



Gosport Borough Council

Capital Strategy

2009

CAPITAL STRATEGY

1.0 INTRODUCTION

- 1.1 The main purpose of the Capital Strategy is to outline how the Council decides what Capital Projects are supported and the process that is undertaken to make sure that these are in line with the Council's priorities and objectives.
- 1.2 The funding options and constraints relating to the funding of the programme are explored for the Capital Programme 2009-14.

2.0 FINANCIAL AND ASSET INFORMATION

Revenue Budget

The Council's gross revenue budget 2009/10 totals £52.910 Million, which after deducting gross income of £39.938 Million results in a net revenue budget of £12.972 Million

Assets

The Authority's asset base is dominated by its housing stock, which numbered 3,249 properties on 31 March 2008 with an estimated value of over £158 Million representing 75.6% of the total fixed asset value of £210 Million.

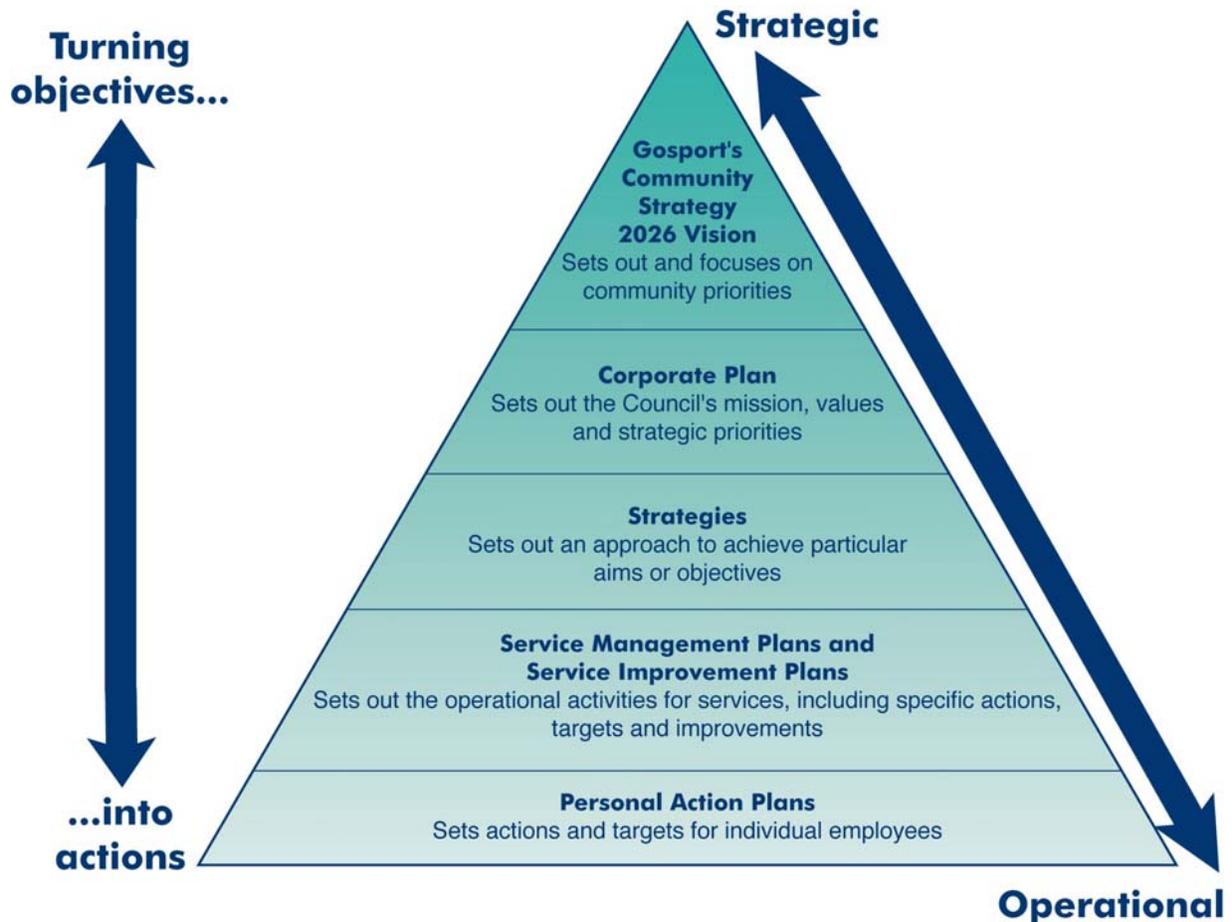
Table One:

| | £ | % |
|------------------------------|--------------|------|
| | Millions | |
| Council Assets 2008 | | |
| Council Dwellings | 158.8 | 75.6 |
| Other Land and Buildings | 15.4 | 7.3 |
| Vehicles Plant and Equipment | 1.1 | 0.5 |
| Infrastructure | 12.5 | 5.9 |
| Community Assets | 4.0 | 1.9 |
| Non Operational assets | 18.2 | 8.7 |
| Intangible Assets | 0.2 | 0.1 |
| Total | 210.2 | |

- 2.1 The relatively high proportion of Infrastructure Assets (£12.5M) is primarily due to the coastal nature of the Authority and is comprised of sea defence features such as sea walls and pontoons. The Community Assets (£4.0M) include land set aside for recreation and leisure purposes (including the 27 designated parks within the Borough) although the artefacts at Priddy's Hard Museum (£1.6M) is the largest item in valuation terms.
- 2.2 The relatively low number of operational properties is both the result of the small size of the Authority and the transfer by lease of both the Holbrook Leisure Centre and the Council's Wilmott Lane Depot (both listed as non operational properties) to private sector service providers following externalisation. The main assets remaining in this category are Council garages, car parks and the Town Hall.
- 2.3 The number of non-operational investment properties is also relatively low compared to many Authorities. This can be partially attributed to the Council having had a policy in recent years of actively seeking disposal opportunities to assist with the funding of the Capital Programme. The main assets within this category include Holbrook Recreation Centre, the Bus station and Ferry Terminal, Huhtamaki Factory (land) and Wilmott Lane Depot

3.0 THE COUNCIL'S OBJECTIVES

- 3.1 The diagram below shows how the Council's objectives are identified and incorporated within the strategies and plans of the Council to ensure that the limited resources available are targeted to the areas considered most important.



- 3.2 The Local Strategic Partnership is comprised of the Gosport's major organisations, agencies and stakeholders who have together identified the community's priorities and detailed them in Gosport's Community Strategy 2026 Vision. Each partner is then expected to take these agreed priorities and objectives into account ensuring they feed into their own organisation's plans and strategies.
- 3.3 The Corporate Plan 2005/08 which is reviewed annually (an update of the plan for 2009-12 is currently being prepared) was approved by the Borough Council in October 2005 and is the key document for setting out the Council's objectives detailing the Council's Mission, values and strategic priorities many arising from the Community Strategy/2026 Vision.

The Council's mission is:

'To work with our community to improve everyone's quality of life and deliver a sustainable future for the Borough'.

A number of Core Values are also identified under the headings of Participation, Performance, Partnership, People and Political Processes to help the Council to meet its aspiration to be recognised as an open and responsive organisation, regarded as excellent and at the centre of the community.

The Corporate Plan also lists the Council's Strategic Priorities under the four main headings of:

People

Places

Prosperity

Pursuit of Excellence

People, Places and Prosperity are the cornerstones of Gosport's 2026 Vision whilst Pursuit of Excellence embraces the core values.

The Council's Strategic Priorities are a combination of the priorities of local people, national priorities set by Central Government and the challenges arising from Gosport's changing social, economic and environmental context.

- 3.4 As shown in the diagram the principal purpose of the various Strategies of the Council are to help set out a framework to assist the achievement of the objectives and strategic priorities of the Council. The Capital Strategy seeks to ensure that the Council's limited Capital Resources are best used to achieve this objective.

4.0 THE SELECTION AND PRIORITISATION OF CAPITAL PROJECTS

- 4.1 In order to ensure that the Council's Capital expenditure is targeted at achieving the Council's Priorities capital projects must be evaluated and prioritised before they are recommended for inclusion in the Draft Capital Programme which is considered by Members as part of the budget process.
- 4.2 In order to achieve this, proposed schemes are assessed using the Council's Capital Scheme Proposal Form which covers a number of key areas of information including examining how the scheme will contribute to the Council's Strategic Priorities, core values, partnership priorities and the outputs/outcomes that will be achieved. The form also requires other important information to be detailed including that relating to the cost (both capital and associated revenue implications), funding, programming and the risk associated with the project.
- 4.3 The projects are then considered by the Council's Management Team with particular attention on their contribution to the priorities detailed within the Corporate Plan and associated Corporate Action Statement. The Team then make recommendations to Members on the schemes to consider and pursue as part of the Council's Capital Programme.

5.0 FINANCING THE CAPITAL PROGRAMME

- 5.1 The Local Government Act 2003 introduced major changes to the capital funding regime with effect from 1 April 2004. The previous system of controlling Councils capital expenditure by limiting borrowing through the use of credit approvals was replaced by a more flexible system based on affordability.
- 5.2 The new prudential capital finance system (Prudential Framework) allows the Council to make its own borrowing decisions using agreed professional principles (as set out in the Prudential Code which has been developed by the Chartered Institute of Public Finance and Accountancy CIPFA) to ensure that any new borrowing is affordable and prudent.
- 5.3 The main advantages of the increased freedom to borrow under the Prudential Framework are: -
- (i) The ability to bring forward capital schemes that would not otherwise have been possible to fund in the short to medium term under the previous capital financing regime.

- (ii) Spend-to-Save Schemes where the cost of the borrowing associated with the capital expenditure on a Scheme can be wholly or partly met by revenue savings arising as a result of the project being carried out.
- (iii) The ability to raise funding up to 3 years in advance when market conditions are favourable.

5.4 The capital expenditure possible through the prudential framework will be limited by the ability of the Council to afford the revenue consequences of the borrowing undertaken placing an increasing reliance on other sources of Capital Funding. These include:

5.5 Internal Funding

Usable Capital Receipts-Receipts arising from the disposal of Council Land, buildings and other assets.

Whilst 100% of the receipts arising from the disposal of General Fund Assets can usually be used to fund capital projects a proportion of those arising from Housing Land (except in certain circumstances) and Council Houses have to be paid into a Central Government Pool which is then reallocated. As a result only 50% of the receipts arising from Housing Land and 25% of those arising from the sale of Council Property are available to directly fund capital projects. Nevertheless this has been an important source of Capital Funding over recent years although it has reduced substantially as Council House stock numbers have decreased. The current economic climate and its effect on the Housing market has resulted in almost no Council House sales being completed.

Revenue Contributions to Capital-

Revenue funding of capital projects represents another funding option although due to revenue budget pressures it has generally not been possible to fund such contributions from the General Fund. Such contributions from the Housing Revenue Account (ring fenced for Housing Capital Expenditure) have historically played an important funding role in supporting the Housing Stock Improvement Programme and the requirement to reach the decent homes standard by 2010. Due to the current need to restore HRA balances and the worsening of the Housing subsidy position it is unlikely significant revenue contributions to capital will be possible in the next two years.

5.6 External Funding

Some of the principle sources of external funding are:-

Major Repairs Allowance (MRA)

The MRA is part of the Housing Subsidy and is designed to reflect the capital cost of keeping the stock in its current condition. MRA can be used for capital expenditure on any Housing Revenue Account (HRA) asset but this expenditure should be guided by the HRA Business Plan.

Specified Capital Grants

Government grants given towards certain capital expenditure items such as Disabled Facilities Grants.

Developer Contributions for Leisure Community and Open Space Facilities

Sums paid by a developer in accordance with a specified formula to facilitate new or upgraded leisure facilities.

Developers Contributions for Social Housing

Sums paid by a developer in accordance with a specified formula to be used for the provision of Social or Affordable Housing.

Other Grants and Partnership Contributions

All other external grants and contributions including lottery funding, football foundation funding, SRB, non specific developer contributions and organisation contributions

6.0 THE CAPITAL PROGRAMME 2009/10-2013/14

- 6.1 A summary of the Council's Capital Programme and proposed funding for the next 3-5 years is set out in Table Three below. More detailed breakdowns of the programme and financing arrangements are available in the Council's Budget Book.

Capital Programme 2009/10- 2013/14

| | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|---------------|---------------|--------------|--------------|--------------|
| | £,000 | £,000 | £,000 | £,000 | £,000 |
| Housing (HRA) | 2,300 | 2,474 | 2,174 | 2,174 | 2,174 |
| Housing (General Fund) | 1,470 | 730 | 730 | 430 | 430 |
| Community & Environment | 8,866 | 8,132 | 1,250 | 735 | 35 |
| Policy & Organisation | 2,060 | 321 | 401 | 250 | 250 |
| Total Capital Programme | 14,696 | 11,657 | 4,555 | 3,589 | 2,889 |
| Major Repairs Allowance - HRA | 2,160 | 2,160 | 2,160 | 2,160 | 2,160 |
| Specific Capital Grants - GF | 300 | 300 | 300 | 240 | 240 |
| Commuted sums-GF | 299 | | | | |
| Developer Contributions for Social Housing - GF | 980 | 300 | 300 | | |
| Other Grants and Contributions - GF | 4,896 | 967 | | 350 | |
| Anticipated Capital Receipts -GF | 4,163 | 3,065 | 1,265 | 225 | 225 |
| Local Resources - Prudential Borrowing - GF | 1,798 | 4,551 | 516 | 600 | 250 |
| Local Resources - Prudential Borrowing - HRA | 100 | 314 | 14 | 14 | 14 |
| Total Capital Funding | 14,696 | 11,657 | 4,555 | 3,589 | 2,889 |

- 6.2 A significant proportion of the planned capital expenditure relates to the Community and Environment Board, the main schemes being the new Holbrook Recreation Centre and the replacement of the Landing Stage.
- 6.3 The tendering for the scheme for the replacement of Holbrook Leisure Centre is still ongoing so that the scheme costs may be subject to significant variation. In addition a detailed risk assessment and a more detailed test of affordability will be applied before contracts are entered into, in order to deliver a decision that is up to date and robust, in case of challenge.

7.0 CAPITAL PROGRAMME AND PROJECT MONITORING

- 7.1 Once approved it is important the Capital Programme is delivered and a robust monitoring process is in operation. The Capital Programme is closely monitored and any variation is included in the Budget Monitor (produced four times each year) which is either distributed to Policy and Organisation Board Members or where required (such as when a virement or supplementary estimate is needed) is taken to the Board for decision.
- 7.2 In addition to the above process a specific project group for larger projects is established to progress and monitor the progress of the scheme. Although the Capital Programme currently does not include any large schemes of this nature this approach has worked well in the past as evidenced by the successful delivery of Gosport's elements of the Millennium Project. The project team would also report back regularly to Council Management Team and if issues arise requiring political decision to the appropriate Council Board. The Corporate methodology for Project Management is currently being reviewed by the Project Management Working Group who are looking to further promote and integrate such an approach into the culture of the organisation.

8.0 POST IMPLEMENTATION REVIEW

- 8.1 The lead officer for each Capital Project will notify the Head Of Accountancy when the project is completed and a Post Implementation Review form is to be supplied. These forms will then be considered by Council Management Team.
- 8.2 The form provides details on how successfully the project has been delivered specifically in relation to the following:-
- (1) Timing-was the project started/completed by the anticipated dates?
 - (2) Cost-was the Scheme completed in accordance with the allocated budget?
 - (3) Objectives-did the scheme achieve the anticipated outputs/outcomes?

9.0 PARTNERSHIP WORKING

- 9.1 Working in partnership with other organisations from both the private and public sector is an important way of ensuring the limited Capital Resources available are used efficiently to help maximise their contribution towards achieving the Corporate Objectives and Priorities. Partnership working may range from key overarching Partnerships such as those arising from the Local Strategic Partnership, preferred partners in specific Service areas such as the Key Housing Association Partners or 'one off' schemes where the organisation's and the Council's priorities coincide.
- 9.2 The Capital Scheme Proposal Form specifically requests information on how the scheme will develop partnership working, financial and non financial input from other partners and asks how the scheme will contribute to the partners' strategies and priorities. This information is taken into account in the appraisal and prioritisation of the proposed scheme

10.0 MEDIUM TERM FINANCIAL STRATEGY

- 10.1 The Medium Term Financial Strategy provides an overall framework for the financial investment in services for a five year period. It therefore is closely linked with the Capital Strategy and shows the affect the Debt Charges arising from the Capital Programme have on the overall revenue budget and associated Council Tax levels.
- 10.2 It is important therefore that any significant alterations in the Capital Strategy are promptly fed into The Medium Term Financial Strategy to help fully understand the impact of such changes on the Council's Finances as a whole.

11.0 ASSET MANAGEMENT PLAN

- 11.1 The Council's Asset Management Plan helps develop a process to achieve efficient effective and economical management of its assets. The linkages to the Capital Strategy and Programme are strong with capital expenditure on Council Assets being a significant element of the Programme particularly relating to the Council's Housing Stock.
- 11.2 It is important that the Council's property assets are maintained as they play a vital role in the delivery of the Councils Statutory Services and the delivery of its Corporate Priorities. The Asset Management Plan informs the Council on the improvement and maintenance requirement of the Council Assets with the larger schemes being included in the Capital Programme.

12.0 HOUSING BUSINESS PLAN

- 12.1 The Housing Business Plan is a long term plan for managing the authority's housing Assets and financing the necessary investments. It is a key element in ensuring the effective long term management and maintenance of the Council Housing Stock and should enable the Authority to operate in a more businesslike manner.
- 12.2 The Plan should be consistent with the Authorities wider corporate objectives and Housing Strategy and will inform on the level of Capital Expenditure required on the Housing stock necessary to achieve the Decent Homes and energy efficiency targets.

13.0 REVIEW OF THE CAPITAL STRATEGY

- 13.1 It is important that the Capital Strategy is regularly reviewed to take into account any changes in legislation, capital expenditure requirements, funding position or process improvements. Any significant changes will be considered by Council Management Team and submitted to Policy and Organisation Board for consideration and approval.