

# **Capital Strategy**

**2019- 20 to 2021-22**

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To be reviewed and updated annually

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# **CAPITAL STRATEGY DOCUMENT**

## Objectives:

The purpose of the strategy is threefold:

- Identification and documentation the Councils assets.
- To detail how these are resourced and managed
- To show how the management processes are tailored to meet the strategic objectives expressed in terms of the Council's Plan and Priorities.

The strategy will be reviewed on an annual basis in order to ensure that it is current and reflects any developments within the Council and wider Local Government context.

## Introduction:-

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019/20 onwards, all local authorities to prepare a Capital Strategy report, which will provide the following:

- a high level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the Capital Strategy is to ensure that all elected Members fully understand the overall long-term policy objectives and resulting strategy requirements, governance procedures and risk appetite.

The Council is a complex organisation that has to meet a variety of needs and objectives. It has a gross revenue budget approaching c £80m and has a capital programme that can vary in size but typically can be around c £15m p.a. Whilst the Council is clearly one entity, financially it has two elements – the general fund, which is financed by council tax and the housing account, which is financed by tenants rents, service charges and other smaller income streams. The Borough Council is only one of two in Lancashire that has retained its housing stock and as such the approach and capital financing arrangements around this part of the organisation are more distinct than the general fund. This is partly due to regulation and legislation but also the differing financial challenges that each of these sections face. Primarily the general fund is subject to a reduction in financial resources due to the challenges that central government is setting in order to reduce the Country's financial debts.

## **Council Plans & Priorities**

The capital strategy has to reflect the strategic direction of the Council as expressed and detailed in its plans and priorities, shown below and more fully expressed on the Council's website.

Our Vision – is to be ambitious for West Lancashire – Our Economy, Environment and for Health and Wellbeing. Full details are available on the Council's website.

The Council is ambitious for the economy and for inclusive growth in West Lancashire, retaining and growing good quality jobs, increasing skill levels and encouraging business and wealth generation. This is matched by our ambitions for a good quality, clean, built and physical environment and for ensuring the conditions are in place for people in West Lancashire to live healthy and fulfilling lives. These ambitions are reflected in the priorities and key projects that have been identified.

### Our Values –

- Collaborative – working in partnership
- Empowering – valuing and developing communities and employees
- Enterprising – being innovative and creative
- Equality – promoting equality
- Focussed – being strategic and prioritising to make a difference
- Proud – of West Lancashire as a place to live, work and invest

### Our Priorities –

#### **Deliver tangible and visible improvements in the borough, by**

- Completing the review of the local plan
- Developing new leisure centres
- Delivering retail, housing and public realm improvements with a focus on Skelmersdale Town Centre.
- Establishing a Development Company

#### **Engage and empower our local communities, by**

- Delivering the Master Plan for Tawd Valley park
- Piloting volunteer engagement at Abbey Lakes
- Facilitating the asset transfer of existing facilities in North Meols
- Deliver digital initiatives

#### **Actively promote the borough as a great place to live, work, visit and invest, by**

- Promoting the Council's role
- Roll out 'place branding' with websites for Ormskirk and Skelmersdale
- Continue to engage with Liverpool City region and Lancashire to bring benefits
- Engaging businesses and communities in enhancing the area.

## The Financial Context

### Medium Term Financial Planning

The Council manages its revenue and capital resources on a medium term basis submitting a 3 year capital programme to Council that is updated regularly and in-year to reflect changes in circumstance.

The revenue position is informed via the medium term financial strategy (MTFS) that has forecast a shortfall in the Council's budget of c £2m. The Council is looking to manage the situation over the medium term by undertaking a Sustainable Organisation Review Programme (SORP) and has engaged consultants RedQuadrant to aid in this process.

There is some interaction in managing capital and revenue resources. Revenue resources can be applied to the capital programme whilst capital resources cannot be applied to revenue under accounting regulation.

The financial context is also important as Council approved that up to £2m of capital resources can be used for exit costs as part of the SORP process.

The Council can undertake borrowing to finance capital schemes however any borrowing has to comply with the Council's Treasury Management and Prudential Indicators Strategy in that it has to be financially sustainable taking account of the risk exposure of the potential scheme. The Council agreed in July 2017 that any investment schemes that are in excess of £250,000 are subject to a discounted cash flow and other investment appraisal techniques and subsequently have to be reported to Members to assist them to make an informed decision on its viability.

The Council accesses its capital resources from a range of areas.

- Right to buy sales
- Land sales
- Grants
- Internal borrowing
- Revenue contribution, primarily applied in the Housing account

Council dwellings are subject to RTB as governed by legislation and the monies that are generated can vary as a result of tenure, the property and other factors. Not all of the sale received is usable by the Council, some has to be paid to central government whilst some is retained for 1-4-1 receipts i.e. they have to be applied to new builds/purchases. Whilst the remainder can be applied to financing the capital programme. Other sources of funding can be land sales, grants from central, local and other government type agencies. Central government have recently announced that Council's with their own housing stock have had their borrowing cap lifted. This could mean that new capital schemes could be considered via this avenue as long as the business case and financial viability is sustainable.

## **Overview of Council Assets and Recording Procedure**

The Council has a range of assets and the total valuation of these at the start of the financial year 2018 is £225.1m. Some of the main constituents of these assets are as follows:

	£ m
• Council dwellings and garages	168.7
• Investment Properties	17.9
• Commercial premises, car parks	11.9
• Sports Centres	7.4
• Community centres & Meeting rooms	4.0
• Vehicles, Plant & Equipment	3.4
• Land held for future development	2.4
• Community assets	2.0
• Robert Hodge Centre	1.6

The Council has to value these assets on a regular basis by regulation. The regulation for the housing asset valuations differs from that of the general fund. This is primarily because these are assets that are subject to right to buy. Both classes of assets are subject to a revaluation every 5 years and for the intervening years a 'desktop' revaluation is undertaken to ensure that values are current. Again these valuations have to be undertaken within guidance issued by central government, the appropriate stipulations as detailed by the Royal Institute of Chartered Surveyors (RICS) and presented in the Council's Statement of Accounts within accord of the Statement of Recommended Practice (SORP) Different classes of asset may require a differing valuation methodology, for example income generating assets can be valued differently than Council accommodation, e.g. Robert Hodge Centre.

The details of the assets are held and recorded in a variety of sources in order to meet the operational and management requirements of the organisation. This enables a bespoke management system of operation so that maximum utilisation of the asset can be developed.

Whilst services have bespoke arrangements for the assets held under their responsibility the accountancy section maintains the prime records that are used for the production of the Council's Statement of Accounts. These are reconciled on a regular basis to ensure accuracy and relevance

### **Housing:**

Housing utilise a system called QL to record dwellings and garage assets. It is worth noting that the dwellings are not just the traditional houses but also incorporate flats, bungalows, maisonettes and sheltered accommodation. As such the capital and maintenance requirements of each class of asset

can vary. Furthermore, as the housing stock in Skelmersdale is primarily from new town status the layout of the estates is more unique in nature and again this can lead to bespoke environmental requirements that require specific management. There are presently approximately 5,980 dwellings registered in the housing account, although this can vary due to RTB's, demolition and new stock.

The QL system records the following:-

- Property details and numbers thereof
- Identification of property and number of rooms
- Rental information
- Location
- Capital works

The Council dwellings and service charges plus some associated income generate around £25.6m p.a. Presently the Council can only charge CPI minus 1% to its tenants. After the 2019-20 financial year this will change to CPI plus a percentage and that percentage is yet to be determined as it is subject to regulation and Council agreement. Subsequently this can clearly have an effect on the resources available for capital investment in the housing stock.

#### General Fund:

The general fund has a range of asset information systems that have various properties which are utilised to meet department's specific requirements.

The planning department use a Geographic Information System (GIS) called ArcGIS. This stores information geographically and spatially and is used to map such things as, Council owned land, local plan allocations conservation areas, tree preservation orders plus others. The system is updated regularly when there are changes on the ordnance survey. Hence this system can be used for the Council's Local Plan updates and strategies. The Council has also signed up to the Lancashire County Council system, Mapzone. This holds a large quantity of data such as locations of Doctors, Dentists, Schools bus stops and routes and other asset information. The operators can transfer data from Mapzone to ArcGIS and this system is very good at allowing data to be adapted to meet specific requirements.

Planning services also utilise a system called Idox Uniform which consists of a range of modules:

- Building Control
- Development Management
- Appeals
- Enforcements
- Listed buildings
- Tree preservation orders

The system records the receipt and processing of the application against the relevant modules. If required the ArcGIS system is updated as a result of any asset and other information that is submitted to Idox.

Commercial assets are recorded on a spreadsheet system called Portfolio data. Whilst an IT system called Logotech holds details of the occupants of the Council units, encapsulating their tenure, rent review, rents deed etc. All this information is invaluable to ensure that management of the Council's commercial assets is effective, income levels are maintained and reviewed and legislative requirements are adhered to. The estates section has also been conducting a Strategic Asset Management Plan (SAMP) review over the last few years. The purpose of which is to identify assets, specifically parcels of land that the Council owns. To make sure that these are registered appropriately with the land registry and identify land which is surplus and hence can be sold in order to generate a capital receipt.

The Accountancy section maintains the details of all the assets that are the primary documents that are the basis of the values presented in the Council's Statement of Accounts. This information is subject to external audit. As the Accountancy section compile the capital programme for the Council this enables the section to ensure that the assets recorded are up to date and amended for sales e.g. RTB sales, demolitions, additions, transfers and so forth. Data is reconciled between the systems for estates and housing to ensure the accuracy of numbers.

It is very important in any strategy that the information that is used to record, manage and develop that area is based upon sound financial data. It has to be accurate, up to date, valued appropriately, reviewed and updated correctly and regularly. This then demonstrates reliance so that the Council's assets that have a large value of c £225m and the associated costs of a capital programme based upon them of c £15m p.a. plus the repairs and maintenance requirements of those assets which can be around £0.6m, are deployed effectively.



## **Knowledge and Skills**

The Council employs professionally qualified finance staff that are registered with their Accounting bodies which are part of the Consultative Committee of Accountancy Bodies (CCAB)

The staff have the necessary experience of how the Council works and undertake Continuing Professional Development (CPD) and maintain knowledge and skills through regular technical updates and appropriate bodies.

The property team are made up of a number of Chartered Surveyors who can undertake property review and valuations and can also call on external valuer's to conduct reviews where they consider appropriate and meets a business need. They are members of the Royal Institution of Chartered Surveyors (RICS) and comply with the RICS rules in relation to CPD.

The legal advice is provided is provided by the in-house team, for which they are appropriately qualified and they call on external advisors if considered appropriate.

## Commercial Activities

As Commercial investments differ quite specifically from other capital activities it is appropriate to consider their treatment separately.

The Council's approach to date has been one of investing in commercial assets once a sound business case has been demonstrated taking account of;

- Future cash flow projections
- Applying investment appraisal techniques
- Whole life costing
- Risk exposure
- Governance and transparency of decision making

For example, when the Council invested some £3m in the Wheatsheaf Walk retail units in Ormskirk, discounted cash flow projections were calculated to help inform the viability of the scheme. The mix of tenants was considered to gauge whether they had a sufficient covenant to feel at least reasonably assured that income levels would be maintained over the medium term. The length of lease and retail mix was also considered to ensure that there was a healthy mix of different businesses so that this element of risk could be managed.

The Council has made other commercial investment decisions in recent years including:

- Greenwood Business Units      £1.7m
- Solar PV Panels                      £1.9m

Two Gorsey place units were damaged in a fire in 2014 and the opportunity to reconfigure these was taken in order to meet commercial demand and which was also supported by the extra income charge £ per square foot that was chargeable.

As previously mentioned all Investment decisions above £250,000 have to be reported to Committee with the appropriate discounted cash flow to support the investment.

It was considered some time back that due to Council procedures Investment opportunities may be missed as the commercial market in this field is quite fast moving. As such, it was approved at February 2016 Council that a Strategic Asset Purchase Fund and Committee be set up. The minute stated;

To consider the purchase by the Council of land or property assets with an individual value of up to £1 million where the business case for doing so is made out and timescales do not allow for consideration at Council. The business case must be robust and demonstrate a net rate of return of at least 4% per annum on average over the time that it is expected that the asset will be held. At Council in December 2018 it was agreed that the investment limit of £1m was raised to £2m as this was considered a more effective level and reflected market sentiment. No purchases have yet been made via this route however scoping the market for opportunities is regularly undertaken.

The purchasing committee that would consider such a purchase consists of 5 members, 3 Labour and 2 Conservatives.

## POST IMPLEMENTATION REVIEW –

Whilst all due diligence is taken prior to the purchase or commitment of expenditure to a commercial activity it is very important that post implementation reviews are undertaken. The purpose of these reviews is to assess whether the assumptions made prior to the scheme are panning out in reality. This will inform decision making on the scheme and also help to inform the process when looking at future schemes.

Each commercial activity has a budget associated with it and is regularly monitored by managers accordingly. Any discrepancies are investigated and remedial plans are put in place, if required. The three recent commercial investments of Solar PV's, Greenwood Business Centre and Wheatsheaf walks generated just over a £250k surplus for the 17-18 financial year. Other development areas, for example, Westec House have the potential of generating a large capital receipt upon completion and also when the refurbishment of Gorseley Place is completed extra revenue generation is anticipated.

## Resource Allocation

### Budget process:

The Council operates a budget setting process which commences in October of the preceding year and completes at the full Council meeting in the February before the start of the new financial year. The capital resources are allocated over a medium term timeframe in order to assist with planning and resource allocation. The pro forma that has to be completed by Managers for their capital scheme to be considered is attached as Appendix 1. It can be seen that it is tailored to reflect strategic objectives and to ensure legislative requirements are met.

During the year at the mid-year point, September/October, the capital schemes are reviewed by managers in order to consider whether those schemes are progressing in line with original plans, if not the budgets are altered accordingly in order to reflect the new factors that have now come into play.

### Housing – Stock Condition Survey:

As previously detailed housing have a large number of dwellings and associated monetary value and consequently it requires a considered strategic management approach.

A professional firm has been engaged to conduct a stock condition survey incorporated nearly a 100% of the housing assets. From this a 30 year investment programme has been produced detailing the differing work and then broken down in to 5 year tranches that are reviewed on a rolling basis when cost information becomes clearer. The survey also priorities work streams and is tested by Officers to ensure that the process is adequately scrutinised.

### General Fund –

For the Councils properties the allocation of the resources is time framed over a 1 to 3 year period. This is because the requirements of these buildings can change more quickly than for other service areas. For example, there may be requirements that become apparent for business reasons for the Chapel Gallery, also invest to save initiatives may be pursued for example the installation of LED lights. Also, health and safety considerations are paramount when allocating resources with regards to fire safety and asbestos management. The property team appoint appropriate consultants to review the assets in order to inform them of the work that may be required over the forthcoming period.

One of the main ways that asset issues are managed is by active dialogue with the occupants of those buildings in order to clarify issues and building requirements. This process has been used in order to manage and plan the new Investment Centre cooling system which was coming to the end of its useful life.

The Estates section has an Asset Management Plan that informs them of workload and resource allocation. Such principles that are followed are:

- Legislative requirements
- Taking account of condition surveys
- Meet the Council's visions and objectives
- To consider running costs of the buildings

The commercial assets generate a surplus of which some of the surplus monies are put into a reserve for future repairs and maintenance and also to invest in those assets to maintain and enhance income delivery.