for them the County Council can influence how they are set.

The Objectives for Capital Investment

The main objectives for the Capital Investment Strategy are to:

- Support the Council's vision, values and priorities, as set out in the Corporate Plan
- Support service delivery strategies
- Optimise capital resources, investment opportunities and community benefits
- Ensure that investments are affordable and sustainable
- Maximise "Invest to Save" and "Invest to Contain" opportunities
- Safeguard the on-going integrity of existing assets (property, highways, ICT) ensuring they remain fit for purpose, including reducing the maintenance backlog.
- Ensure, where appropriate, that investments are in line with the Corporate Asset Management Plan.
- Ensure the long term impact of investment decisions are fully assessed and understood
- Encourage working in partnership with other organisations to maximise outputs and value for money
- Ensure that capital and revenue are fully integrated
- Ensure the health and safety of the public and staff

County Council Aims and Values

The reduction in government grants in 2010/11 and 2011/12 and resulting budget pressures which are set to continue over the next few years mean that Buckinghamshire County Council has need to review and refocus its priorities. The Corporate Plan for 2011- 2013 "Working with you for Buckinghamshire" set out the four priorities on which the Council will focus.

- Priority 1: Helping the most vulnerable
- Priority 2: Keeping Bucks Special
- Priority 3: Helping people to help themselves and each other
- Priority 4: Working with You

Overarching these priorities is the tenet that the Council will make every pound go further.

Key Areas for Investment

Given both the Capital Investment Objectives and the Corporate Priorities described above the following list, whilst not necessarily exhaustive, describes key areas where one might expect to see investment directed.

- Structural Maintenance of Highways Infrastructure

- Structural Maintenance of Properties in which the Council has a continuing interest, including schools within the local authority family of schools.
- Assets which facilitate community involvement in services which meet corporate objectives
- Investments that facilitate Economic Development in the County.
- ICT Infrastructure, including within the local community, e.g. Broadband connectivity across the community.
- The re-design/re-configuration of assets that permit lower on-going revenue costs, or halt a trend of increased revenue costs
- Assets that help the Council meet sustainability targets, such as reduced energy consumption/CO_2 emissions and reduced waste disposal via landfill.
- Assets which facilitate easier access to services, including the Council's website.
- Assets which facilitate service improvements provided that these are identified corporate priorities
- Assets that facilitate the release of other assets, where the net effect is an increase in value to the Council

Given that resources are limited it would not be expected that investments will be made in the following, although there might be exceptional circumstances that dictate otherwise.

- Assets which facilitate service improvements, but that are not corporate priorities
- Assets which result in increased revenue expenditure
- Assets that lead to an increased carbon footprint for the Council

Funding Capital Investment

Over the last few years Buckinghamshire County Council has funded its capital investment from the following sources

- Government Grants and Grants from various organisations
- Capital Receipts through the disposal of assets
- Salix funding
- Revenue Contributions to Capital
- Developer Contributions eg S106 agreements
- Prudential Borrowing
- Leasing
- Earmarked Reserves (including Repairs and Renewals funds)

Other opportunities that the council could take advantage of in the future include;

- Community Infrastructure Levy (CIL)

- Funding avenues made available following the Local Government Resource Review, such as Tax Increment Financing (TIF), or Local Gov. Bonds
- Partnership contributions to jointly run facilities

The Council will aim to maximise financing opportunities, whether through bidding, contributions, or disposals.

Whilst the Council has preferred not to prudentially borrow, the effect on the capital receipts resulting from the economic downturn meant some borrowing was necessary. However, with increases in the costs of borrowing and increasing pressure on revenue budgets future prudential borrowing will be limited, other than for specific exceptional circumstances. The changes in the Government's capital funding regime to move to greater funding though grants and less reliance on approved borrowing, will assist the Council in avoiding the need for prudential borrowing.

Capital Investment Processes - Overview

While this strategy sets out the framework for identifying, approving, implementing and reviewing projects, the detailed process is contained within the Financial Instructions for Capital (FI 2)

Identification of Need

The corporate plan priorities and the council objectives for capital investment should form the basis of identification of need. Investment requirements are generally identified annually through the MTP process, however where external funds are available additional projects may be considered during the year.

Approval of Projects

With the exception of block schemes and school self-help schemes an outline Business Case approved by the Business Investment Group is required for all projects. The purpose of the business case is to identify the cost, funding, revenue implications, benefits, timescales, value for money, deliverability, and risks in delivering the project. For large, or contentious projects, a full business case will be required.

Prior to their submission to the Business Investment Group, heads of service and cabinet members should agree business cases. Where projects involve investment in or acquisition of land or buildings approval from Property Board is also required and for IT projects support from the Chief Information Officer will be needed.

As part of the MTP the Business Investment Group will evaluate the bids in line with service and financial planning guidance and make recommendation on the schemes to be funded through the Council's capital programme to COMT and Cabinet.

Implementation of Projects

After approval, project managers are responsible for delivering and monitoring their projects. This includes the monitoring of slippage / accelerated progress of the project against the expenditure profile. The Business Investment Group will review overall progress during the year and the annual capital outturn and recommend what action should be taken in respect of overspend / underspends / accelerated progress or slippage of projects.

Review of Projects

At key milestones during a project and once it is complete, it is important that performance is reviewed so that success is recognised and where appropriate lessons are learned. To this end the Business Investment Group will receive a report at the completion of a project and at key milestones to check that the outcomes set out in the original approved business case have been achieved.

The Business Investment Group
Terms of Reference

The Business Investment Group comprises the Assistant Head of Finance (chair), Capital Accountant, a Strategic Director (representing COMT), Head of Finance and Commercial Services, Cabinet Member for Finance and Resources and two further Members nominated by the Cabinet Member and three other Heads of Service from across the Council.

The Quorum for the group will be a minimum of 1 Member, 1 Head of Service and 1 Finance representative.

The Business Investment Group reports to COMT and Cabinet. It meets as a minimum 4 times a year, but can be convened more frequently if required.

The role of the Business Investment Group is to:

> Consider the capital resource position and make recommendations to COMT and Cabinet/Council for incorporating capital schemes into the Council's Capital Investment Programme. This includes a review of new bids and preparation of pool schemes in light of new funding becoming available.
>
> Ensure that no Council money is committed to any capital investment project prior to all the necessary approvals being obtained
>
> Approve schemes that have no net cost to the agreed Capital Programme or revenue budget and have been endorsed by the relevant portfolio Cabinet Member, through the delegated authority of the Cabinet Member for Resources. Such schemes to be reported to Cabinet as part of the quarterly budget monitoring arrangements.
>
> Take an overview of the County Council's capital monitoring position on at least a quarterly basis. Reviewing and challenging any overspending or slippage issues and making recommendations to COMT and Cabinet as necessary on the overall position and options for corrective action.
>
> Consider new funding opportunities, e.g. Salix funding, Supplementary Business Rates etc. and make recommendations as appropriate.
>
> Advise COMT and Cabinet on the Capital Investment Strategy
>
> Approve detailed business cases within the allocation agreed by Council when setting the overall Capital Programme.
>
> Carry out a review of all major projects at key milestones and when complete to assess the delivery against the outcomes set out in the original approved business case and make any recommendations to COMT arising from this.

Annually examine working practices and review lessons learnt. Recommend to COMT any changes in operational practice deemed appropriate in order to improve the effective management of the Capital Programme.

Keep under review income from Capital receipts and their application to fund the Capital Programme.

Co-ordinate the production of a Capital Annual report each year.