

**CAPITAL STRATEGY 2017 – 2021****Introduction**

The Capital programme is derived primarily from the County Council's Strategic Plan. The Capital Strategy was last updated in February 2016 as part of the Medium Term Financial Strategy.

**Background**

Capital expenditure involves the acquisition, creation or enhancement of fixed assets with a long term value to the Council. Fixed assets shape the way services are delivered in the long term and create financial commitments for the future, including capital financing and ongoing revenue costs. The classifications are as follows:

Category	Asset type
Intangible Assets	ICT Software
Property, Plant and Equipment	Land and Buildings
	Vehicles, Plant, Furniture & Equipment
	Infrastructure Assets (Roads and Highways)
	Community Assets(including Country Parks and Historic Buildings)
	Surplus Assets
	Assets under Construction
Investment Properties	Investment Properties – held for income earning/capital appreciation
Assets Held for Sale	Assets Actively Marketed for Disposal
Heritage Assets	Assets held that contribute to the knowledge and history of the area

The Council applies a de-minimis limit of £10,000 for individual items to be charged as capital expenditure. Items below this limit are charged to revenue in the year that it is incurred.

**Capital Programme 2017/18 onwards**

The four year capital programme totals £180.8m over the period 2017-2021. The programme is funded by a combination of central government grant, external grants, capital receipts and contributions from revenue balances and earmarked funds.

The overall approach to developing the capital programme is based upon the following key principles;

- To invest in a limited number of priority areas including roads, infrastructure, economic growth and projects that generate a positive revenue return.
- Passport central government capital grants received for key priorities for highways and education to those departments.
- Maximise the achievement of capital receipts

- Maximise other sources of income such bids to the LLEP, section 106 developer contributions and school contributions
- No or limited prudential borrowing.

### Children's and Family Services (C&FS)

Government capital funding received for the C&FS programme will be ringfenced to the department. With increased demand for new school places (and long term population increases) and increased building maintenance, the Council recognises that this is a significant problem. The Council is developing a long term plan to solve this which will include; maximise funding from external funding, including school contributions to projects, maximise section 106 claims/ contributions, capital grants and funding from the Department for Education. Where new schools are required the County Council will seek to maximise section 106 contributions to cover the full capital costs.

### Environment and Transport (E&T)

Government capital funding received for the E&T programme will be ringfenced to the department. With the continued pressure to deliver improvement schemes, to undertake advanced design work and to provide match funding for grant bids (including those through the LLEP), other funding sources will be maximised including Section 106 and other develop funding.

The County Council recognises the pressure on infrastructure growth and the need to carry out modelling and advanced design for future priority schemes in order to maximise the chances of securing this additional grant funding when opportunities arise.

### Corporate Asset Investment Fund

The County Council owns and manages 'investment' properties in the form of Industrial and County Farms Estates. These properties are held for the purposes of supporting the delivery of various economic development objectives and also prioritising revenue and capital returns to the County Council.

The industrial and farms portfolios have played an increasingly important and valuable role for the County Council. Capital receipts from sales from the Farms Estate have made a significant contribution to funding the Council's capital programme. It is recognised that it is necessary to continue re-investing into the property portfolios to ensure they continue to perform at current high levels and to enhance the Authority's financial resilience in the longer term as well as delivering other benefits, such as economic development and/or regeneration.

The Corporate Asset Investment Fund will be used to add to the County Council's portfolio of property and land assets including farms and commercial properties with a view to:

- a) Ensuring that there is a more diverse range of properties available to meet the aims of economic development
- b) Increasing the size of the portfolio
- c) Improving the quality of land and property available and

- d) Ensuring the sustainability of the County Farms and industrial portfolio by replacing land sold to generate capital receipts.

Funding of £25.3m has been allocated over four years from 2017/18 in the Medium Term Financial Strategy. The fund would have the incidental benefit of generating a surplus which could be used to support the County Council's functions in these areas.

### Invest to Save

The County Council will continue to invest in projects that generate appropriate revenue savings such as energy efficiencies, street lighting and other transformation projects that enable improved and/or new ways of delivering services.

### Discretionary Funding

All departments are able to bid for discretionary funding. The main areas of funding other than government grants for schools and transport are:

Capital receipts - the generation of capital receipts is a key priority for the County Council. Over the next four years, capital receipts from new sales are estimated to total £17.5m.

Revenue / Earmarked Funding - one off contributions from earmarked funds and the revenue budget will be used to contribute to the capital programme where funding permits. A total of £47.8m is available to be invested over the four years to 2021.

Capital Earmarked Funds/ External funding – a total of £19.6m is available over the four year capital programme. This includes funding from section 106 developer contributions, capital contributions unapplied brought forward from previous years and capital receipts unapplied brought forward from previous years. As externally funded projects are developed additional schemes and contributions, particularly section 106 funded projects, will be added to the capital programme.

Borrowing - the approach has been not to utilise prudential borrowing for capital projects due to the ongoing costs to finance the debt. The forecast level of debt for the County Council as 31<sup>st</sup> March 2017 is £275m and costs circa £23m per annum in financing costs.

Overall, there is a balance of discretionary funding available of £16.7m held for future projects. Where projects are not yet fully developed or plans agreed these have been included under the heading of 'Future Developments' under each departmental programme. It is intended that as these schemes are developed during the year they are assessed against the available resources and included in the capital programme as appropriate. For example the Collections Hub scheme has been placed in the future development category until the approach to the Record Office, currently beyond capacity, is resolved so that the programme only includes the schemes that are sufficiently well developed to be delivered.

There are a number of schemes included as future developments which could exceed the estimated available resources. A prioritisation of the schemes will be developed together with consideration of additional funding options available, for instance any underspends in the MTFS.

## **Asset Management Planning**

### **Land and Buildings**

Asset Management is part of the Strategic Property Service. The section, in conjunction with service areas, develops all the estate strategies, asset management plans and property elements of the corporate capital and revenue programmes, and provides the strategic direction for the use, management, development, planning and procurement of the Council's property resources.

The Asset Management team seeks to ensure the Council is making full use of all the retained assets, and any under-performing or surplus assets are identified and dealt with by either their disposal to bring in resources to assist in support of the capital programme or investment to improve their usage. Outcomes from condition survey information together with on-going reviews of the property portfolio feeds into the capital and revenue programmes.

The team's management of its corporate land and property resources has a continuing role in determining the Council's ability to ensure and underpin the financial sustainability of the organisation and to meet future service delivery requirements. Additionally the team seeks to reduce property operating costs, increase revenue income and deliver capital receipts to support the capital programme.

Specific initiatives for 2017/18 include the continuing development and enhancement of capital construction and procurement processes; delivery of capital receipts through an active disposals programme; and the continuing development of opportunities to reduce property operating costs and to create new revenue income streams.

The property energy strategy continues to deliver key programmes of invest-to-save projects, new procurement approaches and working practices required to reduce the Council's energy consumption across its property estate. It is helping to reduce financial costs and carbon emissions through the development of new investment opportunities in energy resources. The environmental aspects of the Council's operations have been supplemented this year by the adoption of a Water Strategy to develop initiatives for the reduction of water use and thereby reduce cost.

The Asset Management team seeks to deliver a strong client focus working closely with departments, other stakeholders and with an increasing focus on joint working and partnership initiatives.

The forward strategy for the County Council's estate is set out in its Corporate Asset Management Plan. This document includes how its property capital and revenue programmes have performed contrasted with its achievements in the previous year.

## **Highway and Associated infrastructure**

Environment and Transport are currently updating its departmental commissioning strategy that will reflect corporate priorities, set strategic direction for the department and provide context against which to review policies.

The Council's key transport policy document is the Local Transport Plan 3 (LTP3). This provides the long term strategy within which the Council manages and maintains its network. LTP3 will be reviewed to reflect changes in the County Council's strategic outcomes and departmental reviews.

In light of the continuing financial challenge the Council's priority is only to add to the highway network where this will help to enable new housing and jobs. Furthermore, additions will normally be considered only in circumstances where specific external funding can be secured to achieve this.

Further improvements to the highway network will require continued pursuit of external resources such as Government grants, developer funding and Single Local Growth Fund (via the Leicester and Leicestershire Economic Partnership), supplemented by County Council generated capital receipts where possible. The County Council has recently received additional funding for 2017/18 through from the Government's National Productivity investment Fund. How this funding will be allocated in future years has not yet been clarified other than that it will be through a competitive process. It will therefore be important to allocate resources, where available, to the development of high quality scheme bids to ensure that the County Council does not lose out through the increasingly competitive element to government funding. Advanced Design funding will be utilised for this purpose.

In order to maximise the impact of funding that can be secured for improvements, the County Council is doing more to define the roles of the various elements of the road network so that it is able to target investment where it will be of most benefit, particularly in terms of supporting economic prosperity and growth.

## **Procurement**

The procurement of projects within the capital programme will follow the Councils approved contract procedure rules and where applicable the Public Contracts Regulations 2015.

## **Financial Monitoring**

All schemes within the capital programme are monitored and reported on a regular basis to members throughout the year and at year end to update them on progress and any significant variations in costs.

**Consultation**

The views of the people of Leicestershire determine the priorities set out in the County Councils Strategic Plan, which in turn determine the capital programme priorities. In addition, relevant stakeholders should be consulted when individual capital schemes are being developed.

**Summary**

Given the declining financial position it is important that all capital projects are delivered within existing resources allocated. The County Council has developed a long term Infrastructure Plan that will influence the strategic allocation of limited resources especially for schools and transport where long term forecasts show significant pressures over the next 15 years.