**Report for Resolution**

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| **Report to** | Council<br>24 February 2009 | **Item**<br>6 |
| **Report of** | Executive | |
| **Subject** | Capital Strategy | |

**Report**

The attached report will have been considered at the meeting of the Executive on 18 February 2009 and any changes or recommendations of the Executive will be reported to your meeting.

**Report for Resolution**

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| **Report to** | Executive<br>18 February 2009 |
| **Report of** | Head of Finance |
| **Subject** | Capital Strategy |

## Purpose

To enable the Executive to recommend an updated Capital Strategy to Council.

## Recommendations

The Executive recommends that the Council adopts this Capital Strategy.

## Financial Consequences

There are no direct financial consequences of this report. These will be covered by subsequent reports regarding the Annual Capital Programme and the Capital Plan.

## Risk Assessment

A detailed risk assessment is included in the body of the report. The key risks associated with the Capital Strategy relate to the generation of funding to enable the investment required to deliver the Council's objectives. The risk of reducing capital receipts due to the economic downturn has manifested itself, and is reflected in this strategy.

## Strategic Priority and Outcome/Service Priorities

The report helps to meet the strategic priority "Aiming for excellence – ensuring the Council is efficient in its use of resources, is effective in delivering its plans, is a good employer and communicates effectively with its customers, staff and partners" and the service plan priority ?

**Executive Member:** Councillor Waters - Corporate Resources and Governance

**Ward:** All

## Contact Officers


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| Barry Marshall, Head of Finance | 01603 212556 |
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## Background Documents

None

**Report**

**Background**

1. The Council's Capital Strategy plays a key part in delivering the overall vision, objectives and priorities of the Council.

2. The Council's vision, objective and priorities are set out in 'Delivering for Norwich, Corporate Plan 2008/10, and this revised Capital Strategy sets out how the Council might manage its limited Capital resources in the period up to the Unitary decision.

3. Also, over the last three years the there has been a significant development of Council strategies and plans, and there are much clearer links between these. The Capital Strategy should allow the Council to deliver its vision, objectives and priorities,

4. A number of processes have also been put in place to strengthen the links between the Council's Capital Plan and Programmes and the Council vision, objectives and priorities. In particular, a Capital Programme Board now meets regularly to review the progress of the Capital Programme and the Capital Plan and its relevance to Council priorities.

5. Since the start of 2008 the recession has been having an increasing impact on the Council's capital resources. The Capital Strategy and consequently the Capital Programmes and Capital Plans, have been reviewed in the light of this.

**Capital Strategy 2009**

**Introduction**

6. As a growing city, Norwich faces many challenges, many of which require capital investment in order to build a successful economic future and secure sustainable growth. With limited assets and limited sources of funding, the challenge of meeting requirements for capital investment becomes more difficult, and the Council must always be seeking opportunities to increase the resources available by constantly reviewing options for its assets, and exploring new sources of funding, especially those available from external sources.

7. Limited funding will always mean that investment options are also limited. The impact of the recession on both investment and funding has been significant. The lack of confidence has restricted or stopped potential sales and receipts. Falling land and property values have reduced the levels of funding anticipated. Restrictions on borrowing have limited the number of sales of Council houses. Falling interest rates have reduced the level of income from funds in hand.

8. With sharply declining expectations for new receipts, the emphasis on gaining external funding has increased. In this respect the Council has been successful in obtaining funding from the Greater Norwich Development Partnership, EEDA, the LEGI programme, and the National Lottery's Big Lottery programme. In addition the Council is still receiving S106 contributions which will form a significant part of the 2009/10 Capital Programme.

9. The Council will be faced with increasingly complex decisions around investment.

Limited resources mean that objectives will need to be prioritised and at times this will mean that difficult decisions have to be made regarding investment options and their timing. It is important therefore, that the Council has robust Strategies, Plans and processes in place to aid and support this decision making.

10. Council Strategies will determine the areas where investment is desirable and are even more important now, in times of limited funding, to prioritise expenditure. Whilst plans, such as the Capital Plan and Asset Management Plans, should determine when these investments are made, The continuing outfall from the recession has meant that these have been severely curtailed.

11. Management processes are in place to ensure that investment and disposal opportunities are prioritised, properly appraised, approved and where possible implemented in the appropriate manner, with the appropriate control and monitoring.

12. The Unitary decision will impact the Capital Strategy in the coming year, and no firm plans can be made until the decision is known. Once the decision is known, work will need to be done to review likely resources and prioritise requirements.

**Strategic requirements**

13. Any capital investment must be aimed at meeting one or more of the Council's declared strategic requirements. These are currently expressed in the Corporate Plan 2008/10. Although they may change from time to time, to allow the Council to adapt to circumstances it finds itself in, the process supporting the appraisal and evaluation of any capital investment must take into account the declared priorities and outcomes at the time of consideration

14. The current priorities and outcomes are:-

    To provide a strong and prosperous city

    To build safe and healthy neighbourhoods

    To provide opportunities for all

    To achieve unitary Status for Norwich

15. These objectives are defined in more detail within the Corporate Plan 2008/10 with detailed specific outcomes highlighted under each heading...However the funding available is very limited and this may mean that not all of the outcomes which rely on capital funding will be achievable.

**Corporate context**

16. The Council's Strategic Framework illustrates how the various Strategies and Plans fit together to enable strategic requirements to be delivered.

17. The Medium Term Financial Strategy sets the overall financial context within which the Capital Strategy fits.

18. The Corporate Property and Housing Asset Management Plans, updates of which

were recently approved by Executive are key to the Capital Strategy as they are the main tools for delivering resources to fund investment, and also will determine much of the investment needs.

19. Their main aims are to:

- Develop an asset portfolio which supports the present and the future
- Provide for investment and new purchases as well as disposal of assets
- Invest in the Heritage portfolio
- Maintain a viable Housing stock

20. The Housing Strategy determines the Council's approach to the provision of social housing and in July 2005 the Council resolved to retain its stock of houses.

21. Service Plans are the main tool for delivering the individual investment plans, once they are appraised and approved via the appropriate process.

**Anticipated resources**

22. Resources available to the Council are currently divided into two funds which match the division of the Council's finances, namely Housing Capital and Non Housing Capital. Both these are now under severe pressure in the current financial climate.

**Housing Capital resources**

23. There are various sources of capital funding available to the Housing Capital Plan and Programme.

24. Major Repairs Allowance – represents the subsidy from central government towards the cost of maintaining the Councils existing Council Housing Stock, and is based upon the stock levels and condition.

25. Supported Capital Expenditure – is a revenue grant to cover the cost of borrowing, up to the amount specified, to fund the Decent Homes programme. Borrowing levels will be maintained until 2010, when this facility will be withdrawn.

| 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|---|
| £2.3m | £2.3m | £1.6m | £0m | £0m |

26. Specified Capital Grants are provided by GO East towards the cost of improvements for disabled adaptations. It is assumed for forecasting purposes that the current level of grant will be maintained.

27. Section 106 agreements are negotiated as part of the granting of planning permission and as such will relate to specific allocations for specific areas or schemes. There is no regular income that can be assumed from this source, and the reduction in the level of development, caused by the recession, is likely to reduce funds available in

the medium term.

28. Contributions from Leaseholders arise from contributions made for specific capital works carried out on leasehold properties and represents leaseholders share of the cost of capital works. This can generally be assumed to be a given percentage of the cost of the works carried out, based upon the percentage of leasehold properties across the portfolio of former Council Homes.

29. Capital Receipts are derived from various sources, the main ones being “Right To Buy” receipts (arising from the sale of Council Homes and ring fenced for works to Public Sector Housing), and land sales (arising from the sale of former Housing Land and ring fenced for grants to Registered State Landlords for the purposes of contributing towards the construction of new Social Housing).

30. With a declining Council House asset base, the opportunity to realise receipts from sales will diminish as the stock falls. The recession has had a dramatic adverse impact on the receipts in 2008/09. With mortgages difficult to obtain and house prices falling, the capital receipts from this source are dramatically decreased from previous levels. The forecast is that next year will be at an even lower level, thus reducing the total capital available for Housing schemes.

31. Receipts from land sales are the major resource for funding grants to Registered State Landlords (Housing Associations) towards the construction of new social housing, and the Councils participation in the Greater Norwich Housing Partnership sets a policy that all of these receipts are recycled into grants. There is an agreed programme and there is no expectation that this policy will change. In July 2008 Executive agreed to amend the price formula used to determine land receipts and capital grants as part of this programme. The net affect of the transactions is still no impact on total receipts, but the adjustment of the price formula is aimed at maintaining the development programme.

32. Revenue contributions are allowed towards capital expenditure and can be used if the revenue account has sufficient funds. Currently the Housing Business Plan forecasts that there will be surplus revenue available to supplement the Housing Capital Plan, which is essential if the Council is to meet the government target for achieving Decent Homes standards by the end of 2010/11, and continue to have appropriate funds for a programme of upgrades.

33. Table 1 shows the anticipated level of funding available for the next 4 years (2008/09 to 2012/13).

**Table 1 Anticipated Housing Capital Funding**

| **Resource** | **2009/10 £000s** | **2010/11 £000s** | **2011/12 £000s** | **2012/13 £000s** |
|---|---|---|---|---|
| Major Repairs Allowance | 9,879 | 9,978 | 10,078 | 10,178 |
| Loans (Supported Capital Expenditure) | 2,300 | 1,610 | 0 | 0 |
| Specified Capital Grant | 270 | 270 | 270 | 270 |
| S106 agreements | 0 | 0 | 0 | 0 |
| Contributions from Leaseholders | 250 | 250 | 250 | 250 |
| Capital Receipts | 5,955 | 6,665 | 2,763 | 847 |
| Revenue Contributions | 7,559 | 4,635 | 6,192 | 4,192 |
| **Total forecast resources** | **26,213** | **23,408** | **19,552** | **15,738** |

34. It should be noted that the Decent Homes programme is scheduled to end in 2010/11, when the funding reduces. Should the same level of investment be required, significant contributions from revenue will be required to match that programme.

**Non Housing Capital Resources**

35. There are various sources of capital funding available to the Non Housing Capital Plan and Programme.

36. External grants are usually available based upon a bidding process and are project or programme specific. Most grants require "matched funding" (funding from other sources) which may include a required contribution from the Council. Any bids for capital grants are approved by the Capital Programmes Board, to ensure that the limited capital resources available to the Council are used for Corporate Plan priorities, and that the programme is not distorted by the availability of external funding. Sources for external grants may be European Funding, Lottery funding or Central Government.

37. Section 106 agreements are negotiated as part of the granting of planning permission and as such will relate to specific allocations for specific areas or schemes. The time that elapses between the granting of permission and the S106 payment being due means that a prediction of likely income from this source can be made some years in advance, although the timing of receipts is dependant upon developments starting or reaching a particular stage. Again the affects of the recession are being felt as the amount of development, both planned and on site in Norwich decreases, which will mean the funding available in a few years time is likely to decrease.

38. The Local Transport Plan (Norfolk County Council Highways programme) is an annual programme agreed by the Norwich Joint Highways Agency Committee and covers specific approved projects. No assumptions can be made about future funding but specific projects may be approved, based upon a bidding procedure.

39. Capital Receipts are raised from sales of assets, which are mainly land sales. A detailed programme exists which is derived from the Asset Management Plan. Timing of sales is difficult to predict and depends upon a variety of factors. The recession has already had an impact on this programme, reflecting in aborted sales and reduced receipts.

40. Prudential borrowing is an option available to the Council, should it decide to borrow funds from the market. Rules are in place to ensure that schemes match criteria laid down by central government, and before embarking on this course of funding, a Business Case must be prepared that ensures that any scheme will be self financing. A process is in place to ensure that any scheme is properly evaluated and approved by Council.

41. Table 2 shows the anticipated level of funding available for the next 3 years (2009/10 to 2011/12).

**Table 2 Anticipated Non Housing Capital funding**

| Resource | 2009/10 £000s | 2010/11 £000s | 2011/12 £000s |
|---|---|---|---|
| External Grants | 735 | 0 | 0 |
| Lottery funding | 100 | 0 | 0 |
| S106 agreements[1] | 2,915 | 250 | 0 |
| Local Transport Plan | 0 | 0 | 0 |
| Revenue contributions | 100 | 0 | 0 |
| Other external funding | 36 | 0 | 0 |
| Capital Receipts | 828 | 408 | 58 |
| Prudential borrowing | 0 | 0 | 0 |
| **Total forecast resources** | **4,714** | **658** | **58** |

Note [1]. The figures for S106 show the discretionary expenditure approved. Planning obligations have been signed which, if the developments were completed, would make a further £2.646m available.

42. The current level of forecast receipts is dramatically lower than this time last year, as a direct result in the decline of the housing market and the impact on land sales.

## Investment Plans

43. Investment plans are very much dependant upon resources becoming available and the current financial climate makes it difficult to predict any significant increase in the level of resources in the next financial year. The complexity of the individual resource streams and the risks attached to each (see risk assessment below) mean that constant monitoring is necessary to ensure that programmes are identified which match the resources available. The Council previously agreed a process managed by the Capital Programmes Board that controls the release of schemes when funding is available, and this will continue.

44. The investment plans have been separated into the two funds in order to match the resources available.

## Housing Investment

## Public Sector Housing

45. The Housing Asset Management Strategy, recently approved by Executive identified an increase in the level of investment over the next two financial years.

46. The focus will be on achieving the required Decent Homes target by 2010. Additional provision will continue to be made for planned preventative maintenance, window replacement and structural improvements.

### Table 3 –Housing Investment programme

| **Housing Capital Plan** | 2009/10 £000s | 2010/11 £000s | 2011/12 £000s | 2012/13 £000s |
|---|---|---|---|---|
| ***Public Sector*** | | | | |
| Public Sector upgrades etc | 16,760 | 16,500 | 15,890 | 13,890 |
| Extra Window replacements | 1,500 | 1,000 | 0 | 0 |
| Communal Bin Provision | 500 | 0 | 0 | 0 |
| NCAS | 126 | 0 | 0 | 0 |
| Structural work to non-traditional properties | 1,455 | 0 | 0 | 0 |
| **Total Public sector** | **20,340** | **17,500** | **15,890** | **13,890** |
| ***Private Sector*** | | | | |

| | | | | |
|---|---|---|---|---|
| Capital grants to Housing Associations | 3,713 | 1,585 | 1,575 | 0 |
| Private Sector disabled facilities grants | 490 | 490 | 490 | 490 |
| Site demolition, maintenance and preparation | 420 | 420 | 100 | 100 |
| Renovation support in the Private Sector | 1,250 | 1,250 | 1,250 | 1,250 |
| **Total Private sector** | **5,873** | **3,745** | **3,415** | **1,840** |
| **Total Housing Capital Programme** | **26,213** | **21,245** | **19,305** | **15,730** |
| Available resources from Table 2 | 26,213 | 23,408 | 19,552 | 15,738 |
| **Estimated Additional HRA RCCO required** | **(0)** | **(2,163)** | **(247)** | **(8)** |

### Private Sector Housing

47. The Greater Norwich Housing Development Programme will continue to identify sites for redevelopment and enable the construction of new social housing by reinvesting the receipts from land sales in the form of grants to Registered State Landlords.

48. In addition funds will need to be made available in advance of the receipts, for site formation and demolitions in respect of these land sales.

49. The authority has been notified of a small increase in the level of grant to the private sector for disabled adaptations in 2009/10, and it is anticipated that future levels of grant will .be approximately at a similar level.

50. Provision of renovation grants for the private sector will also continue at the current levels.

### Non Housing Investment

### Investment in Asset Management

51. The Asset Management Plan, approved in September 2007, identified several investment requirements that are necessary to protect the Council's Asset Portfolio, and the income stream derived from it, as well as to meet other strategic requirements for development.

<u>Repairs, Maintenance and Upgrading</u>

52. Investment is needed in the existing portfolio in order to maintain income levels which contribute significantly to the Councils available resources. However, due to the shortfall in funding anticipated an increase in this investment has not been possible. Changes to the accounting rules for capital expenditure have also resulted in an increased provision being needed from revenue, to maintain the previous levels of expenditure. The Corporate Property Asset Management Plan, recently approved by Executive plans a review of the portfolio to maximise asset use and recommend a managed affordable plan for repair and disposal. Next year repair schemes will continue to be prioritised based upon nationally recognised criteria, to establish a programme to reflect the anticipated funding levels.

53. Repairs and improvements necessary on Health and Safety grounds will take priority.

<u>Portfolio development</u>

54. Lack of funding has also meant that anticipated development of the investment portfolio has not been possible, and is unlikely to become available. This will severely

restrict the Council's ability to maximise investment income and enable regeneration and development of some areas of the City in the short term. It will also impact the level of receipts available for investment in the Capital Plan. The review referred to above will assist the medium to long term strategy.

Heritage Portfolio

55. The Heritage portfolio is a vital part of making Norwich an attractive city for visitors, and many of the buildings within the various portfolios class as heritage buildings. The Council recognises the importance of these buildings, and the Asset Management Plan recently approved by Executive recommended a review of this portfolio next year to produce a plan for disposals and investment. External funding for this portfolio is more likely to be provided to external bodies, but the funding generally relies upon some form of funding being provided by the Council. There are no funds available to support this approach and this will severely restrict possibilities for upgrading the Heritage portfolio.

Carbon Management

56. Reducing the environmental impact of Council buildings is a Corporate priority and capital funds will be made available from reserves to enable interest free loans to be taken up to improve the carbon footprint of Council buildings. Repayment of the funding will be achieved by energy cost savings.

**Investment in the City and its Neighbourhoods**

57. The Council's Neighbourhood Strategy aims to improve the use of its "Community Assets", e.g. parks and community centres, and several exercises are underway, as part of the Asset Management Plan, to identify the best use for these facilities.

58. Programmes of investment have had to be reduced to reflect the shortfall of funding.

Community Development

59. There has been limited success in unlocking access to additional funding, to facilitate the changes and improvements, and here again some form of matched funding is usually required.

60. The boom in development over the previous few years has left the Council with considerable S106 balances, and many of the Council play areas have been upgraded using these funds. These include the full range of provision, including toddler, junior and teenage facilities. These funds will enable a programme of development for new provision, improvement and replacement to be provided, where the legal conditions of the S106 agreements allow.

61. External funding from LEGI has enabled a review of Neighbourhood shops within Council ownership, which has identified options for improvements or changes. A programme of grants from the LEGI funding has been established which have provided for small revenue funded improvements.

62. Funding for minor neighbourhood improvements, such as those being provided by The Community Participation Fund, established in 2007/08, will continue until the original provision has been used.

**Investment in Regeneration and Growth**

63. Regeneration and growth are one of the Council's strategic objectives and the Joint Core Strategy has been successful in obtaining Growth Point status for the area. This will provide the potential for £m's to be invested in Greater Norwich.

64. The Council recognises that matching funding will assist in maximising the potential for additional funding but currently has no additional capital funds to provide this.

65. The process outlined for approving major schemes and supporting bids for external funding requires that preparatory work, such as feasibility studies, will be necessary before a decision to recommend for approval can be made. Funding for these preparatory works will be necessary from sources other than capital otherwise major schemes would not be progressed.

66. The LEGI board has agreed to provide capital funding towards the development of the Genome Analysis Centre at Norwich Research Park, in order to support business growth and make Norwich a strong and prosperous city.

**Transportation**

67. Transportation is a vital part of the growth agenda, and will be crucial to ensuring that growth is sustainable. The Norwich Joint Highways Agency Committee manages the programme of transportation improvements, using Local Transport Plan funding.

68. Funding from specific Section 106 agreements will contribute to transportation schemes where the legal agreement allows.

**Processes**

69. Over the past two to three years the Council has been developing processes to manage and control its Capital Programmes. A procedure was first introduced to the Executive in 2005. This procedure has been refined through practice and is now established. It controls the process from inception to completion and post project review. Initiatives are documented using standard templates so that they can be evaluated and reviewed by a board of senior management, and be brought forward to the Executive and Council for approval. The evaluation and appraisal process clearly identifies the need to link all initiatives to strategic requirements, to ensure that schemes can be prioritised and the limited funding available put to best use. This management control is then followed through into the delivery of schemes to ensure that objectives are met and delivered on time, within budget and to the required quality. Monitoring is carried out monthly by the Capital Programmes Board.

70. This Strategy outlines the problems encountered by the Council in raising funds to meet its priorities and outcomes. The economic downturn has had a serious impact on the level of funding becoming available. Limited funds make it increasingly important that priorities are agreed, and expenditure is controlled, ensuring that no commitments are made without the funding being available. The sudden changes have meant that programmes have had to be adjusted to ensure that expenditure stays within the available funding. The coming year is unlikely to see new funds becoming available, so the opportunity to provide additional funding before the anticipated transition to Unitary, in whichever form, is very limited.

## Risk Management

71. Individual schemes have their own risk register as appropriate, as part of the management process. However the Capital Strategy and subsequent Capital Plans carry their own higher level risks. These will be included in corporate risk registers as appropriate.

72. Key risks identified within this Strategy are:

| **Risk** | **Likelihood** [1] | **Impact**[2] | **Score** |
|---|---|---|---|
| Failure to secure capital receipts forming main resource for Non Housing Capital Plan.<br><br>Mitigation - reduce spending plans, explore other options to achieve receipt | 5 | 7 | 35 |
| Delays in securing capital receipts forming main resource to Non Housing Capital Plan.<br><br>Mitigation - Use pooled capital balances until receipts secured | 4 | 3 | 12 |
| Impact of continuing long term asset sales on the ability to realise capital receipts for both Capital Plans.<br><br>Mitigation - Implement Asset Management Strategy and set up investment fund, when funding available | 5 | 4 | 20 |
| Impact of continuing economic downturn on land values, programme of asset sales (in the short to medium term), and investment income.<br><br>Mitigation - Reduce spending plans, reprioritise spending to ensure income is protected and future potential is maximised | 5 | 5 | 25 |
| Reduction in grant funding for Housing Capital Plan.<br><br>Mitigation - Make representations to Govt. bodies | 3 | 5 | 15 |

| | | | |
|---|---|---|---|
| Reduction in Right To Buy receipts for Housing Capital Plan.<br><br>Mitigation - Accept and plan for reduction in income | 5 | 3 | 15 |
| Increased construction costs impacting on repair, maintenance and redevelopment programme.<br><br>Mitigation - Ensure processes ensure best value for money | 2 | 2 | 4 |
| Changing priorities beyond the Council's control.<br><br>Mitigation - Ensure planning process identifies as early as possible | 3 | 3 | 9 |
| Unitary Status changing resources available and priorities.<br><br>Mitigation - Ensure plans are in place to review Capital Plan as soon as decision is known | 5 | 5 | 25 |

[1] Likelihood 1-5, 5 = very likely

[2] Impact 1-7, 7 = catastrophic

**Unitary Status**

73. Announcements regarding Unitary Status are expected in February and march 2009. changes to a Unitary structure will have a major impact on the Council's Caital Strategy and Plans.

**Period for review**

74. The Capital Strategy might normally be expected to be reviewed every three years. However, given the above timetable for Unitary Status, this Strategy will need to be reviewed in advance of a new Unitary Council to ensure that it is fit to meet the requirements of a new Council.