

Appendix 3

**Bath & North East
Somerset Council**

Capital Strategy

2008/09– 2012/13

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1. Introduction & Purpose

1.1. The capital strategy sets out how the Council's own capital resources and those of its partners will be able to deliver priorities. These priorities are to be delivered within its sustainable communities strategy and the Council's Corporate Plan.

1.2. The Capital Strategy is a key document for the Council. It sets out the direction, programme, funding, drivers, processes and policies relating to capital expenditure.

2. Council Context – where are we now?

2.1 Introduction to the Area:

Bath & North East Somerset is a great place to live, work and visit. Over two thirds of the area is designated as an Area of Outstanding Natural Beauty and green belt. The World Heritage City of Bath forms the main focal point with Keynsham and Midsomer Norton and Radstock being the other main areas of population. The rest of the district consists of small rural communities including 69 villages.

Bath & North East Somerset enjoys a unique quality of built and natural environment, world-class arts and culture, a relatively strong economy and low levels of unemployment. The area has very high levels of educational achievement, low crime levels, excellent public services and a relatively affluent and healthy population.

There are a great many positive things about Bath & North East Somerset. However, a number of challenges have developed over the last 50 to 100 years bringing the area to a tipping point. The principal challenges include inequalities in our community, our economy and environment and are set out in more detail below.

2.2 Community:

Bath & North East Somerset has healthy, safe communities and overall levels of deprivation are well below the national average. However, there are pockets of deprivation within the district. Several neighbourhoods feature within the most deprived 10% in the country, with one featuring in the most deprived 5%¹. This results in significant levels of inequality and impacts adversely on the life chances of the population living in these areas.

People who live in Bath and North East Somerset continue to enjoy better than average health compared with the country as a whole. For the period 2003-2005, life expectancy was significantly in excess of the national average, although this masks considerable health inequalities within small pockets of the community.

¹ Source: Department of Communities and Local Government, Indices of Deprivation 2007. Particular super output areas in Bath & North East Somerset feature in the most deprived 10% areas in specific domains. One features in the most deprived 5% for a specific domain. For full details, refer to the Indices of Multiple Deprivation 2007.
<http://www.communities.gov.uk/communities/neighbourhoodrenewal/deprivation/deprivation07/>

Although crime levels are low, fear of crime and anti social behaviour are priorities for local people. Evidence shows pockets or “hotspots” of crime in particular localities which often correlate with deprivation related factors.

Narrowing the gap between the most and least affluent is a real challenge facing the area and impacts on a multitude of factors, including health, educational achievement and access to services. This leads to a variety of related issues including poverty of aspiration within a number of isolated areas. Addressing inequality is essential in building stronger communities.

An aspiration to narrow inequality feeds into how the Council uses its own resources to facilitate this change.

2.3 **Economy:**

The economy in Bath & North East Somerset is relatively strong and recent analysis shows that the direction of travel for continued economic growth in the area is relatively favourable. There is a healthy knowledge driven economy, a relatively high level of self employment and an excellent skills base. About 30 per cent of jobs are taken by non-residents therefore suggesting that the local skills profile does provide sufficient human capital to meet the needs of the local economy.

However, there is a heavy reliance on the public and tourism sectors which has resulted in a low wage economy. The desirability of Bath & North East Somerset as a place to live and associated high quality of life has led to very high housing costs, with the area featuring in the 5% least affordable housing areas in the country. There are serious shortages of affordable / key worker housing which, when considering the low wage economy of the area, presents problems for many people, some of whom have no choice but to commute to work from outside the area.

The requirements for growth contained in the Regional Spatial Strategy are set to have a substantial impact on the area over the next 20 years. A growth requirement of around 20% presents a major challenge, but also an opportunity to address the shortage of affordable and key worker housing. However, this growth needs to be sustainable in terms of the society, economy and environment as well as ensuring the necessary infrastructure is in place.

2.4 **Environment:**

A high proportion of the area is classed as rural and there are a large number of thriving villages. The area benefits from an exceptional natural and built environment with Bath City Centre, as a designated world heritage site having an exceptionally high quality built environment. However there has traditionally been a substantial under investment in the public realm leading to outdoor spaces and urban environments that need particular attention. This detracts from attracting private sector investment which is essential to the future prospects of the area.

The road and rail network are at capacity and congestion across the area is a key problem in terms of journey times and public transport travel times, one of the key

factors in maintaining a healthy economy. Congestion is also affecting air quality and in areas of Bath City Centre air pollution has reached levels that are higher than the Government recommended acceptable limits. The lack of affordable housing and low wage economy also contributes to congestion with people having to commute from outside of the city. Structurally the local economy is unsustainable without major investment in housing, transport and the public urban realm. There is also a need for us to plan for a changing climate.

2.5 Going Forward:

Bath & North East Somerset is a great place to live, work and visit, but, it is recognised that there are a number of challenges facing the area. However, there are also significant opportunities to address these issues especially through the growth agenda.

Careful consideration of the economic, environmental and social factors that will help shape Bath & North East Somerset over the coming years has allowed an aspirational vision for the area to be developed. This will drive local plans and policies and ensure that the future of Bath & North East Somerset is a sustainable one. To achieve this, it is our role as community leaders to ensure that:

Bath & North East Somerset is:

A distinctive place that has outstanding built and natural environment, dynamic economy, connectivity, world class arts and culture

With vibrant sustainable communities that are active, healthy and inclusive, feel safe, take responsibility and make a contribution, carbon neutral, disadvantaged are supported, vulnerable are protected and people feel proud to live

Where everyone fulfils their potential by having an equal opportunity to learn and develop skills, enjoy a healthy lifestyle, influence the future of their area and contribute to the economy and society.

2.6 Underpinning the vision, the Council's priorities for improvement for the next 4 years will be to:

- Improving Transport and the Public Realm
- Building communities where people feel safe and secure
- Addressing the causes and effects of Climate Change
- Improving the availability of affordable housing
- Promoting the independence of older people
- Improving the life chances of disadvantaged children and young people
- Improving School Buildings
- Sustainable Growth

2.7 This is being carried out in a context of increasing pressure on availability of resources, more themed "micro-management" by Government, and increasing targets and inspection regimes that force agencies apart. There is a shift from provider of services to facilitator and enabler of adult social care and a shift from finances to resources looking at totality of resource including staff and third sector asset base.

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2.8 The Council has also realised savings in the costs of its services to meet above inflation cost increases with restricted grant funding. The easy savings have now been realised and the Council will now be forced to think differently to deliver services. In some cases this may need investment.

2.9 The Council has a role in Community leadership and this will mean that the Council has a role in leading the following developments:

- Building a more competitive knowledge economy:
- Creating a socially inclusive knowledge economy
- Improving and exploiting the quality of Bath & North East Somerset's environmental assets

2.10 The capital strategy can help support and promote the Council's move towards its vision and objectives.

3 Existing assets

3.1 The Council has over £530m of assets, mainly in Property but also it has substantial infrastructure assets (IT network cabling, highways).

3.2 The Council's property portfolio is currently held within two separate primary estates: The Corporate Estate (operational offices, depots, schools, EPH's and the like) worth over £300m & the Commercial Estate (investments) worth over £200m.

3.3 As part of the implementation of the Asset Management Plan the Council's whole Property Portfolio has been segmented as below. This is both ongoing and on the basis of book values only.. The table give a high level indication of the shape of the estate. In the case of potential disposals and developments the actual realisation may be significantly different from book value and a number of potential receipts, eg individual flats within buildings, will not feature.

Area	Number	£m
Community	12	3.5
Development	10	10.4
Disposal	85	31.4
Operational	782	287.4
Revenue (Core)	65	120.2
Revenue (Residual)	106	10.1
Revenue (Secondary)	108	52.3
Revenue (Tertiary)	77	15.5
Grand Total	1245	530.8

3.4 All Council assets are subject to Asset Management Planning processes which are integral to the Council making best use of its Resources. This involves ongoing challenge resulting in reallocation amongst the segments.

3.5 Repairs & Maintenance is funded partly revenue and partly capital and the current backlog is c£34m. See 5.25 below.

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Transport

3.6 Our transport assets are valued at £1,310m with a backlog as follows:

HIGHWAY MAINTENANCE £m	
Total Value	£1,310m
Backlog	
Principal Classified Roads	£7.29
Non Principal Classified Roads	£17.21
Unclassified Roads	£3.27
Footpaths	£7.08
Grand Total	£34.85

IT

3.7 The Council has made a substantial investment in its networks and systems in recent years with a £2-3m investment in its systems and infrastructure in the last 3 years. This investment includes a new Customer Relationship Management System (CRM), A Geographic Information System and an Electronic Document & Records Management System. Systems for flexible working are already built into our infrastructure and are being further developed in operational terms as part of the WorkSMART project.

4 Implications for the Council's Capital Investment

- 4.1 The Council has limited resources to invest in Capital financing so any money spent will need to be channelled effectively to meet Council priorities.
- 4.2 With limited resources wherever possible the Council will need to work more in partnership with other public sector partners, the business sector and to some extent the voluntary sector. Community and voluntary sector links are also emphasised in the Government's QUIRK review which promoted community ownership of some assets, where appropriate.
- 4.3 The Council will also need to be mindful where it has made some substantial investment that it needs to continue to invest in the short term to make sure that it exploits its investment (e.g. CRM, EDRMS, GIS) and tidies any infrastructure to give the lowest net costs balanced by service need (e.g. use of dumb terminals).
- 4.4 The emerging vision for the area, informed by what people have told us so far and the challenges facing the area relates to people, place and community. The vision is for Bath & North East Somerset to be:
- A distinctive place
 - With vibrant and sustainable communities
 - Where people fulfil their potential

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- 4.5 The Council has to meet Place-Making Challenges within its objectives. This includes building a more competitive knowledge economy through entrepreneurship, business clusters and networks, local innovation and improvements in infrastructure.
- 4.6 It also looks to create a socially inclusive knowledge economy which will have to make a difference in deprivation & inequality, and increase the prosperity of the area.
- 4.7 Finally the Council as Community leader will look to improve and exploit the quality of Bath & North East Somerset's environmental assets. This will include considering areas such as housing affordability, connectivity, local services and amenities and its natural environment.
- 4.8 Longer term Council priorities were set out in the Council's Corporate plan were,
- to facilitate an Increase in the Availability of Affordable Housing,
 - to improve the Public Realm,
 - to improve the Quality of Public Transport, Roads and Pavements and Congestion and
 - To develop a Sustainable Economy.
- These are all objectives which are valid and pertinent to this strategy.
- 4.9 The Council needs a balance between new projects, maintaining our assets, leveraging regeneration and improving efficiency or income.

Future Themes & Drivers

- 4.10 It is anticipated that arising from this situation there should be four main streams in the Council's capital strategy. These will cover our objectives of Investment, Regeneration, Infrastructure and Service (IRIS):
- Revenue generation – where investment will generate revenue savings, increase income or generate grant income (**INVESTMENT**)
 - Regeneration of the area (**REGENERATION**)
 - BWR, TiF, Growth points, Southgate etc
 - Organisational infrastructure & partnership (**INFRASTRUCTURE**)
 - IT needs, LAA
 - Ensuring service delivery is maintained and in particular to look for capital to provide improvement & efficiency (**SERVICE**)
- 4.11 This will need to be set in a context of the need to mitigate and adapt to the effects of climate change. Adoption of higher standards in this area may also result in additional cost and subsequently lower numbers of projects within available resources. Current estimates suggest a 20% premium on costs (subject to market testing).
- 4.12 The Capital programme will also need setting in a context of addressing inequality where it can be used as a lever around the six strands on equality of

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gender, race, age, faith, disability and sexual orientation or around wider inequalities such as health and deprivation.

4.13 This strategy will be linked to the Council making best use of its current assets (through the asset management plan, service management) and releasing resources for reinvestment.

4.14 The Council's capital programme will be formulated in the context of:

- An ambitious capital programme over a short period of time.
- Reducing housing capital receipts.
- The Council's Prudential Indicators.
- A strong and urgent need for its development agenda for the area.
- Tight financial settlements and a period of challenging financial targets under the latest comprehensive spending review.

Council Financing

4.15 During previous years the Council has borrowed £12.4m (unsupported) which it has financed through additional capital debt charges in its revenue budget, and through additional capital receipts. The Council now plans to only finance additional spend excluding items mentioned in paragraph 4.16 through external funding, service supported borrowing and scheme specific receipts.

4.16 The Council will be looking to supplement its capital programme from additional capital receipts (or the equivalent income to finance additional capital) during the next 5-7 years. It will be looking to achieve a sum of circa £100m, which can finance its work in regeneration and public realm ambition.

4.17 These additional receipts will also be affected by the Section 106 Policy agreed by the Council, as the value of development agreements will be reduced for more rigorous S106 arrangements or vice versa. There may also therefore be areas that the Council is not prepared to fund investment directly, but where S106 is looked as a complimentary means of achieving Council objectives. In addition the Council will actively explore other funding sources whether from Government funding or other external sources.

4.18 Part of this receipt is already allocated in the Council's capital programme to fit the overall strategy objectives, but not all. In particular the Council will look to invest in the areas of Investment and Regeneration. Examples of this include its investment in Bath Western Riverside, and GBBN and TiF. This work will be shaped by the recommendations of the Council's Development Board which will look to achieve the best returns for any additional spending and will make recommendations to Council on this.

4.19 The financing of additional capital in other areas will be subject to a test of affordability for the services concerned or the generation of additional capital receipts from their operational assets.

5. Priorities

Investment (I)

Revenue generation – where investment will generate revenue savings, increase income or generate grant income (**INVESTMENT**)

- 5.1 The Council will seek to use capital resources to improve efficiency through pump priming of schemes and invest to save proposals.
- 5.2 It will also use capital investment to sustain key income streams where a sustainable business case is presented.
- 5.3 It will use its Corporate Estate assets in the most efficient way through rationalisation and reducing operational running costs. The Corporate Estate is the collective name for the operational property portfolio of the Council identified for the provision of front line service delivery. These mainly include Schools and other Educational Establishments, Social Services Buildings, Council Occupied Offices, Car Parks, Sports Centres, Leisure Facilities and Open Spaces, Heritage Buildings, Depots and Libraries.
- 5.4 It will also do this by releasing value from assets where income can be protected and sustained e.g. the disposal on non operational assets that does not generate income, the selective restructuring of leases and the rationalisation of property holdings. For instance the Council's Commercial Estate contains a revenue portfolio which contains non operational investment properties primarily used to generate revenue and/ or capital to support the Council's aims, objectives and improvement priorities.
- 5.5 The Council has developed a Property Performance Model to bring together assessments of the various aspects of the performance of operational properties. It is further introducing a programme of Property Reviews to take the results from the Model and apply these to selected properties or groups of properties. A robust system of Option Appraisal is in place for any action to be taken on the property asset base. Thus all decisions are justified and the reasons for making them supported by evidence.
- 5.6 An action plan has been developed from this information and are reassessed and reprioritised on a regular basis and reported to the Council's property board. Progress against these items is reported formally to the Cabinet on an annual basis.
- 5.7 The Council will also seek to actively generate additional grant income and Section 106 contributions to actively contribute to additional council costs and to finance objectives for the area such as affordable housing and improvements to the public realm and transport infrastructure.

Regeneration (R)

Regeneration of the area (**REGENERATION**)

e.g. BWR, TiF, Growth points, Southgate etc

The Big Picture

- 5.8 The Future for Bath and North East Somerset comprises a series of place-focused visions for the revitalisation and growth of the district and, in particular, the main urban centres of Bath, Midsomer Norton and Radstock, and Keynsham.
- 5.9 Although the Future for Bath and North East Somerset focuses primarily on economic development and physical regeneration, it also aims to be a catalyst for cultural and social regeneration as well.
- 5.10 The vision work has highlighted some of the challenges facing Bath and North East Somerset and outlines options for managed growth in a way that enhances the city and district's distinctive heritage, character and identity.
- 5.11 Challenges include:
- A shortage of affordable housing
 - A relatively low-wage economy
 - A narrow economic base
 - A lack of modern workspace
 - Declining retail status
 - Falling visitor numbers
 - Traffic congestion
 - The need to tackle the causes and effects of climate change

Transport

- 5.12 Congestion in the West of England area is already a problem and with projected increases in population and employment, it is set to get much worse. It is already having an adverse impact on how we live and work and if we do nothing, it will deteriorate even further. This is already apparent in central Bristol and Bath. Poor air quality, delays and unreliable journey times are placing huge pressures on existing infrastructure and services.
- 5.13 Some of the first actions to be included in this plan are the Greater Bristol Bus Network (GBBN) and Bath Package. These are therefore recommended (subject to adequate financing) for inclusion in the Council's future capital plans.
- 5.14 GBBN is a package of bus priority and other improvements on ten sub regional corridors.
- 5.15 The Bath Package is a range of measures aimed at improving alternatives to the car by providing a modern, integrated and easy-to use public transport system. The scheme received first-stage approval from the DfT in early October 2007 with implementation planned to start in 2009, after further development work to obtain full approval.

Housing

5.16 The Regional Spatial strategy has an aim that we should create and additional 775 unit's p.a for affordable housing (*there has since been an update to these numbers and these will be reflected in the final paper to Council*). To facilitate this, policy HG.8 of the Local Plan enables the Local Authority to negotiate with developers to secure 35% of new housing on development sites to be affordable through section 106 agreements. The projected delivery from Local Plan Allocations for Plan Period 2006/11 is as follows:

Site Location	Overall no of dwellings	35% Affordable
Bath Sites	545	190
Keynsham Sites	590	206
Norton Radstock Sites	594	206
Villages with a population of less than 3000	74	25
Total	1803	627

5.15 The Council's aim is that affordable housing shall be delivered without public subsidy thereby allowing any available Social Housing Grant to be targeted elsewhere enabling the delivery of more units overall.

5.16 In Bath & North East Somerset, capital investment in new affordable housing not only directly supports the delivery of a key local priority, it also has wider benefits. In particular, the development of community based supported living schemes as an alternative to residential and nursing care placements is a key plank of both the mental health service transformation programme. Delivery of new supported housing not only achieves better outcomes for people, it also achieves more effective use of resources than can be achieved through a disproportionate use of residential or nursing funding. In this way a case can be made for further revenue funding to support capital expenditure.

5.17 The Options Appraisal models for the Housing Capital Programme, a five-year period from 2008 to 2013 and a Council target of 1,000 new affordable homes has been used. Within this overall target, the assumption has been made that 627 new affordable homes will be delivered without public subsidy (see table above), leaving a five-year target for delivery with subsidy of 375 units.

Infrastructure

Organisational infrastructure & partnership (**INFRASTRUCTURE**)

- IT needs, LAA, R&M

5.18 The ICT Strategy was last reviewed by NCC in 2005. Within this its priorities contained the following actions that had capital and asset management implications in the medium to longer term (most short tem priorities were completed with the exception of developing an information management strategy).

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The strategy recommended the systems integration (which the Council is progressing through CRM, EDRMS and GIS projects. The Council was also advised to manage its applications and infrastructure environments from a corporate viewpoint and consolidate its server technology onto a limited set of technology platforms and operating systems. It has been investing in these areas in the intervening period.

- 5.19 The Council is now increasing its use of thin-client technologies to maximise the benefits of their Windows XP architecture.
- 5.20 The Council ensures that all web development (such as Council portals and the Council website) is consistent with the Government's developing e-GIF standards and the Council's own web development standards for content management and it is enhancing internet software and hardware infrastructure to ensure the demands for web-enabled services and increased use of home and mobile working practices through the investment being made in the WorkSMART project.
- 5.21 The authority has been required to produce a Transport Asset Management Plan based on guidance that has been issued through the County Surveyors Association.
- 5.22 The Council is working with the other three West of England Authorities to produce this plan (via use of consultants). This work will provide a valuation which will produce a Gross Replacement cost. Guidance on how to do this has been issued by government.
- 5.23 It is expected that a valuation in the region of £1.2 bn will be produced. The next stage is to agree depreciation profiles for different groups of asset and feed these into the plan with agreed service levels. The work on the service levels is just starting and executive approval will be required between the four authorities.
- 5.24 The final document will give a value of investment that will be required in the Transport Asset to achieve an agreed service level.
- 5.25 An evaluation of investment needs on the Council's property portfolio (Nov 2007 Property Board) has revealed a £35m backlog of work. This figure excludes DDA works (which are currently funded separately within the Councils' capital programme), legionella prevention works, asbestos removal and work arising from fire risk assessments. This is set out in the table below.
- 5.26 Generally the level of backlog has reduced in recent years. This is partly due to old buildings in the corporate estate being closed and replaced with new facilities requiring lower maintenance. An example of this would be the Care Homes Programme. Increased investment in planned Repairs & Maintenance will also bring about revenue savings in terms of a reduction in responsive repairs.

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Backlog in £m

Priority	1	2	3	4	Total
Condition	Urgent – will prevent immediate closure	Essential work required within 2 years	Desirable work within 3-5 years	Long term work required	
B (Satisfactory)	0	0.5	4.0	1.8	6.3
C (Poor)	0.1	10.6	12.0	2.1	24.8
D (Bad)	0.2	3.2	0.3	0	3.7
Total	0.3	14.3	16.3	3.9	34.8

Children's services

5.27 The Children's Service strategy to achieve a significant improvement in the quality of School buildings includes the following strands:-

- Reviewing all schools on a systematic phase and geographical area basis. Closing, amalgamating and where appropriate opening new schools to remove the worst suitability and condition issues and ensure there are sufficient school places where parental demand is highest. In the last 5 years, this has resulted in closing thirteen schools, building three new Primary Schools and one new Special School and amalgamating an Infant and Junior School.
- Using all available funding streams to ensure that a strategic approach is taken to delivering our long term aims, tackling surplus places and addressing Asset Management priorities.
- Working with School's Forum and Schools to match LA funding with school funding: e.g. - Using funds from School closures for Prudential Borrowing (£1,480k in 2006/7).
- Matching planned maintenance funding with school's devolved capital
- Establishing seed challenge programme where school funded capital projects can draw on up to £25k of matched LA funding

5.28 Schools spending has been supplemented since 2005/06 by the schools making a contribution to the cost of their projects in accordance with a set formula. In 2007/08 this was expected to raise an additional £360k of funding.

5.29 The strategies within Children's services are making a significant difference to delivering against the Children's services asset management plan priorities. There is a combined school building stock worth in excess of £600 million with a

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total of essential maintenance work of over £20 million. In the last five years the annual expenditure on major building work has been approximately £5 million (< 1% of building stock value) and that on repairs and maintenance £1 million (< 5% of outstanding essential work).

5.30 The most pressing items (Category D 1) are always addressed in the year after they are identified in line with the agreed performance indicator target. However, there is not sufficient budget to address the second highest priority items (D2) in any one year, and as things deteriorate new items are identified

5.31 The current planned maintenance investment programme (work and fees costs) is £24.4m which can be broken down as:

Type/Priority	1	2	3	4	Total
Primary School	0	4.0	5.1	1.8	10.9
Secondary School	0	7.1	5.2	0.5	12.8
Special School	0	0.5	0.2	0.1	0.8
Totals	0	11.6	10.5	2.4	24.5

5.32 This has been reduced by investment in new schools and closure of older schools together with the programme of removal of poor condition temporary classrooms.

5.33 Council funding for schools planned maintenance is currently £600k per annum in 2007/08. In addition schools contribute approximately £300-£400k to the funding of planned maintenance making a combined annual investment of £900k approximately.

Service

Ensuring service delivery is maintained and in particular to look for capital to provide improvement & efficiency (**SERVICE**)

5.34 The Corporate Performance Management System may identify problem areas where capital investment is needed in order to improve service delivery and meet key performance targets.

5.35 Efficiency Reviews, Base Budget Reviews and External Inspections may also identify areas that need capital investment.

5.36 Service plans and policy review outcomes must be considered by Cabinet Portfolio Holders and their Chief Officers. Service delivery requirements will need to be identified, and analysed in terms of future revenue budget needs and also capital funding. From this analysis of need, Cabinet Portfolio Holders must identify their key capital priorities for the next 3 – 5 years by the autumn each year (end October).

5.37 Once Services have identified their list of key capital priorities, possible sources of funding will then be considered for each of the capital schemes. Each project will be considered in terms of revenue funding for the operational running costs of

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the asset and any borrowing repayment costs, and also how the asset will be funded in terms of capital.

Conclusion

5.38 Property Services advise that an ideal investment level would be 10% of the Council's backlog (£3.5m).

Overall financing of IRIS

Identifying Financing and Capacity

5.39 These priorities are considered in the national, regional and local context.

5.40 Locally the position was outlined in paragraph 4.16 onwards. The use of unearmarked capital receipts will now be prioritised in future years (subject to tapering and operational workability) to the investment and regeneration areas. National and regional factors include:

- The availability of Government funding e.g. GBBN, Tif, Affordable housing
- Matching funding & leverage e.g. S 106, BWR, Southgate
- The Council's Vision, Corporate & Financial Plan that includes the following objectives:
 - Capital expenditure will be used, only where thoroughly justified, to help fund Improvement Priorities and to invest in productivity improvements which create future years' revenue headroom.
 - Asset-holding will be reviewed in order to ensure best use of resources whilst unsupported borrowing is likely to be the principal source of finance for additional capital spending in the short- to medium-term
 - Capital expenditure will also be used, again only where thoroughly justified, on a commercial basis, to increase investment to assist the sustainability of the Council's key income streams – notably its commercial estate, museums and car parks
- Prudential indicators
- Sustainability
- Equalities
- QUIRK - Another dimension to the question of financing has been provided by the Quirk Review. The Quirk Review is focused on how to optimise the community benefit of publicly owned assets by considering options for greater transfer of asset ownership and management to community groups.

Council skills and capacity

5.41 Bath & North East Somerset Council has embarked upon a programme to create a significant presence to externally promote its regeneration agenda and Development & Major Projects has been tasked to bring this forward in the Council. This includes engagement with key funders and Government agencies to raise awareness and broker and secure future funding and resources for projects.

Thus the Council has sought to build up or engage the expertise necessary to support its regeneration and investment objectives.

- 5.42 Its support services have also provided some expertise (particularly in interpretation of models) but does not retain staff to prepare models on an ongoing basis as work is more infrequent and skills required are more specialist and expensive to provide in house.
- 5.43 The Council has learned the importance of risk management in major projects and uses a sophisticated project management processes for all projects in excess of £500k. Resources for Project management, risk tracking and recording are an integral part of the development and planning of any major project. In short the capacity to manage day to day projects and risk is built into all council proposals.

6 Identifying Process

Overall Capital Programme Process

- 6.1 The Council has reviewed its capital planning, monitoring and evaluation processes. All the detailed processes have been brought together in a comprehensive project Management Handbook.
- 6.2 Figure 1 shows the intended high level process for project initiation.
- 6.3 Proposals for capital projects are generated through the Council's service and resource planning process. The Council's approach to service and resource planning has a strong emphasis on corporate improvement priorities contained in the Corporate Plan. Through this process capital programme proposals must have the strong support of the Strategic Director, Head of Service and the relevant Executive Member.
- 6.4 The PI & DG recommend to CS & AMG projects that are deliverable. In turn CS & AMG will recommend to Project Programme Board (PPB) a draft capital programme within available resources.
- 6.5 The Project Programme Board (PPB) will then assess the prioritised proposals against corporate priorities and recommend a capital programme to the Cabinet via the directors Group.

Overall Conditions for Programme additions

New projects/programmes may only be brought forward by the Cabinet Portfolio Holder when any one of the following applies:

- the project is a key priority to be met from existing revenue budgets,
- the project provides savings arising from say invest to save schemes,
- the project will generate additional income,
- Or the project is the Cabinet Portfolio Holder's top priority to be met from the budgets allowed in their Cabinet Portfolio in the forward budget process.
- Any additional revenue costs arising from capital projects should be clearly identified in the Cabinet Portfolio's Forward Budget Strategy. Cabinet Portfolio Holder's must fund the revenue costs of capital schemes, whether additional operational costs or borrowing costs, from their forward budgets. This includes

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Invest to Save Schemes. The Executive and Full Council may agree to corporately fund schemes that are of a corporate nature or represent a significant large scale strategic service project.

6.6 For projects over £0.5 million a detailed option appraisal based on whole life costing is increasingly completed.

Option Appraisal and Business Case

6.7 An appraisal form is completed for each proposed scheme including the following information:

- Objectives of the project.
- Contribution to Corporate Plan priorities and Corporate Improvement priorities.
- The outputs/outcomes of the proposal.
- The funding details including revenue consequences

Challenge

6.8 Processes for challenging and prioritising proposed capital schemes for priority exist through the Capital Strategy Group (CSG), Projects and Programme Board (PPB) and deliverability through the Project Initiation and Development Group (PI & DG). This involves a number of Corporate Directors, Assistant Directors and Members through a series of Gateway groups such as PIDG.

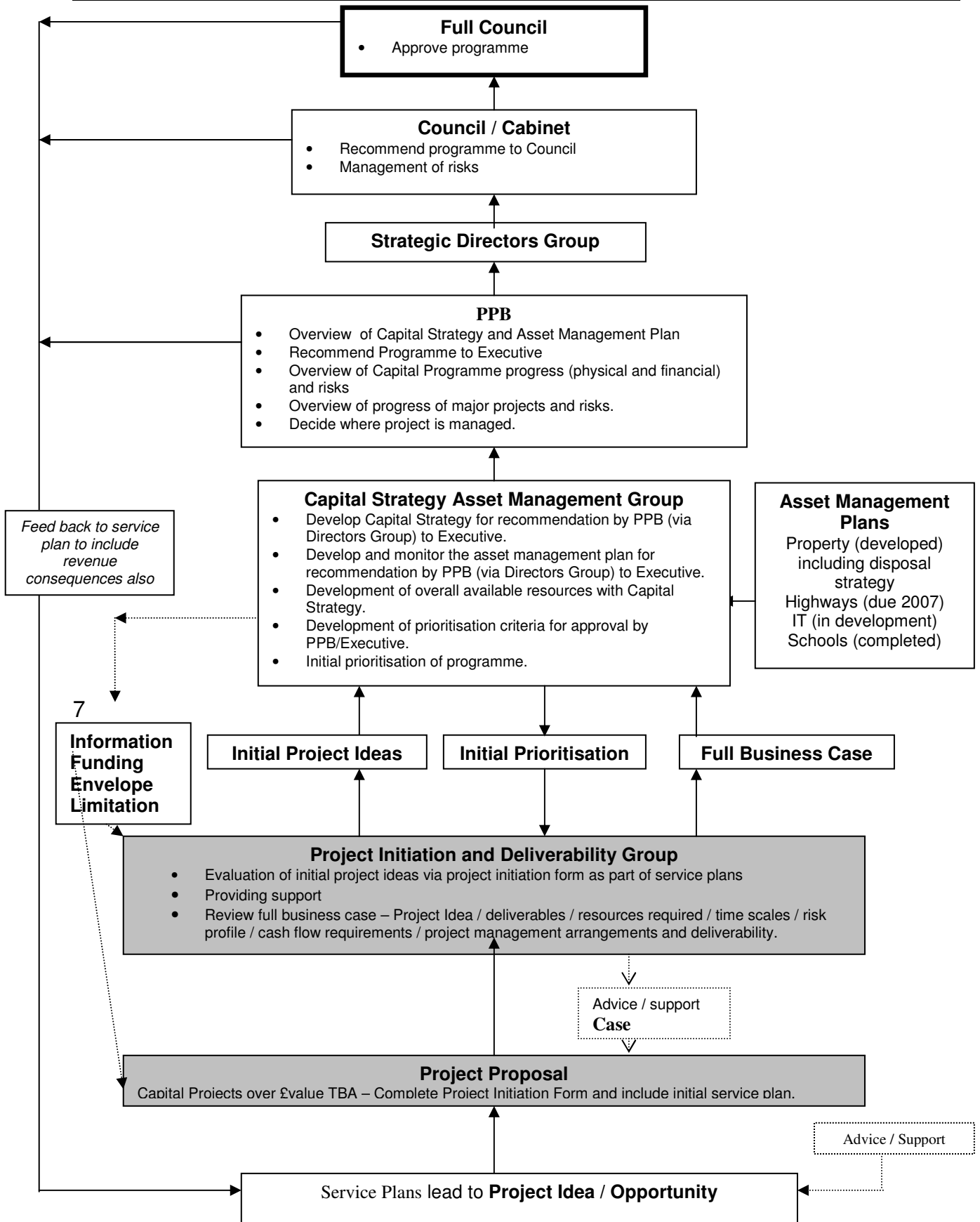
6.9 These challenges look at all the possible alternative options for the capital scheme. These may include new build, purchase of existing property for improvement, leasing, and consideration of the alternative service delivery options including the "do nothing" option. Adjustments will be explored within the options appraisal for "Optimism Bias," which is the demonstrated systematic tendency for project appraisers to be overly optimistic. The appraisal will be completed on a whole life costing basis.

6.10 In any case the revenue consequences of any borrowing must be able to be met from existing budgets, identified (and underwritten) savings or income streams, or be the Cabinet Portfolio Holder's key priority area for any growth identified in the forward budget process.

6.11 The approval of a rolling five year capital programme assists the council in a number of ways. It assists Service Managers, allowing them to develop longer term capital plans for service delivery. It allows the Major Projects & Property teams' greater flexibility in planning work loads and more certainty for preparation work for future schemes. Such longer term view also allows capital receipts to be programmed in a way which considers market forces and brings forward disposals and developments in a way which maximises return. It will also allow greater integration of the revenue budget and capital programme. It also matches the time requirement for scheme planning and implementation since capital schemes have a considerable initial development phase.

Bath & North East Somerset Capital Strategy 2008
 Investment, Regeneration, Infrastructure, Services

Figure 1: OVERVIEW OF THE COUNCIL'S CAPITAL & ASSET PLANNING PROCESS



Bath & North East Somerset Capital Strategy 2008
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- 6.12 Payments for capital schemes often occur over many years, depending on the size and complexity of the project. Therefore, estimated payment patterns are calculated for each project so that the expected capital expenditure per year is known. This is called a cash flow prediction. These overall capital programme totals are then reported to Members along with recommendations on which projects should receive borrowing approvals or discretionary funding from the corporate bidding process.
- 6.13 The Cabinet receive the draft Capital Programme at the end of each year. The report contains overall Cabinet Portfolio Totals based on the known funding for capital investment and also PPB recommendations regarding schemes for discretionary funding. The Cabinet consider the report and in turn make their recommendations.
- 6.14 The Council approves the Revenue Budget and Capital Programme at their annual budget meeting. This normally happens in late February in time to meet the Council deadline for collecting the Council tax.
- 6.15 Once the Council has approved the capital programme, then expenditure can be committed against these approved schemes subject to the terms and conditions of funding.
- 6.16 Project Managers should complete accurate cash flow predictions and systems for the accurate monitoring of actual expenditure, commitments and funding are being developed.

7 Consultation

- 7.1 Consultation should be undertaken by services with the public and customers before constructing their service plans. Where necessary specific consultation should then take place for each capital scheme with the local community. Local Members and Cabinet Portfolio Holders must be consulted at the early stages of capital schemes and before any public consultation takes place.

8. Other Considerations

- 8.1 Capital Schemes must comply with legislation, such as the Disability Discrimination Act, and also Council policies and regulations. Reference should also be made to other strategies and plans of the Council.

Important Background Documents for reference are:

Community Strategy
Council Corporate Plan
Individual Service Plans
Financial Regulations/Budget Management

Our Capital Plans to 2013/14

Budget Detail and financing in Annex 5
2008/09 is a firm recommendation. The budgets for 2009/10 onwards are indicative.
Comparators to Other Authorities can be supplied as background papers.