

## **Borough Council of Kings Lynn and West Norfolk**

### **Capital Strategy and Local Property Investment Fund 2017/2021**

#### **1. Introduction and Overview**

- 1.1 The Capital Strategy is a key element of BCKLWN's medium term financial planning process. It is a summary of the Council's approach to capital investment, describing how our capital resources contribute to the Council's goals and will enable the Council to deliver against its Financial Sustainability Plan.
- 1.2 Capital expenditure is defined in Section 16 of SI 2003/3146 as:
- Expenditure that results in the acquisition, construction or enhancement of fixed assets (tangible and intangible)
  - Expenditure fulfilling one of the definitions specified in regulations made under the Local Government Act 2003
  - Expenditure which has been directed to be treated as capital by the Secretary of State (for example, grants made to third parties for the purpose of capital expenditure).
- 1.3 Under the Capital Strategy all capital investment should contribute to the achievement of the main priorities of the Council. This enables capital funds to be directed to projects meeting the highest corporate priorities.
- 1.4 The Prudential Code for Capital Finance in Local Authorities gives the Council more flexibility in determining the programme for capital investment. The key objectives of the Code are to ensure, within a clear framework, that capital investment plans are affordable, prudent and sustainable.
- 1.5 When identifying and planning new schemes the Council will try to maximise all external sources of finance (grants, partnership funding, joint ventures etc). It will however ensure that such sums do not come with conditions attached, that reduce the effect of the scheme should the funding source not have been used.
- 1.6 The evaluation process should take account of any revenue implications.

#### **2. The Council's Corporate Business Plan**

- 2.1 The Council publishes a Corporate Business Plan which sets out the broad framework for the Council's aims for the period covered by the plan. A new Corporate Business Plan was developed, and agreed by Council in January 2016.
- 2.2 The plan outlines six priority aims, supported by 18 key objectives in areas of key importance to the authority. The six priority aims within the new plan are:
1. Provide important local services within our available resources

2. Drive local economic and housing growth
3. Work with our communities to ensure they remain clean and safe
4. Celebrate our local heritage and culture
5. Stand up for local interests within our region
6. Work with our partners on important services for the borough

2.3 The Corporate Business Plan and Financial Sustainability Plan are published on the Council's website and can be accessed from the following links:

[Corporate Business Plan 2015/16 to 2019/20](#)

[Financial Sustainability Plan 2016-2020](#)

2.4 The purpose of the Capital Strategy is to deliver the Council's key priorities by using capital resources to provide assets appropriate to the Council's service, in the most efficient and effective manner.

### **3 Partners and Partnership Working**

3.1 The Council has for many years encouraged co-operation between neighbouring districts, counties and parish councils and is an active member in many local groups involving the parish, district, county council, health authorities, housing associations and both the business and voluntary sector.

3.2 Partnership working is certain to continue and develop and is likely to assume greater significance given the state of public finances so this strategy needs to ensure that any capital requirements identified through partnership work can be considered alongside other bids for capital funds.

3.3 The infrastructure developments on the Nar Ouse Enterprise Zone will involve partnership working with the New Anglia Local Enterprise Partnership.

3.4 The Capital Strategy requires a flexible approach to partnership working. To maximise benefits, partnerships should only be considered where these are in support of the Council's objectives, where partners' objectives are complementary and where partnership demonstrates added value.

## 4. Governance and Project and Performance Management

4.1 The BCKLWN's capital programme is presented in two sections:

- Major Projects – these are schemes are not primarily operational but deliver new or enhanced facilities or generate new or additional revenue, can involve partnership working and external funding, delivered over an period in excess of 12 months, key decision with budget of £250,000 or more. Schemes included under Major Projects are the Major Housing Development, Nar Valley Housing Project, Enterprise Zone Infrastructure, Hunstanton Heritage Gardens.
- Operational Schemes –
  - a) replacement of existing equipment (eg vehicles, careline equipment, fitness equipment, refuse bins) and refurbishment works to buildings (eg refurbishment of lifts at King's Court, externalisation of drainage downpipes to industrial units).
  - b) private sector housing assistance
  - c) minor capital schemes with a budget below £250,000 such as small scale public realm enhancements.

4.2 The Capital Strategy defines the corporate standards for management and review of the capital programme. The key elements of the corporate planning and decision making process are;

- Members approve the Corporate Business Plan
- As part of the annual budget setting the capital programme is reviewed and phasing updated for both major projects and operational schemes. Service Managers present new bids for operational capital schemes that are required for continued service delivery including replacement equipment and refurbishment works to facilities
- Major capital projects may be brought forward as part of the annual budget setting or throughout the financial year as projects are identified. Amendments to the capital programme for major projects will be subject to separate reports to Panels/Cabinet/Council. Executive Directors prepare capital bids that fit both corporate and service strategies
- The ICT Development Group oversees the preparation and delivery of the Council's ICT systems programme. It also approves any ICT bids that are to be made to the capital programme
- Financial Services prepare funding forecasts, receive and review capital scheme bids. Reports are submitted to Management Team

- Management Team evaluates all bids and submits the proposed capital programme to Panels/Cabinet/Council for approval.
- 4.3 Proposed capital projects must present a clear business case. The scheme bids are evaluated against the corporate criteria and prioritised on that basis subject to a recognised limit on resources available in the period. The proposed capital programme is then discussed with Management Team and put forward to the Cabinet and Council for approval. The report on the capital programme will go through the normal process of scrutiny by the various Panels of the Council.
- 4.4 All schemes, whether existing or new, are scrutinised and challenged where appropriate by officers to verify the underlying costs and/or establish whether alternatives methods of delivery have been investigated in order to meet the relevant needs and outcomes of the Council.
- 4.5 There is a requirement that all capital schemes are subject to appropriate levels of project management. Management Team identifies the responsible client officer, project leader and estimated period for the work for all relevant capital schemes/major projects. A Project Brief or Project Initiation Document (PID) is required for all such schemes.
- 4.6 On identified schemes there will be in place a Project Group that monitors the progress of works and makes sure that all stakeholders are kept informed
- 4.7 All major capital projects must have performance management arrangements in place including:
- Project Brief (including risk and impact analysis and timetable)
  - Sponsor
  - Project Group and Project Manager
  - Project Progress Monitoring Arrangements to report to the Project Group, Management Team and Cabinet/Panels as appropriate
  - Controls for Progressing to Identified Stages
  - Reporting on Delivery and Closing Project
  - Evaluation and Lessons Learnt
- 4.8 Where considered appropriate by Management Team these arrangements will apply to the delivery of operational schemes.

## **5 Financing the Capital Programme**

- 5.1 An objective of the Capital Strategy is to ensure that, once prioritisation has been settled, the programme is managed according to funding availability avoiding if possible cashflow difficulties. The programme must be robust enough and able to be rephased if circumstances, including the availability of finance, change. The prime aim will be to ensure that funding streams are matched to capital programme demands however, there must be scope to accelerate or defer schemes if necessary, in order to use resources effectively.

- 5.2 Finance remains one of the primary constraints on any capital programme. Under the current Prudential Borrowing Code arrangements, the Council can determine its own borrowing limits for capital expenditure although the Government does have reserve powers to restrict borrowing. To demonstrate that the Council has taken proper care in determining any borrowing the Prudential Borrowing Code requires that certain treasury indicators and factors are taken into account – in essence there is a requirement to prove that the borrowing is ‘affordable’ from the revenue budget. The Council is obliged to set out the Treasury Management indicators by which it will operate each year. These are set out in the Treasury Management Strategy. The Capital Strategy requires the Section 151 Officer to report, as part of the annual Budget setting for each year, on the level and the affordability of the prudential borrowing.
- 5.3 There are a number of resources available to the Council to support the funding of the capital programme:
- Capital receipts from the disposal of assets
  - Prudential Borrowing
  - Section 106, Community Infrastructure Levy and third party contributions
  - Reserves and revenue contributions
  - Central Government and external grants
- 5.4 Capital receipts from the disposal of assets are not allocated to fund particular projects but are used to fund the overall capital programme.
- 5.5 The Capital Strategy requires the Council each year as part of the Budget process to review and project forward over a five year period an estimate of capital resources that will be available to fund a capital programme.
- 5.6 The Capital Strategy requires service managers to follow the Council’s Financial Regulations.

## **6 Procurement**

- 6.1 The Capital Strategy requires service managers to follow the Council’s corporate procurement rules. Each scheme bid will include reference to major procurement requirements in order that the potential for consolidated purchasing arrangements can be made. The Corporate Procurement Unit will be informed and/or involved as set out in the Council’s Contract Standing Orders.

## **7 Monitoring Reports**

- 7.1 The Capital Strategy requires the capital programme to be monitored with reports being made by the Section 151 Officer to all Executive Directors and Members as part of the Monthly Budgetary Control Report.
- 7.2 Any additions or changes to the capital programme will be reported to the Cabinet and Council as necessary and during the final quarter of the year a report will be produced to revise the capital programme in preparation of the year end of March. At each year end a report will be taken to the Corporate Performance Panel, Cabinet and Council to show the outcome of the financial year and the impact on the future capital programme and resources.

## **8. Development and Investment**

- 8.1 The successful delivery against the current and future Major Projects is a crucial element in achieving new revenue income in response to the future funding gap for local government. It is also clear that there will be a requirement for some element of future growth, in particular to address shortages in affordable housing and infrastructure.
- 8.2 The BCKLWN's Financial Sustainability Plan in response to the Government's multi-year funding settlement identifies future income from capital investment projects as a key element in delivering new revenue income. The Capital Strategy needs to be flexible enough to meet these needs and to be able to be amended to accommodate new capital investment opportunities in a timely and robust manner as these arise.
- 8.3 BCKLWN has already established a joint venture with Norfolk County Council for the delivery of the Nar Valley Project (Phases 1 to 3). West Norfolk Housing Ltd (Registered Social Landlord status applied for) has recently been incorporated to deliver affordable housing. BCKLWN may consider the establishment of further limited company vehicles is to enable the Council to progress other major development and infrastructure projects.
- 8.4 The Council's Treasury Management and Investment Strategy already includes provision to consider investment in other opportunities in addition to traditional investment vehicles, subject to separate Cabinet reports.
- 8.5 The Strategy has been updated to provide authority to take up property investment opportunities in the local area and hold a Local Property Investment Fund managed as part of the Treasury Management function, generating a higher return over the longer term, with the added benefit of business rates/council tax growth and wider benefits to the local economy.

8.6 The Strategy provides for property investment opportunities to be undertaken in place of traditional investment vehicles subject to:

- Business case required which considers options, risk, return, duration of investment, fit with corporate priorities and reputation
- Total initial funds to be allocated to the Local Property Fund to be capped at £7.5m which is 30% of the Council's core investment funds of £25m
- No one investment to be more than £2m under the delegated authority. Individual investment opportunities in excess of £2m will require Cabinet approval. The Treasury Management Strategy limit is no more than £4m with any counterparty.
- Annual financial returns ie rental income, from the property investment opportunities taken up will generate additional revenue income to the Council and help to meet the cost reduction targets set out in the medium term Financial Plan and the Council's 'efficiency plan'.
- Investment properties are revalued annually as part of the Council's closedown of accounts and any movement in value will be reported in the Statement of Accounts. Any uplift in valuations will not be realised unless the asset is sold. The value of the total fund may increase above the £7.5m initial fund allocation to reflect annual revaluations.
- Investment decisions in respect of the Local Property Investment Fund for acquisition and disposal of assets held in the Fund to be delegated to; the Assistant Director (S151 Officer) in consultation with the Leader, relevant Portfolio Holder, a third Portfolio Holder, and the Property Services Manager.

## 9 Conclusion

9.1 The themes running through the Strategy are:

- The efficient and effective delivery of major and operational projects to maintain services which address the corporate priorities
- The BCKLWN's Financial Sustainability Plan in response to the Government's multi-year funding settlement identifies future income from capital investment projects as a key element in delivering new revenue income. The Capital Strategy needs to be flexible enough to meet these needs and to be able to be amended to accommodate new capital investment opportunities in a timely and robust manner as these arise
- Investment in a property fund requires a commitment to the investment over the longer term. The value of property can go up or down and in the event of a decline in property values the council will need to commit to holding the property until values recover and take additional borrowing if funds are required in the short term.