

READING BOROUGH COUNCIL

CAPITAL STRATEGY AND ASSET MANAGEMENT PLAN

JANUARY 2007

1. PURPOSE AND SUMMARY

- 1.1 This report sets out the strategic framework for the Council's Capital Strategy and Asset Management Plan, within which the authority will take key investment decisions in its land, property and service infrastructure, to support medium-term strategic and financial planning and the Government's drive for Gershon efficiency savings.

2. BUDGET CONTEXT

- 2.1 This report accompanies the budget (Gold) report to tonight's meeting, and should be read in conjunction with it, in particular the consolidated schedule of new and approved capital schemes up to 2012/13.

3. POLICY CONTEXT

- 3.1 The Corporate Capital Strategy and Asset Management Plan (AMP) were approved by Council for submission to GOSE on 16 July 2002 (Minute 33 refers). Since then the Government ended its requirement on authorities to submit such documents, and whilst many principles of the Capital Strategy and AMP continue to be applied, neither document has been formally updated until now.
- 3.2 The documents have been reviewed to meet the Council's requirements now, rather than those set by the Government in 2002, and to take into consideration the guideline principles issued by the then ODPM guidance in August 2005 and recommendations for CPA assessment. The fundamental difference is that the two documents are interlinked rather than sitting alongside each other. The AMP feeds into the Capital Strategy whilst delivering a number of its outputs.
- 3.3 The Strategy and AMP have been informed by, and will inform, the following key corporate and strategic documents which together set out the Council's vision, aims and priorities for Reading:
- Reading 2020 Vision and Community Strategy
 - The Council's strategic aims and medium-term priorities
 - The Local Development Framework
 - The Council's Transforming Services Agenda

3.4 The strategy is also informed by the Capital Financing Practices that have informed the setting of Prudential Indicators by Council each year in the budget Gold Report. The key practices are:

- The Council takes the totality of Government support, both Supported Capital Expenditure (SCE) Revenue and Capital grant, into account in setting its prudential limits for borrowing and other indicators and capital programme (where the service mix of allocations tends to reflect significantly the new capital approved for each service)
- Where possible alternative external funding sources are explored and used to finance appropriate expenditure, and the Director of Resources also considers the use of lease finance for appropriate assets
- At the year end, overall capital expenditure is financed in priority order with the objective of minimising the on-going impact of capital on the revenue budget:
 - from specific fettered government grant (including lottery funding, and the major repairs reserve for HRA expenditure)
 - from legally fettered Section 106 & other receipts for a particular (type of) scheme (eg transport)
 - from capital receipts, the use of which is legally constrained (e.g. those arising from the sale of certain housing assets that must be spent on new affordable housing or regeneration)
 - from grants and section 106 receipts that are more generally available, with the objective of maximising the use of such financing
 - from any other available (non-revenue) resources
 - from revenue contributions made by schools from delegated budgets to school-based capital schemes
 - from borrowing

3.5 The use of funding secured under Section 106 of the Town & Country Planning Act 1990 is governed by the Council's Supplementary Planning Guidance (SPG) on Planning Obligations, which gives first priority to affordable housing (50% provision of affordable housing), followed by transport, open space/recreation and education as second priorities [Cabinet - 1 December 2003]

3.6 The strategic framework recognises and evaluates the ongoing revenue costs of new capital investment, and balances the priority of this against other revenue demands. The main costs are debt interest and repayment, and the operation and maintenance of the new assets. In some cases, capital investment will be on an invest-to-save basis, with the intention of reducing ongoing running costs.

4. PURPOSE OF THE CAPITAL STRATEGY

4.1 Objectives

4.1.1 The objectives of the Capital Strategy are as follows:

- 1) To maximise capital resources to fund corporate and community priorities, and to support effective and timely investment in the Council's assets, including prioritising the Council's own investment requirements, and determining which can be funded by the authority, how and when
- 2) To determine a funding strategy to support ongoing investment in Council and community assets, including:
 - Working with the Government (DCLG, DfES, DoH and GOSE) to maximise capital grant or supported borrowing for key schemes
 - Working with developers to secure S106 receipts and direct investments to meet agreed investment needs
 - Working with partners to secure investment in assets which the Council cannot fund directly
 - Working in partnership with community stakeholders, through the LSP and other partnerships, to fund improvement in community facilities
 - Reporting disposal opportunities through the AMP process
 - Identifying the ongoing revenue impact of new capital investment, in terms both of costs and savings
- 3) To ensure adequate flexibility to respond to emergencies; and to minimise their likelihood by proactive asset management

4.2 Outcomes

4.2.1 The Strategy has the outcomes listed below, which in turn should inform the medium-term vision for the authority and its partners. A number of the Capital Strategy (CS) outcomes are managed and delivered by the AMP as a working document:

- 1) A Council asset base with agreed and funded maintenance plans, firmly for five years and in outline for 20-30 years, and with clear links between capital and revenue funded works.

The AMP details the condition of each asset, prioritises the urgency of works required and provides associated budget costs.

This enables the Corporate Property Officer (CPO) and Service Heads to assess known maintenance backlog issues, and to prioritise a planned programme of works at both service and corporate levels.

At present the majority of Education assets are formatted in this way on the Genesis Evolution database and the majority of the remaining operational corporate portfolio will be input by March 2007 following a range of surveys including DDA, Asbestos Type 1, Fire Risk, Measure plans and costed condition surveys which are currently underway. There is a need to ensure that survey types for all properties are regularly updated as part of a rolling planned maintenance programme.

- 2) Working with partners to secure investment in assets where direct investment is not practicable.

The CS and AMP will identify property and service needs and requirements and set out potential solutions through the Asset Appraisal Process, e.g. disposal, co-location, and alteration of service use. If a potential solution cannot be delivered through the CS & AMP, then external funding sources will need to be considered. These may be property, project or service-specific but should be applied for and managed within a corporate context.

- 3) Disposal of other properties to raise funding for investment in the Council's remaining assets

This is an output of the AMP Asset Appraisal Process and an input into the CS. Disposal opportunities can be identified either by the CPO or through a service/corporate-led review (eg regular asset review, annual service planning). Potential disposals are reported through the established "officer/Member process" and any disposals need to comply with the objectives of the CS.

- 4) Agreed investment programmes for areas of Supported Capital Expenditure (Capital Grant) with GOSE (mainly education, transport and housing)

Similar remit to (2) in that service needs can be identified and prioritised and the AMP system then used for ongoing management and maintenance post works completion.

- 5) Investment in transforming and reshaping services to secure reduced running costs (invest to save), Gershon efficiency savings, Government priority outcomes, and improved customer services

The AMP can monitor and highlight potential areas for revenue savings through Suitability and Efficiency surveys, the funding requirements for would be considered by the Capital Strategy Appraisal Group (CSAG) through the capital funding structure (see 4.6.2(c) below).

- 6) A medium-term programme of community investment with partners, and delivery of the Reading 2020 Vision

4.2.2 Investment requirements will be assessed in the context of community investment requirements to address levels and locations of need - in particular the Thriving Neighbourhood / police super-output areas.

4.3 Priorities

4.3.1 On the basis of current Council and Reading 2020 Partnership priorities as described in the Corporate Plan and Community Strategy respectively, the Strategy and AMP will have to fund investment to deliver a growing number of capital schemes in the medium-term (ie over the next 10 years, to 2017). We set out below the key schemes and programmes that have been agreed or discussed by the Council and its services:

1) Transport

- One-way IDR
- Junction 11
- Completion of pedestrianisation of town centre
- 3rd Thames Bridge
- Cow Land Bridges
- Car parks - partnership with NCP

2) Education

- Meadway - new ESN school and associated development - Churchend - Meadway Day Centre
- Park Lane re-provision
- Building Schools for the Future

3) Housing

- Decent Homes Standard - works to deliver Stock Options Appraisal targets
- New affordable housing - to meet needs of homeless and waiting list
- Dee Park

4) Cultural Services

- Strategic Leisure strategy - partnership working
- Open Spaces Strategy / Waterways Vision
- Swimming strategy
- New theatre provision / Hexagon relocation

5) Community Care

- Meadway day Centre (see above)
- Extra-Care Housing

6) Transforming Services

- Civic Offices relocation
- Darwin Close / Bennet Road consolidation
- Business Change Programme
- Technology Refresh

7) General

- Service reviews eg Adult Education, Pupil Referral Units, Youth & Community Service, Elderly Care, Garage Review, Non -state housing,

8) Property Generally

- Routine capital and revenue funded maintenance of the Council's asset portfolio
- Works to meet Health and safety requirements and compliance with Legionella, Asbestos, DDA and Fire Regulations
- Works to avoid service failures
- Investment to save - works to secure efficiencies in operational costs
- Works to secure energy efficiency and carbon reduction
- Service improvements / development

4.3.2 Of the above, (1)-(7) are core delivery targets of the Capital Strategy, which will be informed to an extent by the outputs of the AMP, whilst (8) is the good housekeeping element of the AMP.

4.3.3 In meeting these investment requirements, the Council is constrained by the Prudential Indicators, which place a constraint on the on-going revenue impact of borrowing, to ensure affordability in the longer term as far as this is possible. This places a particular premium on identifying the ongoing revenue costs arising from new capital investment before the initial decision to invest is made, and undertaking a cost:benefit analysis of the scheme on the basis of whole-life costings (ie for the operational life of the new facility). This in turn will focus attention on the funding of planned maintenance, and the budget provision to be made for depreciation and renewal of assets.

4.4 Investment

4.4.1 To fund its capital investment requirements, the Council will have access to limited sources of funding, and will have to make decisions about how, when and how much the different funding sources will be used, as follows:

1. Disposals of land and property

- This will be informed by the AMP
- Potential loss of income from investment properties
- Projected saving in running costs, and capital costs of major investment required
- Assessment against fitness of premises for purpose and current patterns of need

2. Borrowing

- There are ongoing revenue costs of borrowing; as a rule of thumb - £80-85k pa for every £1M borrowed
- The impact depends upon length of repayment period, and for shorter (than 25-30 year) life assets is higher
- Supported borrowing allocations are specific to certain service areas - schools, housing, transport, though in practice at present there is not

matching revenue funding to support these allocations, because the Council receives a “floor” revenue grant increase

- Unsupported borrowing - has a direct impact on revenue

3. S106 contributions

- Constrained by Planning law - and usually hypothecated
- Priorities governed by SPG on Planning Obligations - see above
- Principle purpose of Agreements is to allow the development to happen, and wider contributions have to be negotiated and justified individually, and can be subject to challenge and audit by the development industry

4. External partnership funding

- need to bid - and Reading is not in an EU priority region
- bidding opportunities will relate to priorities of funding agency rather than the Council
- history of success in bidding from different sources
- risk of reacting to funding opportunities informed by external priorities rather than chasing those that match the Council’s priorities / needs

5. PFI / PPP

- The Council has been successful in securing PFI funding for two key projects:
 - Whitley housing scheme - to improve & maintain 1,360 properties (funds £60M improvements and major repairs over the life of the scheme)
 - Waste disposal project - joint bid with Bracknell and Wokingham to secure £36M
- PFI schemes can have a number of disadvantages - some uncertainty about the asset at the end of the PFI period, revenue burden, control and flexibility constrained by the contract terms
- PFI schemes have the advantage that the operator has clear contractual responsibility for the life of the scheme

6. Partnership working

- Where the Council is unable to fund the investment directly
- Strategic Leisure strategy
- Car Parks PPP

7. Revenue costs

- Interest on and repayment of borrowing
- Ongoing maintenance requirements
- Depreciation / replacement of assets over time

4.5 Evaluation

- 4.5.1 The Capital Strategy is the mechanism by which the Council can match and prioritise its investment needs against available funding, over time. The process inevitably will involve rationing the available funding to agreed priorities, and the Strategy provides an evaluation framework to help make this process objective, explicit, rational and planned.
- 4.5.2 At the heart of the Strategy each year will be a strategic evaluation and decision about the balance of priority that the Council will give to capital or revenue expenditure, now and over time. The list of investment needs set out in para. 4.3 above shows a high - and growing - level of demand for capital investment, whilst the funding sources in para. 4.4 show a constrained funding supply. This requires a strategic decision about whether the capital programme will be restricted to schemes which can be funded from renewable sources, as against the extent to which the Council will use borrowing. The latter course has a direct impact on the General Fund (revenue) which is itself operating up to a ceiling constrained by capping. Decisions to use prudential borrowing, therefore, have to be financed through compensatory revenue savings, for the duration of the borrowing commitment, either explicitly associated with the development or, more generally on the Council's budget management. The Strategy therefore makes this an explicit political decision.
- 4.5.3 The Strategy also provides the methodology for making this decision. It will require services, each year, to review their key capital priorities and their timescales for delivery, and for these then to be considered against each other and available funding sources. This is a three-way evaluation - of priorities, of funding, and of timescales. The Strategy, by taking a top-down view, has the potential to allow a fourth dimension to be introduced - that of targeting investment to agreed areas of need.
- 4.5.4 The evaluation process is an annual one, and must be linked into the Council's annual and medium-term budget setting. The suggested process is as follows:

Date	Activity	Output
November / December	Service reviews of capital spend priorities	Slippage on agreed schemes Priority commitment to new schemes
	Projection of funding availability for next 3-5 years	Clarity on funding available Evaluation of revenue implications of new investment against other revenue priorities within totality of revenue budget

		Informs the total new capital that can be approved as affordable
January	Evaluation of above by ECMT and Lead Councillors - against Thriving Neighbourhoods programme	Capital Strategy for forthcoming 3-5 years endorsed
February	Gold Report to Cabinet / Council	Capital Strategy and prioritisation agreed
March / April	Spending approval	New schemes given spending approval

4.5.5 Linked to the Capital Strategy is the ongoing maintenance of the AMP process which includes:

- annual service plan reviews with property implications
- 3-5 year rolling review of current and alternative use values
- 3-5 year rolling programme of survey updates
- annual review of potential receipts against a rolling 3-5 year forecast
- review of the current IT database and requirements to provide a live property management system that incorporates monitoring and input of actual works done against the identified survey outputs

4.6 Identification of Investment Needs

4.6.1 The Council's principal tools for identifying and evaluating investment needs are as follows:

1. Asset Management Plan

The objectives of the AMP are as follows:

- To manage and maintain the condition and value of the Council's assets
 - maintenance
 - refurbishment
 - building efficiency
- To ensure suitable use of the Council's assets
 - service needs and requirements
 - service providers
 - building suitability/sufficiency
 - service efficiency
- To identify opportunities within the Council's asset base

- disposal/maximising monetary value (revenue / capital)
- alternative uses (individual/combined)
- enhance service value
- To co-ordinate and report on the asset base
 - Suitable corporate IT property management database
 - reporting systems (office/member)

The AMP includes a Property Risk Matrix

- Ongoing assessment of risk priorities of the Council’s asset stock, in particular those properties managed by services which do not attract dedicated funding
- will be informed increasingly by the asset condition survey of all properties being coordinated by Property Services
- Accompanied by an analysis of service development “wish lists”

2. Reading 2020 Community Strategy

The Community Strategy was developed by the Reading 2020 Partnership, informed by local needs. It provides a framework for improving the quality of life for the people of Reading and for defining associated investments.

The Community Strategy is underpinned by key principles of

- Sustainability
- Equality
- Creativity
- Responsibility

The key themes are:

- Children and Young People
- Cleaner and Greener Environments
- Culture, Leisure and Sport
- Decent and Affordable Housing
- Healthy People and Lifestyles
- Thriving Economy and Skills
- Safer and Stronger Communities
- Transport and Accessible Spaces

3. Transforming Services Programme and ICT Outsourcing

Investment requirements identified with regard to:

- Core technologies to support the Business Change Programme
- Accommodation (Civic Offices relocation - including ICT, SCOOT and the Emergency Operations Centre)
- Customer access to services (Call Centre, reception projects)

- ICT outsourcing contractual commitments
 - Technology refresh commitments to maintain infrastructure
 - Buy-back of IT assets at end of contract

4. Other Strategic Plans
 - Transport Policy & Plan
 - Housing Strategy
 - Education Capital Programme

4.6.2 These documents in turn are informed by the following internal processes and officer working groups:

- a) Projects Matrix
 - A list of all projects being pursued by Council services, including capital schemes
 - Maintained by Land & Property Officers' Group and reviewed regularly
 - Feeds into work of CSAG and Procurement & Policy Group
- b) Land & Property Officers' Group

To establish a framework for reviewing the Council's Land and Property assets - operational and non-operational investment.

- To monitor the progress of acquisitions, disposals and capital receipts from land and property transactions.
- To compile processes and procedures for dealing with the acquisition and disposal of land and property assets.
- To optimise the use of the Council's land and property as a corporate asset;
- To optimise income generation;
- To identify rationalisation opportunities which could generate income through disposals for new development or provide land suitable for other service needs;
- To identify the potential for joint developments with other landowners;
- To identify the disposal opportunities to create value for the Capital Programme;
- To identify acquisition opportunities to resolve current deficiencies or to create service or development opportunities
- To prepare and monitor the Asset Management Plan

- c) Capital Strategy Appraisal Group (CSAG)

Terms of reference:

- To identify and prioritise all non-funded capital schemes, and possible funding sources, with specific reference to:

- Health & safety priority
- Audit / inspection requirements
- Invest to save opportunities
- Schemes contributing to corporate priorities
- To allocate the capital allocation for capital schemes not funded from other sources, against the above criteria;
- To be the project board for the Asset Management Plan and associated performance management

CSAG has a reporting line to the Land & Property Officer Group

d) Capital Monitoring Group

- To monitor the approved capital programme
- A monthly meeting of capital project / programme managers to review progress, identify slippage and possible overspends, and agree a solution to the problems
- Some services (Transport and, from 2007/08, Education) have established boards to oversee their property / assets, which report into the CMG

The Capital Monitoring group has a reporting line into the Land & Property Officers' Group

e) Asset Management Team

- Officers from Finance, Valuation and Property services
- Terms of reference from AMP are:
 - To manage the Asset Register, Asset Appraisal Process and Performance Measurement
 - To provide detailed technical input into the Asset Management process
 - To respond to need for cross-service coordination identified from consultation with External Audit and Service Managers through the Land & Property Officers process
 - To regularise an existing informal arrangement and provide a greater understanding of Asset Management across all Service areas

f) Service Plans

- Reviewed annually [by Service Managers and the CPO] to identify asset proposals and how property assets contribute towards service delivery

4.6.3 Lead Councillor oversight is achieved through the following bodies:

a) CAMP Advisory Steering Group

- to be involved in the preparation of the Corporate Asset Management Plan;
 - to advise and make representations to the Cabinet on the implementation of the CAMP in the decision-making process in respect of relevant land and property matters;
- b) Lead Councillor Briefings
- c) Cabinet

The Lead Councillor for Corporate Strategy is responsible for asset management, land and property and (with the Leader) for the Capital Strategy.

4.6.3 Coordination with stakeholders and partners is through the LSP Steering Group, which is chaired by the Leader of the Council.

4.7 Performance Assessment

4.7.1 This is addressed through the AMP, in terms of the following criteria:

- Investment consistent with strategic aims [and transforming / reshaping services]
- All planned service outcomes achieved
- Project delivered on time
- Property-related investment to hit relevant upper quartile of AMP PIs
- Stakeholder satisfaction - high during and after project
- Procurement Rules complied with - including partnership procurement through SECE
- Spend within budget
- Planned revenue savings realised
- Fees minimised
- Contingencies minimised
- Build to recognised design standards
- Safety on site during works
- Post-project appraisal

4.7.2 GOSE originally required local authorities to submit a number of national and local performance indicators as part of their AMPs, relating to property performance, energy and condition. These are under review and latest indications are that they will be reviewed as part of the CPA criteria. Until clear guidance is given, the Council will remain in two specific benchmarking groups (Berkshire Valuers, and the Swindon Inter-Authorities Group), and maintain links with national network groups and the Association of Chief Estates Surveyors (ACES).

4.7.3 Performance assessment is monitored by reference to Correlation Tables between Service Plans and the following 4 Strategic Property Priorities:

- 1) Maximise effective use of all properties
- 2) Ensure Value for money
- 3) Maximise Service return of property assets
- 4) Measure Service & Corporate plan targets with property implications

4.7.4 Other methods of monitoring performance include the Asset Register and Property Audit, Capital Receipts Register and Capital Projects Matrix.

5. CONTRIBUTION TO STRATEGIC AIMS

5.1 The Capital Strategy and AMP are integral to ensuring that the Council can make and fund the investment required to meet its strategic aims, but with particular relevance to promoting equality, social inclusion and a safe and healthy environment for all.

6. COMMUNITY ENGAGEMENT AND INFORMATION

6.1 The Strategy and AMP, and the priorities set out in them, will be shared and discussed with key partners and stakeholders, both individually and through the LSP Steering Group and appropriate delivery groups.

7. LEGAL IMPLICATIONS

7.1 The latest guidelines specifically for Asset Management Plans were issued by the then ODPM in August 2005, and underpins earlier requirements of both ODPM and DfES in respect of sound asset management planning. The principles are now enshrined in the CPA and form an integral part of the Audit Commission's "Key Lines of Enquiry for the Use of Resources Assessments, within the Use of Resources Guidance for Councils, 2006.

7.2 Local Authorities can own land, property and other assets for specific purposes, under legislation relating to those purposes, or generally for public / community benefit. Land transactions are governed by the provisions of Sections 120 - 131 of the Local Government Act 1972, whilst Section 132 governs the provision of offices.

8. FINANCIAL IMPLICATIONS

8.1 Under the Local Government Act 2003, credit approvals were abolished and a new prudential capital finance system was introduced on 1 April 2004.

8.2 From 2004/05 Government "support" for capital investment is described as either Supported Capital Expenditure (Revenue), known as SCE(R), or Supported Capital Expenditure (Capital Grant), known as SCE(C). SCE can be further classified as either Single Pot SCE(R)/SCE(C), or ring-fenced SCE(R)/SCE(C).

- 8.3 Historically borrowing approvals from central government set the limit of a local authority's long-term borrowing, and attracted Revenue Support Grant (RSG) or Housing Revenue Account Subsidy (HRAS) towards the financing costs of loans (interest payments and provisions for the repayment of principal). Under the Prudential system introduced on 1 April 2004, unless, exceptionally, a national limit is imposed, the Council determines its own affordable borrowing limit, taking account of the revenue costs of the borrowing (interest & principal repayment).
- 8.4 However, in the 2006/07 revenue grant settlement the government moved the capital financing block of the formula needs analysis within the floor and scaling factors, so therefore authorities such as Reading currently at the floor get no additional RSG towards supported capital.
- 8.5 The local authority will take the totality of Government support, both SCE(R) and SCE(C), into account in setting its prudential limits for the forthcoming financial year.

9. BACKGROUND PAPERS

Gold Report 2006/07

J Painter
S Hicks

January 2007