CAPITAL STRATEGY
2015 to 2019

NEWCASTLE
UNDER LYME
BOROUGH COUNCIL

CONTENTS

ANNEXES

1. INTRODUCTION

1.1 The purpose of the Capital Strategy is to set out how the Council proposes to deploy its capital resources in order to assist it to achieve its corporate and service objectives. It takes into account other relevant Council strategies, policies and plans and the views of partners and interested parties with whom the Council is involved. It also takes account of the resources which are likely to be available to the Council to fund capital investment and the effect of that investment on the Council's revenue budget. It will serve as a useful point of reference when determining or reviewing the Council's Capital Programme.

1.2 The Council's current detailed capital investment plan is contained in its Approved Capital Programme. A two year programme was approved by Full Council on 26 February 2014. This programme provides for £7.242m of investment over the two-year period in projects across all of the Council's priority areas, of which £2.238m was programmed to be spent in 2014/15. Since then, programmed expenditure for 2014/15 has been reviewed, resulting in a revised 2014/15 programme of £4.067m being agreed. This takes account of slippage coming forward from 2013/14. and is summarised below, showing the constituent categories of projects:

Project Categories	Planned Expenditure £m
Regeneration, Planning and Town Centres Development	0.805
Housing Related Projects	1.441
Safer Communities	0.040
Culture and Leisure	0.720
Environment and Recycling	0.129
Operational Equipment	0.680
Investment in Technology	0.157
General Projects	0.095
Total	4.067

1.3 Full Council will consider a capital programme to continue investment beyond 2014/15 on 25 February 2015.

1.4 The Strategy has been prepared against a background of continuing reductions in funding provided to local authorities by central government and its agencies, arising from the need to restrain public expenditure owing to the ongoing economic conditions and to rebalance public finances. At the same time, the Council's own resources available to finance capital projects have reduced to a low level and will need replenishing before any substantial further capital investments can be made. As a result the Council is considering and consulting upon a programme of asset disposals to address this situation. In the interim period, before asset sales can provide these additional resources, the current approved Capital Programme was restricted to cover a two year period, 2013/14 to 2014/15. In 2014/15 this included only £1.039m of new projects funded from the Council's own resources, together with £0.515m additional housing related projects, all funded from the New Homes Bonus. All of these new projects are essential to maintain operational continuity.

2. KEY OBJECTIVES AND PRIORITIES

2.1 The Council's Priorities contained in the Council Plan are:

A Clean, Safe and Sustainable Borough
A Borough of Opportunity
A Healthy and Active Community
A Co-operative Council delivering high quality, community driven services

2.2 Capital investment projects will be included in the Council's Capital Programme on the basis that they address issues arising from one or more of these Priority Areas. An indication is shown against each project in the Programme of the area or areas it addresses.

2.3 New proposals for capital investment will be assessed against the corporate priorities to ensure that they will contribute towards achieving the aims expressed. This assessment will be carried out as part of the appraisal process for new projects.

2.4 The Council will also endeavour, through its programme of capital investment, to maintain its assets to a standard such that they remain fit for purpose, enabling continuity of service delivery. In particular, it will carry out regular surveys of its stock of buildings and structures to ascertain their state of repair and any remedial works which may be necessary. Repair or improvement works arising from such surveys will be carried out subject to the availability of resources and consideration of the role the building plays in service delivery and the need to continue the relevant service in order to contribute to meeting corporate priorities. If a building is no longer required for service delivery, it will either be considered for alternative use by the Council or its partners or disposed of and the proceeds made available for future capital investment in priority areas. All property assets are held to either (i) provide Council services, (ii) provide an investment return or (iii) to further regeneration projects.

2.5 An Assets Review Group has been established, chaired by the Chief Executive. This Group keeps the Council's capital investment strategy under continuous review, including the prioritisation of projects for inclusion in future capital investment programmes over the medium term. Regular reviews of the property portfolio will be carried out by the Group to identify properties or land which could potentially be disposed of, following a consultation process in the case of significant proposals, and a capital receipt obtained from the sale. Mindful of the currently poor market conditions arising from the economic downturn whereby it is possible that significant sales will be slow to arise in the short term, both because of lack of demand and the need to obtain the best sale price, the Group will monitor progress in relation to assets approved for sale.

2.6 Where suitable "Invest to Save" projects can be identified the Council will actively pursue such projects as it recognises the benefits, in the form of reduced costs falling on the General Fund Revenue Account, that can result from such investment.

2.7 The Council will seek, where practicable and economically justifiable, to develop its investment projects having regard to principles of sustainability, for example in relation to materials used and environmentally friendly modes of operation once in use, following construction or purchase.

3. FACTORS INFLUENCING THE CAPITAL PROGRAMME

3.1 Projects for inclusion in the capital programme arise from a variety of sources, some of them internally generated and some arising from external factors. The more significant of these can be summarised diagrammatically as follows:

INTERNAL	EXTERNAL
Corporate Priorities, as set out in the Council Plan	Government sponsored programmes, e.g. Disabled Facilities Grants
Investment identified in Strategies, Policies and Plans	Unforeseen Emergency Works
Work needed to maintain Property Assets	Works required to comply with legislation, e.g. re disabled access, health and safety
Vehicles, Plant and Equipment replacement needs	Projects resulting from Partnership Activity
ICT Investment and Replacement	Availability of External Funding
Invest to Save Projects	Public expectation that works should be carried out

These are discussed in greater detail in Sections 4 and 5 below

4. LINKS WITH OTHER STRATEGIES, POLICIES AND PLANS

4.1 As well as the Council Plan and the Capital Programme the Capital Strategy has clear links to many other strategies, policies and plans, the most significant of which are shown in the following table:

Key Strategies
Economic Development Strategy
Health and Wellbeing Strategy
Stronger and Safer Communities Strategy
Other Strategies
Asset Management Strategy
Medium Term Financial Strategy
Service and Financial Plans
Procurement Strategy
North Staffs Green Spaces Strategy
Co-Operative Strategy
Private Sector Housing Renewal Strategy
Housing Strategy
Arts and Cultural Strategy
Customer Access Strategy
Energy Efficiency and Climate Change Strategy and Carbon Reduction Plan
Treasury Management Strategy
Sustainable Community Strategy
North Staffs Core Spatial Strategy

4.2 An important link is to the Asset Management Strategy (AMS) in that many capital investment projects are related to the Council's fixed assets, such as its stock of buildings. Needs and priorities identified in the AMS will require consideration for inclusion in the Council's Capital Programme and have wider financial consequences. Equally important is the opportunity to generate capital receipts from the disposal of land/property where there is no current or likely future operational need.

4.3 The Medium Term Financial Strategy will take account of the revenue effect of capital investment.

4.4 Appraisal, procurement and management of capital projects needs to be carried out with regard to the objectives and methodologies and the principles and practices set out in the Procurement Strategy.

4.5 The various service based strategies will inform the Council's capital investment process through their identification of areas for action and of priorities within individual service areas.

4.6 The Treasury Management Strategy needs to reflect planned capital spend, particularly with regard to setting limits for tying up money over the longer term and the limits relating to the amount of permitted borrowing.

4.7 In addition the Capital Strategy will be influenced by the results of any Service Reviews which have been carried out by the Council, either as part of the budget preparation process or as one-off exercises. Where these reviews identify areas of service which are to be discontinued, this may give rise to assets which will be available for disposal and possibly generate a capital receipt which will be available for funding further capital investment. Alternatively reviews may identify areas for investment, including potential "invest to save" projects, some of which may be capital investment.

5. EXTERNAL INFLUENCES, PARTNERS AND CONSULTATION WITH OTHER INTERESTED PARTIES

5.1 The Council's capital investment plans are influenced by a number of external parties and factors: central government and its agencies, legislation requiring capital works, partner organisations, businesses, developers and by the needs and views of other interested parties, particularly those of Borough residents.

5.2 Government sponsored initiatives and programmes will influence the projects which the Council will include in its capital investment plans. In particular, its Housing Investment Programme in which the Council participates with regard to Disabled Facilities Grants is a major area of investment where funding is provided by Government to meet a proportion of the costs of some of these activities. This funding currently consists mainly of grant payments to partially meet the cost of disabled facilities grants payable to eligible applicants. From 2015/16 grant funding for disabled facilities grants will no longer be provided by the government but will come from the new Staffordshire Bettercare Fund. Whilst the 2015/16 grant is set at similar levels to previously, there is no guarantee that these historic levels will be maintained in later years now that the Council is competing with other health related needs and organisations for funding from the whole Bettercare funding pot within Staffordshire.

5.3 Where it may be required by legislation to carry out works of a capital nature, such as to comply with the Disablement Disability Act or Health and Safety requirements, or anti-pollution regulations, the Council will consider the most effective way to discharge its obligations and appropriate provision will be made in its Capital Programme once it has determined that it shall carry out the necessary work and that this should be capitalised.

5.4 The Council works with a wide range of partners from the public, private, voluntary and community sectors, all of which have an influence over its spending priorities. Relationships with partners, including those concerning capital matters, will be governed by the Council's Partnerships Code of Practice. Wherever possible the Council will seek to work in partnership with others to deliver its capital investment programme in order to provide facilities which meet its own and partners needs. When working with the private sector, the objective will be to maximise the benefits to the Council and the community from any projects, both in terms of outputs and in relation to obtaining funding for the project.

5.5 The Council is a participant in the Local Strategic Partnership (LSP) and will have regard to the content of its Sustainable Community Strategy together with any other elements of the partnership which relate to capital investment and may be able to use the capital programme as a means of fulfilling some of its obligations to the LSP.

5.6 Projects for consideration for inclusion in the Capital Programme may arise from the Council's participation in the Staffordshire and Stoke on Trent Local Enterprise Partnership (LEP) or similar sub-regional partnerships which seek to stimulate economic growth.

5.7 The Council has established a Town Centre Partnership, together with relevant parties such as representatives of retailers and businesses in the town centres of Newcastle and Kidsgrove. The partnership may identify proposals for town centre improvements which could place demands upon future capital programmes where such works align with the Council's economic development objectives. It may also present an opportunity for costs to be shared between the parties likely to benefit from their implementation.

5.8 The availability of external funding will also influence the projects which the Council will include in its capital investment plans. This is referred to in the following section of the Strategy.

5.9 Regard will be had to the Council's obligations under Disabled Access requirements in putting forward proposals for capital investment and in the design of any facilities which are proposed.

5.10 Wherever possible the principles of financial and environmental sustainability will be incorporated into any capital projects.

6. RESOURCES AVAILABLE TO FINANCE CAPITAL INVESTMENT

6.1 The following diagram shows the main sources of funding which are available to the Council to finance its capital investment. Individual projects may be financed solely by one of these or by a combination of a number of them.

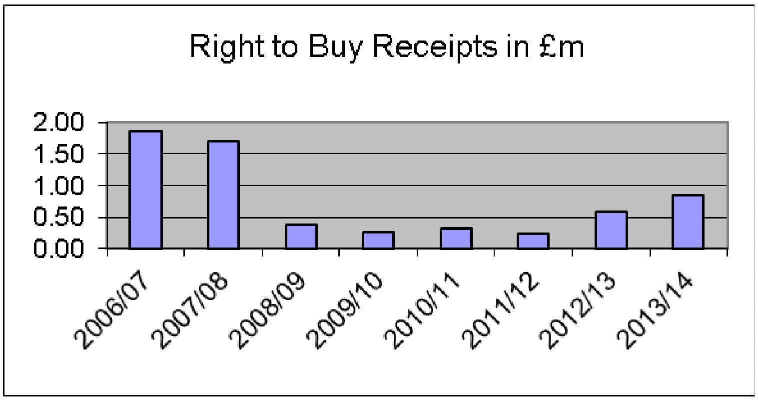
INTERNAL	EXTERNAL
Capital Receipts in Hand	Government Grants
Reserves	Other Grants, e.g. Heritage Lottery Fund
Contribution from Revenue Account	New Capital Receipts from Asset Sales
	Contributions from Partners
	Other Contributions
	Borrowing
	Private Finance Initiative or Similar

Lighter shades indicate sources which are not currently used

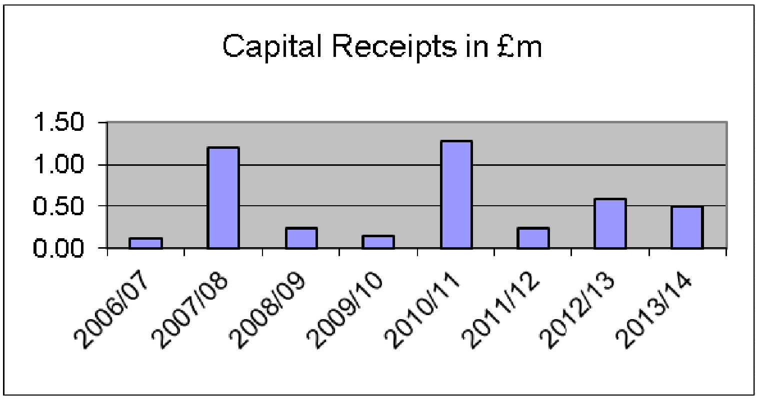
More details of these funding sources are given in the following paragraphs.

6.2 Capital Receipts have been the major source of funding for the Capital Programme in recent years. The amount of useable capital receipts in hand at 1 April 2014 was £3.4m. The majority of capital receipts are committed to finance the currently approved Capital Programme. Additional capital projects may be financed from capital receipts obtained by asset sales or other new capital streams.

6.3 A previously significant source of capital receipts has been the Council's continuing right to a share of receipts arising from tenants of Aspire Housing under the Right to Buy legislation. However, Right to Buy sales have diminished from historically high levels, as shown in the chart below, both because of the present depressed property market and there being fewer potential purchasers as time goes by. There was a small increase in sales in 2012/13, which trend continued in 2013/14, probably arising from government changes to the rules governing sales and the improving property market.



6.4 In addition there are usually some small receipts from the sale of minor pieces of land or property but these are unlikely to be significant in amount over the next few years. Indeed, as may be seen from the chart below, capital receipts from sales of land and property (including covenant release payments) have been relatively modest in recent times.



6.5 The ICT Development Fund is specifically earmarked for meeting the costs of ICT development, both capital and revenue. The balance on the Fund at 1 April 2014 was £0.3m. This balance is fully committed to financing projects included in the current ICT Development Programme plus certain ongoing revenue costs. Accordingly, the revenue budget provides for an annual contribution of £0.05m to be made to the Fund in order to replenish it. There are no other reserves currently available to finance capital investment.

6.6 The use of capital receipts and reserves to finance new capital projects has an effect upon investment income receipts and hence the General Fund Revenue Account. At current investment interest rates of around 0.5%, every £100,000 of such capital receipts or reserve balances used will cost £500 to the revenue account on an ongoing basis. The use of capital receipts and reserves to finance the Capital Programme 2013/14 to 2014/15 was taken account of in the Medium Term Financial Strategy and in the 2014/15 Revenue Budget. Any receipts generated from the sale of assets will be invested until they are required to finance capital expenditure.

6.7 Wherever Government grants are available to meet all or part of the cost of capital projects the Council will ensure that these are applied for and used to maximise the amount of investment which can be made and the benefit which will result from that investment. Currently Council policy is to apply New Homes Bonus grant partly in support of the revenue budget and partly to finance housing capital projects included in the housing investment element of the capital programme, the respective proportions depending on the relative needs of the capital programme and revenue budget.

6.8 Wherever possible and appropriate, funding will be sought towards the cost of capital projects from external parties. These will include property developers, government agencies, funding from the European Union (normally channelled via a UK Government Department), funding bodies such as the National Lottery or the Football Foundation, and partner organisations that may join with the Council to bring forward particular projects of mutual benefit. In the current climate, however, the Council may find such sources of funding to be limited compared with previous years.

6.9 There remains the potential for the Council to introduce a Community Infrastructure Levy. This may provide funding for capital investment required as a result of a development taking place, for example new roads or footpaths. It will partially replace “Section 106” contributions payable by developers as a condition of being granted planning permission.

6.10 As a result of changes to the treatment of business rates collected by councils (as implemented by the Local Government Finance Act 2012), which allow part of the amount collected to be retained by them, a Stoke on Trent and Staffordshire Business Rates Pool has been established to pool retained rates relating to a number of Staffordshire authorities, including Newcastle Borough Council. This has benefits with regard to maximising the total amount retained, with the additional amount gained by pooling being available to participating authorities in a number of ways. One of the features of the pooling arrangement is the establishment of an investment fund to finance projects which will contribute to economic regeneration within the areas of the participating authorities.

6.11 The Council is presently debt free, having no long term loans outstanding. Its current policy, expressed in its Treasury Management Strategy for 2014/15, approved by Council on 26 February 2014, is that it is not intended to utilise borrowing to fund the capital programme in view of the Council currently possessing sufficient reserves and useable capital receipts to finance capital expenditure from those sources. It is stated that borrowing may become an option in future years if these resources become sufficiently depleted that they are insufficient to finance proposed capital expenditure and, if the costs of borrowing compare favourably with those of alternatives such as using unapplied capital receipts, i.e. if in fact there is a sufficient business case to do so. It is possible that for a period of time during the span of the Capital Strategy capital resources will be depleted to the extent that they are insufficient to finance further significant capital investment, including projects necessary to ensure operational continuity. In considering the "Funding the Council's Capital Programme" report (see Annex C) on 15 October 2014, the Cabinet resolved that known capital programme needs will in the first resort be met through the proceeds of land disposal.

6.12 There is no intention to charge any capital investment directly to the General Fund Revenue Account.

6.13 The Council does not presently intend to consider the use of Private Finance Initiative type arrangements or tax increment financing to meet the cost of capital investment.

6.14 The Executive Director (Resources and Support Services) will prepare estimates of the resources which are presently in hand plus those likely to be available in future to finance capital investment. He will keep these estimates up to date and periodically report upon them to Cabinet and Council, particularly when the Capital Programme is being considered. The Council will decide on the appropriate form of financing for projects included in the Capital Programme based on advice from the Executive Director as to availability and the consequences and costs of use of the various options.

6.15 The need to have available liquid funds to be used to pay for capital projects will be borne in mind when drawing up the Council's Treasury Management Strategy. An appropriate limit will be placed on long term investments based on predictions of the capital spending profile over the period covered by the Strategy so that there are likely to be enough readily available easily cashable investments to meet requirements.

7. REVENUE IMPLICATIONS

7.1 The impact, if any, upon the General Fund Revenue Account, which will arise from capital investment proposals will be calculated and considered at the time projects are placed before Cabinet or Full Council for inclusion in the Approved Capital Programme or for specific approval. Such impact may be in the form of reduced interest receipts, where projects are to be financed from capital receipts or reserves, borrowing costs, if loan finance is to be employed, or additional running costs arising from the provision of a new or altered facility. Offset against these costs will be any savings which might accrue, for example from "invest to save" projects.

7.2 In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital, which the Council has adopted, the incremental impact of the Capital Programme will be calculated and considered when that programme is placed before Full Council for approval, in February each year.

7.3 The Council will always have regard to the affordability of its proposed capital investments, in terms of the revenue implications arising.

7.4 The revenue implications of the capital programme will be taken account of in the Council's Medium Term Financial Strategy.

8. APPRAISAL OF INVESTMENT PROPOSALS

8.1 In accordance with the Council's Financial Regulations proposals for new capital investment estimated to cost more than £20,000 will be subject to an appraisal process, whereby a business case will be made out for the proposal, considering its contribution towards meeting corporate objectives and service priorities, its outputs and milestones, its cost and sources of and its effect, if any, upon the revenue budget in future years. Less significant projects costing below £20,000 will be subject to a simplified process. All new capital investment proposals must be appraised by the Capital Programme Review Group prior to specific Cabinet approval being requested. Before any project may be commenced Specific Cabinet approval must be obtained and the project must be included in the Approved Capital Programme, after considering its priority relative to other proposed projects and the overall level of resources available to fund the Capital Programme as a whole.

8.2 A Risk Assessment, in the approved corporate format, will be completed for all capital projects subject to the Benefits Management Model process.

9. MONITORING ARRANGEMENTS AND PROJECT MANAGEMENT

9.1 Progress in relation to individual projects will be monitored through the Council's arrangements for the monitoring of capital projects, which entail quarterly monitoring reports to be received by the Cabinet. The Capital Programme Review Group will also review project progress and corrective action will be initiated where projects fall behind schedule, appear likely to overspend or otherwise give cause for concern. Individual Project Forms will be maintained in respect of each project by the Executive Director (Resources and Support Services) which will track the progress of projects and be available to officers and members with an interest in reviewing progress of those projects.

9.2 All projects will be assigned to a named officer who will be responsible for overseeing the project, including project monitoring and control and implementing exception reports and, where appropriate, corrective action if the project deviates from its planned progress or cost.

9.3 Where complex major projects are to be carried out, consideration will be given to employing the Prince2 project management methodology.

9.4 All capital projects will be subject to Internal Audit review to ensure correct procedures have been followed and sums have been paid out in accordance with Financial Regulations and Standing Orders as they relate to contracts. Where projects have received funding from government or quasi-governmental sources, the expenditure will also be subject in many cases to external audit. European Union funded projects may also be subject to audit by auditors on behalf of that body. Where monitoring returns or claims for reimbursement of expenditure are required to be sent to funding bodies, these will be completed and forwarded promptly to the relevant body in compliance with any deadlines laid down by them.

9.5 All capital investment proposals and project progress and management are subject to the Council's scrutiny arrangements.

10. STATUTORY FRAMEWORK

10.1 The Council's capital investment is carried out within the statutory framework laid down by the Local Government Act 2003 and regulations under that Act. Accordingly, only expenditure which fits the definition of capital expenditure contained in the Act or Regulations pursuant to it will be capitalised.

10.2 Capital expenditure is defined by the 2003 Act as that which falls to be capitalised in accordance with proper practices, which means in accordance with the Code of Practice on Local Authority Accounting, published by the Chartered Institute of Public Finance and Accountancy (CIPFA), applicable to all local authorities. Annex A sets out a summarised version of the definition provided by the Code. In addition there are a number of other types of expenditure that have been defined by Regulations as being treatable as capital in nature. Generally these do not apply to this Council.

10.3 It should be noted that the Act and Regulations are framed in a permissive way, allowing local authorities to capitalise expenditure which fits the definition but not forcing them to capitalise such expenditure. The Council will decide, therefore, whether to include a project meeting the capital definition in its capital programme or to meet its cost from a revenue account.

10.4 The Council does not set a minimum amount for the capitalisation of expenditure (de minimis level). Accordingly, any expenditure complying with the above definition may be capitalised.

10.5 Capital Finance Regulations stipulate that amounts of less than £10,000 may not be treated as capital receipts. Accordingly, any such sums received, although otherwise capital in nature, will be credited to a revenue account.

11. PROCUREMENT

11.1 Regard will be had to the contents of the Council's Procurement Strategy when considering the delivery of capital projects.

11.2 Where estimated project contract costs exceed the relevant European Union threshold, the appropriate EU tendering procedures will be followed.

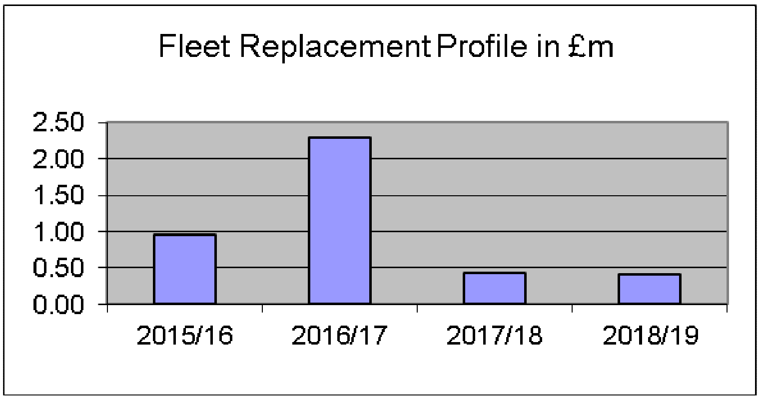
11.3 Standing Orders relating to contracts will apply to all contracts proposed to be let in relation to capital projects, together with Financial Regulations and the provisions of the Council's scheme of Delegation.

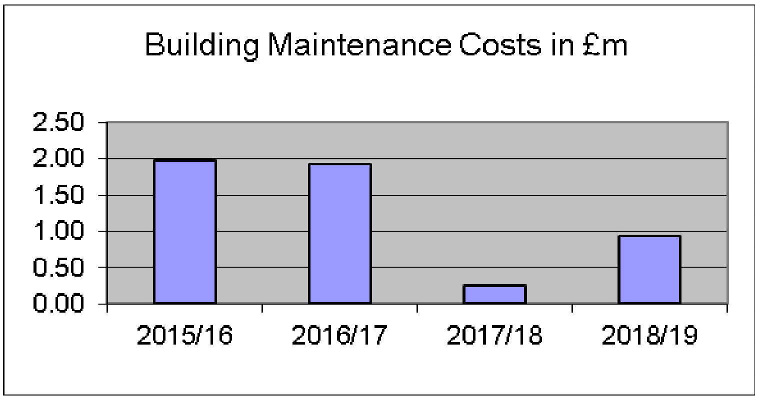
11.4 The achievement of Value for Money will be a guiding principle in the procurement of capital works and services and in managing contracts.

12. FUTURE CAPITAL PROGRAMME

12.1 During the period covered by this Strategy, there will be a need for some items of capital investment to be made in order to ensure continued service delivery or to comply with statutory requirements or to ensure health and safety of staff and public. Examples of these include: operational building repairs and maintenance; replacement of vehicles, plant and equipment required to deliver services; disabled facilities grants.

12.2 The following charts illustrate the scale of expenditure which the Council may need to fund over the next few years, in respect of fleet replacement, where existing items reach the end of their allotted life and in respect of operational building maintenance works, based on stock condition surveys carried out.





It may be possible to extend the lives of some of the vehicles, if they are in a fit condition when their replacement date is reached. Similarly some of the maintenance/improvement works to the Council's operational properties may be capable of being deferred; periodic stock condition surveys will inform any decisions in this regard. Additionally, some properties may be deemed surplus to operational requirements and eligible for disposal in their current condition.

12.3 In addition to the essential works outlined in paragraph 12.2, there are significant amounts of expenditure which need to be incurred:

- in respect of the commercial portfolio in order to keep properties in a state of repair such as to continue to obtain a reasonable rental income.
- to maintain various engineering structures such as walls, bridges, drains, and reservoirs to ensure safety to the public

Over the period 2015/16 to 2018/19 it is estimated that £3.47m (commercial properties) and £2.10m (engineering structures) need to be spent.

12.4 Funding for additional projects not essential to operational continuity will depend on capital receipts from asset sales. Reports concerning proposed asset sales were considered and recommendations approved by the Cabinet on 12 November 2014.

12.5 Work is ongoing to compile a basic programme containing those projects which it can be foreseen will be necessary to ensure service delivery or to comply with statutory requirements or ensure health and safety. The programme will also contain projects which are fully funded by external parties and which meet corporate priorities. The overall size of the programme will be determined by the resources estimated to be available to fund it.

12.6 It will be essential to apply a robust prioritisation process to determine which projects are included in the capital programme and are subsequently proceeded with. No projects should be considered in isolation. They must be required to be measured against all other competing projects to determine which should go forward. This process should also apply to any projects which are proposed subsequent to the approval of the programme, to ensure that only those projects with a high priority are proceeded with and funds are not diverted to projects of a lesser priority.

12.7 Funding for this basic programme is likely to be available to some extent from the following sources:

- Further capital receipts from asset sales
- Right to Buy capital receipts
- Government grants
- Other external contributions

All of the above funding sources are likely to be limited so the programme can only include affordable basic projects.

12.8 Current estimates of the amount required to be invested in projects to ensure continued service delivery compared with forecasts of likely receipts from asset sales and other available resources indicate that there may be insufficient resources available to fund all of these requirements in the short term. If significant sales of assets cannot be achieved within this timeframe, the Council may have to review its stance with regard to borrowing, if this proves to be the only practical means of funding necessary investment, particularly if a major unforeseen item of capital expenditure were to materialise, for example major repairs to enable an operational building to continue to be used or new legislation requiring capital spending.

12.9 The Cabinet considered two reports concerning the Council's capital investment needs over the period 2015/16 to 2018/19 and how the consequent expenditure could be funded. Owing to the significance of these reports and as an aid in understanding the detailed issues they have been included as annexes to the Capital Strategy, as follows:

- Annex B: The Newcastle Capital Investment Programme (Cabinet 5 February 2014);
- Annex C: Funding the Council's Capital Programme (Cabinet 15 October 2014)

In summary, the first report set out the investment needed over the four year period 2015/16 to 2018/19, totalling an estimated £18.859m, in order to maintain service continuity and for health and safety reasons and to safeguard income from the commercial portfolio. It highlights the very significant shortfall in resources available to finance this investment and sets out a number of strategies for dealing with this. The second report set out options for funding the capital investment identified in the first report. It concluded that the only realistic option to meet investment needs is a systematic programme of surplus land disposal, which will also enable the Council to deliver its policy objective of bringing forward more affordable and social housing by the release of some of its land holdings. The alternative of borrowing to part fund the programme is seen to be a more expensive option owing to the cost of servicing the debt. Accordingly Cabinet resolved: "That Cabinet agrees with the principle that the Council, as a first resort, will seek to fund its future known capital programme needs through the annual asset management planning process by the identification of land or property in its ownership that is capable of and appropriate for disposal".

ANNEX A

DEFINITION OF CAPITAL EXPENDITURE INCLUDED IN THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UNITED KINGDOM

All expenditure that can be directly attributed to the acquisition, creation or enhancement of items of property, plant and equipment or the acquisition of rights over certain longer-term intangible benefits is accounted for on an accruals basis and capitalised as a non-current asset. It must be probable that the future economic benefits or service potential associated with the item will flow to the Council - the Council does not have to own the item but it must be more than likely that it has gained the right to use the item in the provision of services or to generate cash from it. In addition it must be possible to measure the cost of the item reliably.

Expenditure that should be capitalised will include expenditure on the:

- Acquisition, reclamation or laying out of land
- Acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures
- Acquisition, installation or replacement of movable or immovable plant, machinery, apparatus, vehicles and vessels

In this context, the definition of enhancement contained in the previous Code of Practice (SORP) is still applicable and means the carrying out of works which are intended to:

- Lengthen substantially the useful life of the asset, or
- Increase substantially the market value of the asset, or
- Increase substantially the extent to which the asset can or will be used for the purpose or in conjunction with the functions of the local authority concerned.

Under this definition, improvement works and structural repairs should be capitalised, whereas expenditure to ensure that the fixed asset maintains its previously assessed standard of performance should be recognised in the revenue account as it is incurred. Expenditure on existing fixed assets should be capitalised in three circumstances:

- Enhancement - see above
- Where a component of the fixed asset that has been treated separately for depreciation purposes and depreciated over its individual useful life is replaced or restored
- Where the subsequent expenditure relates to a major inspection or overhaul of a fixed asset that restores the benefits of the asset that have been consumed by the authority and have already been reflected in depreciation

Assets acquired on terms meeting the definition of a finance lease should be capitalised and included together with a liability to pay future rentals.

Where an asset is acquired for other than cash consideration or where payment is deferred the asset should be recognised and included in the balance sheet at fair value.

ANNEX B

CABINET REPORT 5 FEBRUARY 2014 "THE NEWCASTLE CAPITAL INVESTMENT PROGRAMME"

THE NEWCASTLE CAPITAL INVESTMENT PROGRAMME

Submitted by: **Executive Management Team**

Portfolio: **Finance and Resources; Economic Development and Town Centres**

Ward(s) affected: **All**

Purpose of the Report
To review the projected capital expenditure requirements over the four year period 2015/16 to 2018/19 and the resources likely to be available to finance this expenditure. To develop a number of different strategies to deal with these financial challenges.

Recommendations

(a) That the contents of the report and appendix be noted.

(b) That strategies are developed to find solutions to meet the financial challenges in respect of the medium term capital expenditure requirements.

(c) That consideration is given to the formulation of a cabinet panel to develop and oversee the process required.

Reasons
The Council needs to be aware of future capital commitments over the medium term and whether it will have the resources available to finance them and to consider all available options in respect of its assets and future liabilities associated with them.

1. **Background**

1.1 At its meeting on 15 January 2014 the Cabinet approved the Asset Management Strategy and recommended the Capital Strategy for approval at the full Council meeting on 26 February. This report seeks to bring together the two documents in developing the detailed strategies in delivering the Council's objectives in the medium term. The Council has an ongoing need to incur capital expenditure in order to replace or maintain its operational assets so that services can continue to be provided in accordance with corporate priorities and to ensure the safety and comfort of customers and staff and to comply with statutory provisions. It also needs to maintain its stock of investment assets, such as shops and industrial units in order to comply with its landlord responsibilities and safeguard future income from these assets.

1.2 There are currently very limited resources available to finance capital expenditure. A part of the annual New Homes Bonus grant (£0.515m in 2014/15) is presently used to finance housing capital activities, principally disabled facilities grants, in excess of other grant funding. With the exception of the ICT Development Fund, which is fully committed to financing ICT development and replacement of essential ICT systems, all of the Council's capital reserves have been used. Capital receipts will, therefore, be the main source of funding for future capital requirements. Following the use of £0.954m of receipts to fund new projects included in the 2014/15 capital programme, there will remain only £0.700m of receipts available for future use and it is prudent to keep this as a contingent sum for emergency situations. Continued capital investment, therefore, is largely dependent upon generating further capital receipts in the quantities, and at the time, required.

2. **Issues**

2.1 Based on current information eg service demands, recent stock condition surveys etc. the attached Appendix sets out projected capital expenditure requirements of £18.859m over the period 2015/16 to 2018/19. The expenditure is that which is considered necessary to:

- enable the Council to continue to provide its services in accordance with corporate priorities and/or approved strategies eg. vehicles and plant, repairs to operational buildings;
- fulfil its environmental and heritage responsibilities;
- comply with legislation, e.g. health and safety, disabled facilities grants;
- maintain its income from its investment properties, eg. shops, offices, industrial units

2.2 All of this expenditure will have to be financed by the Council itself from its own resources, since it is not anticipated that it will be funded by external bodies, or it is expenditure required over and above any likely external contribution, for example in respect of disabled facilities grants. It should be borne in mind that these estimates represent the minimum amounts that the Council is required to spend – or is likely to have to spend.

2.3 With the exception of some of the projects included in the "Investing in Community Facilities" section it does not include the provision of new facilities or other development expenditure, for example, in respect of economic development activities or a modern leisure facility in Kidsgrove (to replace the out-dated facility provided at Clough Hall School). The facility is currently managed by the Borough Council on behalf of Staffordshire County Council and Clough Hall School. An ambitious plan for a comprehensive replacement of the facility has been discussed by both councils which would see the investment of new capital monies to replace the leisure centre. An outline business case has indicated that both councils can reduce their revenue cost liability by investing in a new facility although this will require the necessary capital funding package to be assembled. The current estimates are £4.75m for a refurbishment and £7.75m for a replacement. It is hoped that both the County Council and Sport England will contribute to these costs but any amount that the Borough Council has to fund will be in addition to the £19m of expenditure identified in the attached appendix.

2.4 Similarly, if the Council wished to invest in the Museum with a view to it being in a condition where it would be feasible to transfer it to a Trust in 5 years' time, this could require an investment of around £3.5m. Funding towards this would be sought from the Lottery Fund but any Borough Council funding would again add to the figures already outlined.

3. **Funding**

3.1 As highlighted in paragraph 1.2, capital resources are currently very limited. Councils fund capital expenditure in a number of ways. As significant owners and users of land and buildings, councils carry out regular reviews of their assets and make decisions about which are surplus to their needs. The Audit Commission has produced a number of studies on councils' stewardship of assets and recommends that councils keep their assets under review. In Newcastle a comprehensive asset management system is operated and through the annual Asset Management Strategy land and property is identified for disposal. The majority of councils fund their capital development requirements through the disposal of surplus assets. Where there is a shortfall of available assets to dispose of, councils will use borrowing as the alternative mechanism for funding capital development. Councils may also use grant funding from a range of sources to supplement their own capital funding for particular schemes.

3.2 Cabinet approved the marketing for sale of a number of sites at its meeting on 15 January 2014, which could realise receipts of up to £8.000m. Between now and 31 March 2019 other sites or assets will have to be approved for sale and opportunities may arise to realise receipts from one-off sales. It may take some time for this activity to result in actual receipts being received and in the meantime there may be urgent works which need to be carried out. However, these receipts are essential to fund the items in the Appendix to the benefit of the Borough.

3.3 Contributions towards the cost of capital projects may be obtained from partner organisations or from other bodies or via Section 106 Planning payments or, in future, the Community Infrastructure Levy. These are, however, unlikely to be towards the cost of projects concerned with maintaining the operational capability of the Council and any such projects are likely to be additional to those included in the tables contained in the Appendix and funded entirely, or almost so, from such external contributions. It is not anticipated that there will be any significant amount of external funding forthcoming in respect of any of the projects included in the Appendix.

4 Development of Strategies and Actions

4.1 Strategies and actions are required for dealing with the possible shortfall of resources to meet the cost of the projected capital expenditure contained within the Appendix. These should encompass the following:

- A critical review of all the projected capital expenditure detailed in the Appendix categorising expenditure as essential, desirable, long term etc. and developing a prioritised rating;
- Rescheduling of projects being aware of dangers inherent in this such as possibly costing more in the long run, greater likelihood of unexpected breakdown/repairs; perpetuation of inefficiencies, health and safety implications, etc;
- Prioritisation of projects;
- Looking at opportunities in respect of “invest to save”;
- Exploring opportunities for alternative service delivery linked in with the revenue budget and the work being undertaken as part of the Newcastle 2020 project;
- Seeking opportunities of working with others embracing one of the Council’s priorities of a co-operative council;
- Assessing any requirement for the use of temporary borrowing to cover shortfalls;
- Assessing any requirement for the use of Reserves to cover shortfalls with Reserves being “repaid” when resources become available (limited by availability of and amounts held in reserves)
- Creation of rotating or sinking funds to provide for cyclical replacements eg vehicles;
- Evaluating options for the leasing of items such as vehicles as an alternative to capital purchase.

4.2 It is proposed that the Assets Review Group, comprising officers from a variety of asset related disciplines, which is attended by the Cabinet Portfolio Holder for Economic Development, Regeneration and Town Centres, should develop these strategies and that Cabinet gives consideration to the formulation of a Cabinet Panel to develop and oversee the process required.

5 Financial and Resource Implications

5.1 These are set out throughout this report and in the attached Appendix.

6 Major Risks

6.1 The overall risk is that insufficient resources will be available to finance the capital expenditure needed over the period, with a secondary risk that resources, particularly capital receipts, may not match the timing of the expenditure.

6.2 If projects set out in the Appendix are not carried out a number of risks may arise, depending upon which projects are concerned:

- Service continuity suffers or service may not be able to be provided at all;
- Customers, staff and the general public are exposed to unacceptable health and safety risks, e.g from unsafe buildings and structures;
- Council fails to fulfil its statutory responsibilities;
- Council fails to meet its legal obligations, e.g. with regard to property leases;
- Income is lost because commercial properties become unlettable or cannot obtain acceptable rentals.

7 List of Appendices

Appendix - . Newcastle Capital Investment Programme 2015/16 to 2018/19.

APPENDIX

The Newcastle Capital Investment Programme

NEWCASTLE UNDER LYME BOROUGH COUNCIL

The Council's capital expenditure requirements can be split over a number of different headings, namely:

Improving Housing in the Borough
Investing in Community Facilities
Community Centres
Safeguarding the Borough's Heritage
Investing for the Future
Vehicles and Plant

Improving Housing in the Borough

The Council has statutory duties relating to housing provision and management. It has historically allocated significant sums in its capital programme to undertake a range of activities to support these objectives. Over the next five years the council wishes to deliver a range of programmes to continue to deliver affordable housing for people in the Borough, to ensure that private rented stock is maintained in a good condition and that support is provided to the most vulnerable households in the community. This will continue to require support through capital investment to enable the Council to allocate resources to the following areas.

Scheme	Timescale	£'000s
Disabled facilities grants - expenditure in excess of grant from government	£300k each year 2015/16 - 2018/19	1,200
Warm zone affordable warmth	£30k each year 2015/16 - 2018/19	120
Emergency Repair Assistance	£50k each year 2015/16 - 2018/19	200
Empty Homes	£20k each year 2015/16 - 2018/19	80
Home Improvement Agency	£20k each year 2015/16 - 2018/19	80
Landlord Accreditation	£5k each year 2015/16 - 2018/19	20
Total		**1,700**

Investing in Community Facilities

The Borough Council manages a large number of parks and open spaces. These facilities are valued greatly by the community and are significant resources for formal and informal recreation. Continuing to invest in the parks and open spaces and the facilities within them makes a considerable demand upon the council's capital programme. Officers have formulated a programme of works – should resources be available - relating to each of the major parks and open spaces which will maintain a good standard of recreational amenity of these facilities.

Parks and Open Spaces	Timescale	£'000s
Footpath Repairs	£75k each year 2015/16 - 2018/19	300
Play Area Refurbishment	£75k each year 2015/16 - 2018/19	300
Railing/Structures Repairs	£50k each year 2015/16 - 2018/19	200
Queen Elizabeth Park/Castle Motte	2015/16	100
Tree Preservation Order	£50k 2015/16, £25k p.a thereafter	125
The Wammy Neighbourhood Park	2015/16	25
Chesterton Park	2015/16	50
Pool Dam LNR	2015/16	25
Lyme Brook Greenway	2015/16	300
Kingsbridge Avenue	2015/16	50
Bradwell Lodge	2015/16	50
Bradwell Woods	2015/16	25
Thistleberry Parkway	2015/16	10
Bateswood LNR	2015/16	10
Westomley Wood	2015/16	50
Westlands Sports Ground	2015/16 - 2016/17	100
Silverdale Park	2015/16	50
Bathpool Park	2015/16	25
Wye Road District Park	2016/17	500
Clough Hall Park	2015/16	50
Memorial Survey	£10k each year 2015/16 - 2018/19	40
Alexandra Road Changing Rooms Wolstanton	2015/16	22
Silverdale Park Pavilion	2016/17	17
Ski Slope car park and path replacements	2015/16	14
Birchenwood Sports Complex - pavilion shower replacement and tiling	2016/17	21
Queen Elizabeth park - door and frame replacements	2016/17	12
Westlands Sports Ground - treatment of bowls pavilion	2015/16	3
Clough Hall Park – Pavilion roof repairs, repointing and path repairs	2017/18 - 2018/19	23
Chesterton Park Pavilion - minor refurb	2018/19	14
Bradwell Park - toilets repairs and minor refurb pavilion	2018/19	12
Westlands Sports Ground - footpath and external works	2017/18	5
Roe lane Pavilion - shower refurb	2018/19	5
Wolstanton Marsh pavilion and changing rooms	2017/18	21
Total		**2,554**

Community Centres

The Council's recently completed review of Community Centres has confirmed the significant financial liabilities which exist for these facilities. The council's stock condition survey has identified that these facilities collectively require investment in maintenance and repair works totalling in the region of £870,000 over the next five years. Whilst the condition of individual facilities varies, nonetheless this is a significant maintenance liability.

The review itself has suggested that it is desirable for management committees to take greater responsibility for the running and operation of community centres, recommending Management Committees take on full repairing leases. However, in practical terms where facilities have a significant maintenance backlog it is understandable that Management Committees will be cautious about taking on such liabilities. However, if capital investment could be made in these facilities to bring these up to a good condition, then the option to encourage Management Committees to take full repairing leases could more realistically be pursued.

Community Centre	Timescale	£'000s
Crackley - Major alterations to roof & parapet walls	2015/16 and 2017/18	67
Chesterton	2015/16	168
Wye Road Clayton - Window replacement and major roof replacement	2016/17	35
Clayton - Re-roofing	2016/17	43
Knutton - Roof and Windows	2015/16 and 2017/18	98
Poolfields - Car Park fencing & internal decs	2016/17	26
Silverdale Social	2016/17	153
Silverdale	2017/18 - 2018/19	132
Butt Lane - Brickwork & Roof repairs/repointing	2016/17 - 2017/18	31
Audley - Kitchen & Toilet refurbs	2016/17 and 2018/19	20
Westlands	2016/17	14
Marsh Hall	2016/17 - 2017/18	15
Apedale Rd Wood Lane	2016/17 - 2017/18	17
Ramsey Road Community Centre - internal and external redecoration, boiler replacement and electrical refurb	2016/17 - 2017/18	30
Bradwell Lodge - window replacement and electrical refurb	2018/19	100
Total		**949**

Safeguarding the Borough's Heritage

The Borough Council is responsible for a number of key heritage features. Whilst these provide a significant community resource and enrich the area's cultural heritage, by definition these facilities are costly to maintain. It is considered that a prudent level of capital funding spent on these facilities over the coming four years could safeguard these facilities for the future. Further, such capital funding could help reduce the level of revenue budget demand which these facilities make.

Detail	Timescale	£'000s
Museum	2016/17	83
Audley Churchyard - boundary wall	2016/17	40
St. Giles Churchyard	2015/16	15
Mucklestone Churchyard	2015/16	15
Brampton Aviary	2016/17	15
Newcastle Cemetery - Retaining Wall	2016/17 - 2017/18	60
Newcastle Cemetery - Path & Ground Works	2016/17 - 2017/18	15
Newcastle Cemetery - Chapel - Stonework Repairs	2016/17	75
Cemetery Loomer Road	2016/17	12
Cemetery Knutton	2016/17	12
Guildhall - Re-roofing	2016/17	120
Guildhall - Repairs to brickwork	2016/17	50
Guildhall - Damp treatment	2015/16	30
Victoria Hall/Kidsgrove Town Hall - window replacement and electrical refurb	2015/16 - 2018/19	185
Chesterton Cemetery	2018/19	4
Closed Churchyards: All Saints, Madeley; Attwood St Cemetery; Holy Trinity Chesterton; St Andrews Porthill; St Georges, Brampton; St Lukes, Silverdale; Loomer Rd Cemetery; St Thomas, Mow Cop	2016/17 and 2018/19	75
Public Railings - painting	2015/16 - 2018/19	250
Total		**1,056**

Investing for the Future

The Borough Council owns a significant number of buildings. Many of these are let out commercially. A significant part of the council's commercial property estate is managed to support economic regeneration objectives. The council also delivers a significant number of its services through buildings. These, like all properties, need continuous investment to ensure that they remain fit for purpose. A number of the council's primary properties are now reaching a stage in their operational life where they need significant capital investment. The council's property stock condition survey indicates the level of investment required in these buildings. A comprehensive review has been undertaken to assess the options for these premises. In some cases there will be a business case to make capital investment in these buildings in order to give them a longer operational life, for others the analysis will indicate that a particular building should be disposed of as it is no longer economic for it to be retained. As part of this strategy there may be a business case for the council to acquire some additional properties or to build or rebuild certain facilities. Additionally there may be cases where investment in energy efficiency measures in some buildings would be advisable to not only reduce carbon emissions but help to keep energy costs down (see the Carbon Management Plan).

Property	Timescale	£'000s
Commercial Portfolio	2015/16 - 2018/19	3,476
Civic Offices - window replacement	2016/17	270
Civic Offices - refurbishment	2017/18 - 2018/19	662
Knutton Depot - reroofing, window replacement baling shed/garage, refencing compound	2015/16 - 2017/18	400
Jubilee Baths/Knutton Recreation Centre Site Clearance	2015/16 - 2016/17 (Knutton) 2018/19 (Jubilee)	286
Engineering Structures	2015/16 - 2018/19	2,100
Carbon Management Plan	£100k each year 2015/16 – 2018/19	400
Other	2015/16 - 2018/19	931
Total		**8,525**

Vehicles and Plant

There will be a need for some items of capital investment to be made in order to ensure continued service delivery. Current indications are that the following investment will be required.

Type of Expenditure	Timescale	£'000s
Streetscene Vehicles	2015/16 - 2018/19	1,436
Waste Vehicles	2015/16 - 2018/19	2,166
Other Vehicles and Plant	2015/16 - 2018/19	73
Waste Bins	2015/16 - 2018/19, £100k p.a.	400
Total		**4,075**

Funding

Councils fund capital expenditure in a number of ways. As significant owners and users of land and buildings, councils carry out regular reviews of their assets and make decisions about which are surplus to their needs. The Audit Commission has produced a number of studies on council's stewardship of assets and recommends that councils keep their assets under review. In Newcastle a comprehensive asset management system is operated and through the annual Asset Management Strategy, land and property is identified for disposal. The majority of councils fund their capital development requirements through the disposal of assets. Where there is a shortfall of available assets to dispose of, councils will use borrowing as the alternative mechanism for funding capital development. Councils may also use grant funding from a range of sources to supplement their own capital funding for particular schemes. Receipt of funding from Section 106 agreements and other schemes such as the New Homes Bonus may also provide sources of funding for capital expenditure.

The Council's most recent asset management strategy has identified a schedule of surplus land assets which can be disposed of over the medium term and which can be used to fund the capital requirements set out above.

Timescales

The capital funding requirements set out above indicate the following capital requirements over the next four years:

Investment Type	2015/16	2016/17	2017/18	2018/19	Totals
	£'000s	**£'000s**	**£'000s**	**£'000s**	**£'000s**
Improving Housing in the Borough	425	425	425	425	1,700
Investing in community facilities	1,168	835	276	275	2,554
Community centres	314	326	101	208	949
Safeguarding the Borough's heritage	180	578	98	200	1,056
Investing for the future	1,594	1,763	2,342	2,826	8,525
Vehicles and Plant	948	2,302	419	406	4,075
TOTAL	**4,629**	**6,229**	**3,661**	**4,340**	**18,859**

CABINET REPORT 15 OCTOBER 2014 "FUNDINGTHE COUNCIL'S CAPITAL PROGRAMME"

FUNDING THE COUNCIL'S CAPITAL PROGRAMME

Submitted by: **Executive Management Team**

Portfolio: **Finance and Resources; Economic Development and Town Centres**

Ward(s) affected: **All**

Purpose of the Report
To review the options for funding the capital investment required over the next four years (2015/16 to 2018/19) and means of providing a continuing sustainable funding flow into the future.

Recommendations

(a) That the contents of the report be noted;

(b) That Cabinet agrees with the principle that the Council, as a first resort, will seek to fund its future known capital programme needs through the annual asset management planning process by the identification of land or property in its ownership that is capable of, and appropriate for, disposal;

(c) That officers report back to the next Cabinet meeting with a list of potential development sites to be used as the basis for a formal response by the Council as a land owner to the local planning authority's "call for sites" (as part of the Local Plan process) and used as a basis for programming future land/property disposals through annual Asset Management planning, beginning with the Asset Management Strategy 2015/16;

(d) That the principle of engaging a development partner to bring forward the larger sites be agreed.

Reasons
The Council has significant investment needs over the next four years (and beyond) whilst the resources available to fund this investment fall considerably short of what is required. It is necessary, therefore, to consider options for meeting this shortfall and propose the most effective means to achieve this to a future Cabinet meeting for approval. Because of the size of the shortfall and the early need to fund investment, this needs to be done as soon as practicable.

1. Background

1.1 The Cabinet considered a report at its meeting on 5 February 2014 'Newcastle Capital Investment Programme'. This report set out a comprehensive list of the known or likely capital expenditure requirements which the Council will be required to fund over the next 4 years. It provided comprehensive data down to individual scheme level and also indicated the timescale within which such expenditure would be required to be committed (acknowledging that in some instances the Council is not obligated to proceed with the schemes).

1.2 This report highlighted that currently the council's capital resources are very limited. It recorded that at its meeting on 15 January 2014 the Cabinet had approved the marketing for sale of a number of sites which could realise capital receipts of up to £8m in the foreseeable future. It also noted other sources of potential capital income but as these sources are at this stage undefined, since they relate to Section 106 or partner contributions, these cannot be quantified or considered to be confirmed.

1.3 In relation to the current capital programme the February report set out a set of strategies and actions required to deal with the possible shortfall of resources to meet the programme of capital works set out in the report. This work is in hand and an Assets Review Group chaired by the Chief Executive has been established to bring forward this programme.

1.4 However, whilst work to review capital demands will assist the Council to prioritise future capital expenditure, it will not address the widening gap between the potential capital expenditure demands and the sources of funding which the Council has to meet these commitments.

2. The Council's Capital Programme and other capital requirements

2.1 Whilst the programme of asset disposals approved by the Cabinet in January 2014 has the potential to realise receipts of up to £8m over the next three or four years this is still at a level considerably below that of the overall potential capital expenditure demands which the council will face in the immediate and medium term future (notwithstanding the potential scope for the Council to realise significant receipts from two or three opportunistic disposals referred to elsewhere in your agenda).

2.2 The Cabinet has identified further high priority projects over and above those schemes set out in the Newcastle Capital Investment Programme which will require significant capital expenditure. In short this may mean a capital programme expenditure requirement of around £30m over the next four years or so. In some cases these capital expenditure requirements are needed to invest in measures which will give the Council longer term revenue cost savings, the main example being the proposed new waste collection service (to operate from July 2016) which has the potential to provide an ongoing revenue saving of £500k p.a. but which will require capital investment of over £4m over the next two financial years to implement.

2.3 There are other potential "invest to save" opportunities such as the reprovision of the leisure facilities at Kidsgrove which similarly will require considerable capital investment to realise revenue cost savings. Additionally, at the Cabinet meeting held on 23 July, a report on the future of the former Keele Golf Centre was considered at which it was noted that in the absence of any short or long term continuing use of the facility, it was agreed that the area would be the subject of a master plan to consider the longer term use for the site and the surrounding area. The report noted that the cost involved in the preparation of a master plan would be in the order of at least £100k, funding for which is not yet allocated in the council's budget or future expenditure plans.

2.4 The Capital Investment Programme 2015/19 summarised that the capital requirements over the next 4 years was nearly £19m. These requirements are summarised in the table below.

Investment Type	2015/16	2016/17	2017/18	2018/19	Totals
	£'000s	£'000s	£'000s	£'000s	£'000s
Improving Housing in the Borough (mainly DFGs)	425	425	425	425	1,700
Investing in community facilities	1,168	835	276	275	2,554
Community centres	314	326	101	208	949
Safeguarding the Borough's heritage	180	578	98	200	1,056
Vehicles and Plant	948	2,302	419	406	4,075
TOTAL	**4,629**	**6,229**	**3,661**	**4,340**	**18,859**

2.5 In addition to these identified demands upon the Council's capital resources, the Council faces the need to find significant savings to contain its revenue budgets within available resources as identified in the Medium Term Financial Strategy for the period. Over the next five years around £5m of savings or additional income will need to be found. This has two significant implications for capital resources. Firstly, one option or source for capital expenditure is to borrow. Whilst this council has been able to avoid borrowing because other sources of funding have been available, the situation of the Council's capital resources makes borrowing in the short and potentially the longer term an inevitability (unless substantial receipts can be generated from land/property disposals into at least the medium term). Whilst at present borrowing can be undertaken at relatively low cost, this debt does require to be serviced from the revenue budget thereby placing additional demands upon these resources. Secondly, in order to make the necessary reductions in the revenue budgets as central government grant is reduced the council may need to incur capital expenditure in order to deliver efficiency improvements in order to balance the revenue budget. Good examples are investment in ICT, equipment and facilities which can improve revenue spending efficiency, however, these require capital expenditure which is often required up front. The Council currently has limited provision for a capital investment programme which it could use to deliver revenue budget efficiency savings.

3. Funding capital expenditure

3.1 As has been indicated above, the Council can derive capital monies from a number of sources. Most councils will routinely review their asset portfolio and sell land and property assets which are no longer required to fund the capital programme. This council has a well developed process for doing this through the annual Asset Management Strategy review process which is linked to the Council's budget setting process.

3.2 Councils will also routinely borrow money to fund capital works and this can be done either through the Public Works Loan Board (PWLB) or commercial financial institutions. As councils generally have a good credit score they are able to secure very good loan rates and the PWLB also acts as a moderating influence in respect of all public sector borrowing. Whilst at present borrowing can be undertaken at relatively low cost it is expected that rates of interest will rise in the medium term from the current historically low levels.

3.3 Historically Councils have also been able to derive capital funding for specific projects or infrastructure improvements through Section 106 planning payments. Funding under

Section 106 is derived in the main from developers and in simple terms it has to relate to their development proposals in scale, nature and location although members will be aware of the decreasing levels of funding available from this source (for a number or reasons); such funding will diminish significantly from April next year because of legislative changes. There is the potential in the future to secure such infrastructure investment from the emerging Community Infrastructure Levy, although this is unlikely to be in place until around 2018. District councils may also be in receipt of capital programme funding from their respective county council and on occasions from other public sector partners such as health. Whilst these sources do add significantly to the capital programme of this Council they are always granted for specific purposes and therefore cannot be vired to other capital projects that are this Council's responsibility. These resources are therefore considered to be ringfenced and, whilst representing an element of the council's capital programme, do not provide support for the council's wider capital expenditure requirements.

3.4 The New Homes Bonus has been developed by central government as an incentivisation programme to encourage councils to bring forward housing development. Through this programme the government makes a grant payment to councils for every completed residential unit. New Homes Bonus is unringfenced grant and can be spent by councils as they consider most appropriate to local circumstances. Nevertheless the original objective of Government was to use at least some of the funds derived on additional improvements to community infrastructure, promoting it as a reward to communities for accepting new development. In any event it is considered unlikely that this funding mechanism will continue into the long term.

4. <u>Prudent use of assets and the Asset Management Strategy</u>

4.1 Councils are under a statutory duty to maintain good stewardship of their assets. It is good practice, actively encouraged by successive Governments, for councils to keep their assets under review and to release assets which are no longer required for service or other uses and to recycle the receipts from these into priority spend areas. This Council has a process of assets review which is undertaken annually through the Asset Management Strategy.

4.2 When councils dispose of assets they are under a duty to achieve "best consideration" for that asset. This enables councils to balance financial receipt with broader social, economic and environmental considerations, but the council will always need to ensure that it has achieved an optimum financial return in the public interest.

5. <u>Housing land supply in the Borough</u>

5.1 As the Local Planning Authority for this area, the Borough Council has a responsibility to prepare and maintain an up-to-date Development Plan for its area to meet forecast demands for growth and to facilitate economic growth, including a 5-year housing land supply.

5.2 Due to the demand for new housing and as a consequence of Government policies which require that sufficient land is brought forward for new housing development, the Council's Planning Committee has faced a series of very difficult decisions regarding a number of major housing land applications in recent months. The prevailing national planning policy framework means that the Council's Planning Committee has come under considerable pressure to grant consent for developments on sites and in locations which may be sub-optimal when assessed against key policy considerations.

5.3 An option which the council has not considered thusfar is whether it has sites within its own land ownership which could be brought forward for development and which provide better alternative sites for housing development than those which are being generated by market demand. The scale and widespread nature of the Council's own land holding may mean that it could offer sites in locations where there is market demand for housing but on sites which are preferable in broad planning policy terms to those being provided by the market.

5.4 Given that the Council as local planning authority is under a requirement to provide a five year housing land supply and if the market is finding this difficult to deliver, or is delivering housing sites which are very controversial in communities, then the council could assist this situation by offering alternative sites in more sustainable and appropriate locations. The Council could reduce the undersupply of housing sites by bringing forward sites in its own ownership as a means of meeting the housing land supply target. The recent Peer Review of the Council's Planning function highlights the importance of achieving greater alignment between resource planning and town planning functions.

6. Provision of affordable and social housing

6.1 The Council has a stated policy objective to bring forward more affordable and social housing within the Borough. As the Local Planning Authority, the Council has a policy requirement for the provision of 25% affordable homes on development sites of 15 dwellings or more.

6.2 The Council has committed to the preparation of a new Local Plan, which includes the assessment of housing need with a Strategic Housing Market Assessment being commissioned as one of the key parts of the evidence base upon which the Plan will be developed. Through reviewing the housing register there is still a need for affordable housing and it is believed that the 2015 Housing Strategy will continue to support the current strategy approach to enable the delivery of affordable housing. A snapshot of the Housing register shows that there is continuing need for affordable homes particularly smaller units with 4.5 households wanting each 1-bed vacancy.

Bedroom	Applicants on Hou Register	Lettings	Ratio of Applicant Lettings
Bedroom 1	1,464	325	4.5 : 1
Bedroom 2	598	270	2.2 : 1
Bedroom 3	211	132	1.6 : 1
Bedroom 4	39	15	2.6 : 1

(Data as at 1/4/14)

Whilst the applicants in housing need for larger properties are fewer in number there remains evidence of significant unmet demand for affordable housing.

6.3 The Council has an established approach for the identification of assets for disposal and annually updates the Asset Management Strategy. This approach enables the Council to regularly review and maximise the use of assets for service delivery and importantly financial consideration.

6.4 Amongst other things the current Asset Management Strategy provides supports for the delivery of affordable housing. Firstly, through sale of land, this can include sale to a Registered Provider for the development of affordable housing or sale of land to developers where affordable housing needs to be provided to meet planning requirements. This occurs on sites of more than 15 properties in the urban area and sites of 5 or more in the rural area, triggering the delivery of up to 25% affordable homes (at the developer's expense, subject to commercial viability; and it should be understood that this will normally reduce the value of the capital receipts). Secondly the Asset Management Strategy has identified that disposal of three sites will be specifically used to bring forward the development of affordable housing as the primary objective and contributing to the regeneration of key areas. The table below outlines how the current sites approved for disposal are used to deliver the twin key objectives of housing and capital receipts.

Sites within the Asset Management Strategy 2014/17		
	Disposal sites targeted for Affordable Housi	**Disposal Sites for primarily general housing and incom receipt**
Less 15 units in the urban area or 5 in the rural area	Kinnersley Street, Kidsgrove	Gloucester Road, Kidsgrove *
	Cotswold Avenue, Knutton	Hillport Avenue, Porthill *
		St. Edmunds Avenue, Porthill
		Sandy Lane / Brampton Road, May Bank
		Church Lane, Knutton
		Wedgwood Avenue, Westlands
		Gallowstree Lane, Thistleberry *
		Stafford Avenue, Clayton
More than 15 properties in the urban area and sites of 5 or more in the rural area, triggering the delivery of 25% affordable homes	Heathcote Street, Kidsgrove	Bower End Lane, Madeley
		Market Drayton Road, Loggerheads
		Eccleshall Road, Loggerheads

*These sites are adjacent to land suitable for redevelopment owned by others, whereby consideration will be given to joint disposal to achieve best consideration.

6.5 During the past year the Council has worked closely with its largest registered provider of social housing, Aspire Housing, to review land in the ownership of the two organisations with the objective of bringing forward additional affordable housing in the Borough. The initial partnership work with Aspire did consider the potential for the two organisations to bring forward housing on adjacent sites which were owned by the respective parties. Due to the legislation governing public sector procurement joint development of land could not be undertaken without having gone through a procurement process. A report was endorsed by the Cabinet at its meeting in June 2014 which explained the most appropriate approaches for Aspire to bring forward affordable housing over the next few years (taking account of the National Affordable Housing Programme provisions and process). This piece of work with Aspire did help to clarify the potential nature and extent of the Council's role in supporting Registered Providers in such circumstances. The Council continues to engage with other registered providers with a view to bringing forward similar programmes on land within their ownership.

6.6 In summary the Council has, for many years, used its own land holding to lever further social and affordable housing development in the Borough. Whilst release of land assets for this purpose has been beneficial to achieve such outcomes, in the main the Council has had to forgo most or all of the potential capital receipt from such sites in order to realise the housing development policy priority. Looking forward there may be a need to introduce a slightly more refined process that seeks to achieve an appropriate balance between the competing policy objectives.

7. Potential housing and employment land sites

7.1 The Borough Council has a number of sites which have current or future housing / employment development potential. As part of the new local plan preparation process, the Council as local planning authority has made a public call for potential development sites (for housing, employment and other purposes). As a major landowner and for reasons cited above it is considered that the Council should respond to this request. Officers have begun the preparation of a list of potential sites which are considered appropriate for inclusion in a formal response to this call for sites. At this stage this would not commit the Council to a disposal but it would enable the local planning authority to consider the suitability and planning merits of our land in the context of other options put forward by private and other public land owners.

7.2 On a related note, it is intended to use this exercise to identify the Council-owned land that should feed into the proposed master-planning exercise on land to the west of Newcastle's urban area (centred around the former Keele Golf Centre). It is considered that this would enable a comprehensive treatment of these parcels of land that would best achieve delivery of any infrastructure improvements.

8. Lessons from former land disposal programmes

8.1 In 2009 the Council developed a programme to dispose of seven sites under the Newcastle Development Programme. The Council received a high degree of criticism for this programme from those residents who lived in the vicinity of those sites due to the approach adopted to publicity and consultation which had surrounded the proposed disposals. The Newcastle Development Programme was the subject of a major scrutiny review and a full report setting out recommendations on the handling of future programmes was made. In turn subsequent versions of the Asset Management Strategy have taken account of the key findings.

8.2 The most recent Asset Management Strategy process has enabled a first tranche of sites to come forward for disposal. These sites have been subjected to public consultation and the results of this have recently been considered by the Cabinet (along with desk-top technical research). Whilst there will always be concern from local residents and Ward Councillors about development on particular sites, the most recent process has demonstrated that consultation can provide a valuable means of drawing out specific limitations of particular sites such as ground conditions, amenity considerations and access. This allows the Council as a land owner to consider whether it is appropriate to proceed with a disposal.

8.3 It was perhaps an unfortunate consequence of the manner in which the Newcastle Development Programme proposals became public that the Council was not able to explain how the various sites were intended to be developed. In particular it was always the intention to include an element of public amenity within the larger sites and to lay these out in a manner which retained areas of open space and landscaping. Unfortunately the debate about these sites became overly polarised between the development of the land for housing over their retention as publicly accessible areas of open space. In progressing any future land disposal programme it is important that the Council is clear about the form of development which is proposed and the intended provision of public amenity which will be provided as part of the development.

9. Methods to bring forward sites for development

9.1 The council has a range of options to bring forward land for development:

(a) Sell land with planning permission
Under this approach the Council seeks planning approval for development on land within its ownership prior to selling it. This route will normally net a premium capital receipt.

(b) Sell land subject to planning permission
The Council can sell land without planning permission but on that basis that a relevant planning permission will be secured by the purchaser/developer. This may net a high capital receipt but will normally leave risk with the Council since a prospective purchaser will normally have reversion rights in the event that the planning permission is not secured.

(c) Sale of land through a procurement process
Where a council wishes to sell larger or a number of plots it may use a procurement process to secure a development partner or partners who will implement development of the site or group of sites. In such circumstances a council would normally have secured the relevant planning permissions on the land prior to engaging in the procurement process. Often the capital receipts are derived over the course of the development linked to phasing. There may be scope to derive a regular revenue income on a ground lease mechanism on such large sites.

(d) Sale of land without specific end use or planning permission
The Council may sell land without planning permission for a particular end use but this will normally net a significantly lower receipt than land sold with a specific planning permission, given that the risk shifts to the prospective purchaser / developer. In some instances a public auction will be used as the most efficient disposal method.

10. Borrowing to fund capital expenditure

10.1 In an earlier part of the report brief consideration was given to the option to borrow to fund in whole or part the Council's capital expenditure requirements. Whilst this remains an option and indeed in the current prevailing period of low interest rates may be an attractive option, nonetheless, any borrowing would create a corresponding call upon revenue funds to repay the debt. It is considered that whilst the Council has surplus assets which can be disposed of to generate capital receipts that this should be considered as a matter of principle to be the preferred option over borrowing to fund the Council's capital requirements.

11. A programme of capital receipts

11.1 In order to fund the capital expenditure set out in the Newcastle Capital Investment Programme, to fund identified policy priorities and to provide a level of capital funding to enable the Council to realise its medium term planned efficiency savings, it will require capital funding of about £30m. At present there is approximately £1m of uncommitted money within the Council’s current capital resources (although a proportion of this should be retained as a contingency). As indicated above there is a reasonable prospect of generating about £10m worth of receipts from “agreed” disposals (including the disposals referred to in reports elsewhere on this agenda). The Council therefore needs to approve an assets disposal programme of at least £20m to deliver the necessary capital receipts between now and late 2017/18 to early 2018/19 (profiled to match the expenditure requirements).

11.2 Of course it should be noted that there are risks associated with the realisation of capital receipts from land disposals. Most importantly there can be no guarantees of planning permissions being forthcoming and market values are liable to fluctuate due to a number of external factors. Additionally unknown technical constraints, such as abnormal ground conditions, would impact negatively upon the value of receipts. Consequently it would be prudent to establish a realistic disposals programme taking account of such factors. In practice this would mean over-programming to optimise the prospects of adequate capital funding being available at the times it is required.

12. Timescales and processes

12.1 The table at para. 2.4 indicates the timescales within which capital resources are required to be committed. It is anticipated that the available capital receipts will not be sufficient to meet the known/likely capital programme demands for 2015/16 (see table under paragraph 6.4). So it would be necessary for the next iteration of the Council's Asset Management Strategy to identify some 'early win' sites to meet the forecast gap. In addition the said Strategy must identify other sites which are required to be released in order to meet the level of expenditure that is known or likely over the following three financial years, plus a contingency figure of say 20%. The sites should be ranked in priority order on the basis of their ability to be bought forward (taking account of salient/current planning policies). The sites will be derived from the list of sites to be brought to your next meeting in response to the local planning authority's call for sites (some of which it is understood are very long term in nature due to relevant Planning Policy constraints and/or service-based policy considerations).

12.2 It is intended that in future years the Council's Capital Programme proposals will be supported by clear and deliverable plans showing how they can be funded through a realistic programme of land/property disposals (where that is possible and appropriate).

12.3 It is proposed that as a matter of principle, in order to bring forward the larger sites, the Council engages a development partner to be selected through a competitive procurement process. At this stage there are no such sites available given the prevailing Development Plan policy context. Nevertheless the principle of the approach can be endorsed at this stage.

13. Consultation

13.1 There will be full consultation in relation to each site to be disposed of. The process followed will be that used by the Council for the sites which are currently being disposed of. Typically this will involve letters being sent to local Councillors, local residents and, where relevant, Town/Parish Councils and any known Residents' Associations, providing information about the proposals and giving them a period of up to six weeks to submit representations. In addition site notices will be placed in prominent publicly accessible locations providing similar information. Any information derived from such consultation is taken into account, along with a desk-top technical site evaluation, before any final disposal decision is made.

14. Conclusion

14.1 This report has demonstrated that there is now a priority for the Council to identify the means by which it can fund its medium term financial capital commitments. The report has also explained that as a result of other policy considerations the Council needs to embark upon a systematic programme of surplus land disposals in order to meet the known future capital expenditure requirements. The option for the Council to borrow money to fund future capital requirements has been considered but it has been noted that the cost of servicing the debt which this would produce makes this a far less favoured or justifiable option whilst the Council has surplus assets which it can dispose of. As the report has shown a systematic programme of surplus land disposals would not only provide funding to meet the Council's known future capital expenditure requirements but would also enable it to deliver its policy objective to bring forward more affordable and social housing. Further, by bringing forward land within its own ownership for housing development the Council can directly address the current pressure which it faces as the local planning authority to meet the housing supply requirement. It is also considered that by bringing forward certain of its own surplus land holdings the Council can ensure that a greater share of new housing is delivered into the most appropriate (sustainable) locations.

14.2 The report seeks the approval of Members to bring forward a programme of surplus land disposals which match the Council's stated medium term capital financial needs. In so doing the Council can also help address the known housing land shortage and also accelerate the provision of additional social and affordable housing in the Borough.

15 Financial and Resource Implications

15.1 Implications have been set out under the relevant sections of this report. In particular, the suggested programme of surplus land disposals will provide capital receipts to enable implementation of the Council's capital investment programme. With regard to staff capacity / resources it is intended to assimilate the tasks identified into the relevant service's work programmes (as a high priority task). Any need to supplement existing resources because of shortages in either capacity or specialist skills will be reported if and when such situations arise.

16 Major Risks

16.1 The major risk is that, for one reason or another, land approved for disposal is not sold or there is a significant delay in so-doing. In particular there has to be sufficient market demand at the time of marketing and there may be a shortfall against the Council's valuation. There may be some situations where the grant of planning permission is either not secured or that there are significant costs arising from the imposition of conditions. Additionally the necessary legal and administrative processes must be completed by both parties and this can sometimes cause delays.

16.2 In the event that insufficient capital receipts are generated as they are needed or there is a delay in this happening, this will mean that it would be necessary to either abandon, or postpone investment or to find an alternative source of funding, most likely to be borrowing. The availability of a long list of sites will help to mitigate this.

16.3 If projects included in the capital investment programme are not carried out a number of other risks may arise, depending on which projects are concerned

- Service continuity suffers or service may not be able to be provided at all;
- Customers, staff and the general public are exposed to unacceptable health and safety risks, e.g. from unsafe buildings and structures;
- The Council fails to fulfil its statutory responsibilities;
- The Council fails to meet its legal obligations, e.g. with regard to property leases;
- Income is lost because commercial properties become unlettable or cannot obtain acceptable rentals.