Report for Resolution

Report to Executive
10 February 2010

Report of Head of Finance

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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.

Strategic Objective/Service Priorities

The report helps to achieve the corporate objective to build a successful economic future for Norwich and secure sustainable growth and the service plan priority Establish robust plans across the services to enable the Council to achieve its aims, objectives and priorities.

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Background Documents

None

Report

Background

1. The Councils 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 the Executive report to Council on 26th January 2010 and were agreed. In addition to the existing 5 strategic aims, Council also approved the 12 policy and service priorities.

3. The level of capital resources available to assist in the delivery of these objectives is limited, especially in the light of the impact the recession has had on the value of many of the Council's disposable assets.

4. It will be necessary to carefully consider Council priorities before disposing of assets and making any investment decisions

5. The links between the Asset Management Strategy and the Regeneration Strategy are complex and robust procedures and decision making processes need to be put in place if the Council is to achieve its objectives of helping local people cope with the recession and supporting growth and development

6. The Councils partnership with the HCA will have a significant impact on available funding and its regeneration programmes, whilst its position as a major property owner will also provide both an opportunity to achieve some of its objectives, and at the same time poses a threat to the Medium Term Financial Strategy

Norwich City Council

Capital Strategy 2010 - 2012.

Strategic requirements

Any capital investment must be aimed at meeting one or more of the Council's 5 declared strategic aims. At present these are.:

- a strong and prosperous city
- safe and healthy neighbourhoods
- opportunities for all
- Aiming for excellence
- Unitary Status

Limited funding will require careful prioritisation of investments and the Council has approved the following guidelines in priority order for considering disposal and investment issues:-

1. impact on the Council's revenue budgets should be minimised
2. securing benefits for the future by investing in the asset portfolio
3. existing calls on funding arising from policy and service priorities
4. whole-life costing of investment decisions

Corporate context

The Councils Asset Management Strategy will identify assets for disposal, once they have been considered in the light of the strategic requirements.

Investment to support the transformation programme, in terms of achieving long term revenue savings or enabling change will be necessary.

The Partnership with the HCA will significantly impact the funding available and the regeneration programme in the medium to long term.

The proposed smaller and more responsive council will need to manage the fewer resources available more proactively.

Anticipated resources

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 will continue to be under severe pressure in the foreseeable future.

Housing Capital resources

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

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. This is a formula based per property grant which takes into account building cost inflation, and will therefore fluctuate downwards as stock levels decline, and has recently declined with the unusual reduction in building costs

Supported Capital Expenditure – is a revenue grant to cover the cost of borrowing, up to the amount specified, to fund the Decent Homes programme. It is anticipated that this will be withdrawn after 2010, although the draft determination was higher than expected for 2010.

Local Authority New Build grant from HCA – funds have been made available which will enable the council to build new houses for the first time in many years. This funding requires matched funding from other resources, specifically prudential borrowing, but it is unlikely that the funding available will be sufficient to sustain anything other than a small programme.

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

Section 106 agreements – these are negotiated as part of the granting of planning permission and as such will relate to specific allocations for specific areas or schemes, where developers cannot achieve the required level of social housing. There is no regular income that can be assumed from this source, and the reduction in the level of development, caused by the economic downturn, is likely to reduce funds available in the medium term.

Contributions from Leaseholders – arise from contributions made by leaseholders 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 similar percentage of the annual cost of the works carried out, based upon the percentage of leasehold properties across the portfolio of former Council Homes.

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).

With a declining Council House asset base, the opportunity to realise receipts from sales will diminish as the stock falls. The economic downturn had a dramatic adverse impact on receipts, but is now showing signs of recovery although nowhere near pre recession levels.

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 Delivering Affordable Homes Partnership sets a policy that all of these receipts are recycled into grants. There is an agreed programme which is likely to take until 2011/12 to deliver and is anticipated that a programme will be developed beyond this.

The Council has agreed to redirect many of its smaller “garage sites” into the HCA partnership

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.

<u>Non Housing Capital Resources</u>

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

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 Programme 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.

Section 106 agreements – these 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 coming to fruition. Again the affects of the economic downturn 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.

Local Transport Plan, Norfolk County Council Highways programme – this 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.

Capital Receipts – are raised from sales of assets, which are mainly land sales. A 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 economic downturn has had a significant impact on this programme, resulting in aborted sales and reduced receipts

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.

Revenue funding for "invest to save" schemes. The transformation programme will identify some potential capital investment which will result in revenue savings in the future, subject to approval of the business case. These schemes will be included in the capital programme as they are identified.

HCA partnership – the HCA partnership has secured significant grants for regeneration and housing improvement. Future proceeds from one of the Council's major land assets will be controlled by this partnership and it is currently anticipated that this will providing a funding stream over a period of up to 10 years

Investment Plans

Investment plans are very much dependant upon resources becoming available and it is anticipated that the current financial climate will rule out any significant increase in the level of resources in the next few years. 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 Programme Board that controls the release of schemes when funding is available, and this will continue.

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

Housing Investment

Public Sector Housing

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

The focus will be on achieving the required Decent Homes target by the end of 2010/11.. It is anticipated that the recent tendering of the contract for upgrades and repairs will enable the council to achieve more for its money by allowing additional resources to be transferred from repairs to planned preventative maintenance, window replacement and structural improvements. Funding for this programme is provided mainly by the Major Repairs Allowance, and revenue contributions.

Part of the grant from the HCA partnership agreement will be used for "Eco-retrofit" (improving insulation, reducing carbon emissions and reducing fuel poverty) to houses in some of the most deprived areas of the city.

Officers are recommending that specific houses, identified by the application of the Matrix Assessment Framework Model as beyond economic repair, are disposed of on the open market. The capital receipt raised will provide additional resources for the Housing Capital Plan. In addition some sites can be opened up for redevelopment, subject to the relevant approvals and consultation. Provision will be made in the Capital Plan and Programme to allow this to be taken forward, if approvals are forthcoming.

The Council has recently been successful in securing a grant under the Local Authority New Build programme which will allow new council houses to be built for the first time in many years. The rules of the grantor mean that the Authorities share of the funding should come from prudential borrowing, although this is not a sustainable model, and in order to enable any progress the Authority has had to use additional contributions from S106 and capital receipts

Private Sector Housing

The Developing Affordable Homes Partnership 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.

Some of the Councils smaller “garage sites” will become part of the HCA partnership programme to provide additional sites for development by RSL’s.

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. Check with AT.

The authority has not yet been notified of the level of grant to the private sector for disabled adaptations in 20010/11, but it has been assumed that future levels of grant will .be approximately at the current level

Provision of renovation grants for the private sector will be subject to reductions due to the reduction in available funding.

Non Housing Investment

Investment in Asset Management

The Council has reduced the repairs and maintenance programme substantially over the last few years as part of the cuts to budgets. The overall result is that there are a number of properties that are in need of substantial repair if they are to be let and bring in an income. There are insufficient funds to achieve the degree of investment needed. If the Council can demonstrate that it will get a return from the investment and this will at least break even over …years, it can borrow the money for the minimal investment through Prudential Borrowing. Through the Asset Management Strategy full consideration will be given to this option to restore the Council’s assets to deliver a return and secure future benefits.

Investment in the City and its Neighbourhoods

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.

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

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.

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 continue to enable a programme of development for new provision, improvement and replacement, where the legal conditions of the S106 agreements allow.

Investment in Regeneration and Growth

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. (is this still the case?).

In addition the HCA partnership is anticipated to generate funds in the long term, and in order to generate the required funding from the development of Bowthorpe, the HCA have earmarked funds in the form of a grant to bring forward the development of the site. Plans for future investment will need to be linked to the income generated.

Transportation

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.

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

Invest to Save projects

The transformation programme approved by Council has identified several "Invest to Save" projects which require investment now, in order to realise revenue savings in the future. These will form part of the programme.

<u>Processes</u>

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.

Risk Management

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.

Key risks identified within this Strategy are:

Risk	Likelihood	Impact	Mitigation
Failure to secure capital receipts	M	L	spending plans have been based upon other funding sources and capital receipts form only a small element of the overall funding
Asset Management Strategy fails to identify sufficient resources to fund programme of improvements resulting in loss of future revenue	H	H	Develop robust and flexible business plan to deal with likely risks. Assess the option of Prudential Borrowing to invest in the Asset portfolio
Impact of continuing long term asset sales on the ability to realise capital receipts for both Capital Plans	H	H	Implement Asset Management Strategy and set up investment fund, when funding available
Failure to meet delivery targets for HCA programme will require repayment of HCA grants	L	H	ensure close management of projects to meet required outputs
Reduction in grant funding for	L	M	Make representations to

Housing Capital Plan			Govt. bodies
Reduction in Right To Buy receipts for Housing Capital Plan	L	L	Accept and plan for reduction in income
Increased construction costs impacting on repair, maintenance and redevelopment programme	L	L	Ensure processes ensure best value for money
Changing priorities beyond the Council's control	L	M	Ensure planning process identifies as early as possible
Unitary Status changing resources available and priorities	H	H	Ensure plans are in place to review Capital Plan as soon as decision is known

Unitary Status

The Council is seeking Unitary Status and this will have a major impact on this Capital Strategy and the subsequent Capital Plans.

It is anticipated that the asset base will be considerably increased, but this will bring with it increased liabilities. The strategic requirements and priorities of a Unitary Council will change. Whilst commitments at the time will be met, a further review of resources and priorities will need to be undertaken in advance of April 2010 to ensure that a new Capital Plan and Capital Programme are ready to be approved, in order to meet these requirements.

Period for review

The Capital Strategy might normally be expected to be reviewed every three years. However, given the imminent decision on Unitary Status, this Strategy will need to be reviewed in advance, should a Unitary Council proceed. if not this strategy should be reviewed in at least three years.