

APPENDIX 4**CAPITAL STRATEGY****1. INTRODUCTION**

- 1.1 The Council invests in its assets through the Capital Plan. Assets owned by the Council should achieve the Asset Objectives approved by the Policy and Resources Committee on 29th March 2006 (Item 9 refers) and amended by that Committee on 11th October 2011.

- To ensure that our assets are fit for purpose in terms of condition, sufficiency, suitability, and accessibility.
- To ensure that our asset use demonstrates Best Value in terms of running costs and environmental impacts.
- To ensure that our Asset Management processes reflect good practice.
- To ensure that our assets reflect the policies and priorities of the Council.

- 1.2 The Council adopted the following policy in relation to the preparation of the Capital Plan on 11 February 2014:

“The Council recognises the importance of the principles underpinning the CIPFA Prudential Code in relation to capital expenditure, in particular, affordability and sustainability of its investment plans. The Council’s policy in relation to Capital Planning is:

- a) To maintain all buildings at a satisfactory level of condition and suitability for the provision of council services;
- b) To maintain the road infrastructure with regard to the safety of all road users and by the end of the 5 year period aim to be at the mid-point of the table for carriageway conditions in Scotland;
- c) To maintain all short-life assets (less than 10 years) required for the provision of council services at the optimum level to minimise the annual cost to the council;
- d) To provide investment funding to support economic development plans; and
- e) To identify assets for disposal.

In relation to the council’s housing stock the same principles are applied in the Housing Business Plan. The council is also required to meet the Scottish Housing Quality Standard.”

- 1.3 At the same meeting, the Council approved standards for different asset types as below:

Asset Type	Recommended Standard
Schools	BB
Offices, Depots etc	Of a standard that supports the efficient delivery of services
Leisure Centres and Community Centres	BB
Children's Play Areas	To meet safety standards
Town Halls	BB
Day Centres and Resource Centres	BB
ICT	Schools 5 Year Replacement Offices etc 7 Year Replacement
Plant and Vehicles	Replacement based on cost effectiveness – assessment of replace or repair
Industrial Estates	BB
Other Economic Development	
Waste Management	Of a standard that supports the efficient delivery of services
Roads	At end of 10 year period aim to be at the midpoint of the table for road conditions in Scotland
Bridges	
Street Lighting	
Harbours	BB
Flood Alleviation Works	

- 1.4 The objectives describe what the Capital Plan should achieve in overarching terms; the Council's Policy gives further definition to this and the standards make explicit the level of performance required of the Council's assets. The Council's Capital Strategy describes how the Capital Plan is developed in order to achieve these objectives within the approved policy.
- 1.5 The Capital Strategy identifies the drivers for capital investment and describes the contribution made by the asset management planning process to the capital planning process. It identifies the key features of the financial environment in which capital planning takes place.

2. DRIVERS FOR EXPENDITURE

- 2.1 The Council recognises five principal drivers for capital expenditure, and structures its Capital Plan accordingly:
- Legislation
 - Efficiency Saving
 - Maintenance of operations at current levels
 - Service Development
 - Council Priorities
- 2.2 Legislation places a variety of duties on the Council. In some cases the Council has obligations to meet certain requirements but discretion as to how they do so. Road safety measures are a case in point. In other cases legislation is more prescriptive. The Council is obliged to comply with findings following fire inspections, for example. In the more prescriptive cases, there is almost always the option of closing a facility. It may appear that there is a presumption in favour of expenditure required by legislation, but this should always be challenged appropriately – by option appraisal if the amount of expenditure is significant. Legislative requirements form part of the considerations adduced when developing and costing asset management plans.
- 2.3 Spend-to-save is a feature of the Council's financial strategy. There is a presumption that a spend-to-save proposal with a suitable business case will be approved. However, such proposals will always be reviewed to ensure that they fit within the Council's priorities. Designing Better Services (DBS) is the Council's main project for modernising Council services, and this requires capital investment and considerable input from the Council's ICT sections to ensure that the updated systems on which the project relies are on place. Consequently any other spend-to-save project which is heavily reliant on ICT must be reviewed to ensure that it would not delay implementation of DBS.

- 2.4 The maintenance of the Council's operations at its current levels requires both revenue expenditure and capital expenditure. Recommendations for both arise from the asset management planning process and the recommendations for inclusion in the Capital Plan are made on the basis of a technical assessment on asset management grounds. Largely the assessments will be based on condition, although questions of suitability and sufficiency will also be addressed, in accordance with the Council's capital planning policy and recommended asset standards. These recommendations are subject to review and moderation for the overall affordability of the Capital Plan. At this stage target standards might have to be reappraised. Ultimately, if the asset management planning process identifies expenditure requirements which are not affordable then the Council must review its asset base with a view to restructuring and reducing it to an affordable level.
- 2.5 Proposals for service developments which do not specifically address key Council priorities may arise. It is envisaged that there would be few of these. Proposals are assessed on their merit, using the Council's Gateway process.
- 2.6 Most proposals for development of the Council's asset base are anticipated to arise from key Council priorities. These require to be reviewed individually; as a section of capital bids, and as part of the draft Capital Plan as a whole for affordability. Proposals for new facilities should address any on-going revenue implications: these may include both expenditure and income generated. Proposals based on Council priorities will generally arise from the asset management implications of stated Council priorities.
- 2.7 Moray 2023: A Plan for the Future identifies the following priorities:
1. A growing, diverse and sustainable economy.
 2. Healthier citizens.
 3. Ambitious and confident young people.
 4. Adults living healthier sustainable independent lives safeguarded from harm.
 5. Safer communities.

3. FINANCIAL ENVIRONMENT

3.1 Prudential Code

The Council's total capital expenditure plans must comply with the Prudential Code. The two main criteria for compliance with the code are affordability and sustainability. At this point the capital plan impacts on the revenue budget, in two ways: the impact of increased loan charges required by additional borrowing required to finance capital expenditure and the revenue (running) costs of new facilities, or revenue savings achieved through spend to save projects. It should be noted that the revenue budget can also adversely impact on the capital plan, if insufficient spend on revenue maintenance

results in deterioration of assets and a resulting requirement for (capital) replacement.

3.2 Grant Funding

By far the largest element of the capital plan for the next two years is the development of major flood alleviation schemes across Moray. Significant government grant funding is assumed for these schemes. Funding is through General Capital Grant. The system for allocating this changed in 2012/13. Funding for the Forres (Findhorn & Pilmuir) scheme has been awarded under the new system of allocation. Considerably lower but nonetheless significant funding from the School Funds is the precondition for some of the proposed redevelopment of the School Estate. The new Elgin High School will be part-funded from this source. Grant funding has also been made available for new build Council houses. European funding may be a significant component of some economic development packages. All grants come with different terms and conditions attached and the level of staff input to support these packages can be considerable. There should not be a presumption that a grant funding or partly grant funded package comes at no cost to the Council. There should also be a recognition of the level of risk of repayment, which is considerable in the case of some European funding streams.

3.3 Inflation

The Construction Industry inflation rate impacts upon the Capital Plan. This has been highly volatile in recent years. Market forces have depressed recent actual increases in tender prices below inflation. Projects are included in the plan at current prices. Depending on how far in advance these have been scheduled, costs may be significantly above the original estimate simply because of inflation in the intervening period. Any significant increase in cost above the original estimate requires adjustment of the capital programme to accommodate it.

3.4 Alternative operating models

The need to make significant levels of revenue budget savings is a key feature of the current financial environment within which local authorities are operating. The Council has indicated willingness to explore both community ownership or operation of community facilities and also the transfer of community and leisure facilities to a trust. An element of backlog maintenance may require to be dealt with before these options can be realised in full. No Community Asset Transfer to date has resulted in the transfer of a previously Council operated service. However, two services are in the early stage of transfer.

3.5 Carbon Reduction

Under the Carbon Reduction Commitment regime which commenced in 2012/13, the Council is liable to financial penalties based on its carbon usage.

Future plans for Council buildings will therefore need to take carbon emissions into account.

3.6 Economic Development

The Council's response to the current economic climate has been to foster and facilitate economic development in Moray, in conjunction with community partners. The Capital Plan requires to support this Council priority, and the Capital Strategy will develop in response to this emerging issue. The Moray Economic Strategy is being developed in the context of wider partnership working with other public sector bodies and the private sector. At this juncture the main implication for the Capital Plan is to ensure that the projects included in the Plan align with the direction of travel of the Moray Economic Strategy, which in turn must reflect the Community Planning Partnership's recently agreed priorities.

3.7 Budget Pressures

The current local government settlement has seen Moray's General Revenue Grant support roughly constant in cash terms across the three years to 2014/15. The settlement for 2015/16 resulted in an increase in general Revenue Grant, reflecting the increase in population numbers from the 2011 census, which were higher than those predicted by the General Register Office. Current indications are that revenue grant support will decrease in cash terms as well as in real terms in 2016/17 and thereafter, although the level of funding for local government in Scotland after 2015/16 remains uncertain at this time. It is very likely that the Council will have to absorb inflationary increases in pay and prices and at the same time cope with considerable financial challenges arising from an aging population and the welfare reform process. The Council has also identified budgetary pressures arising from backlog building maintenance across all building types. The affordability of the Capital Plan requires to be assessed in the context of the likely requirement to make further significant revenue savings.

4. SPEND TO SAVE PROJECTS

- 4.1 Spend to save projects may be approved at any stage during the financial planning process, as they assist to achieve budgetary efficiencies.
- 4.2 Current arrangements are to review spend-to-save projects on a case-by-case basis. The factors to be taken into account when assessing a spend-to-save proposal are:

- Size of investment required;
- Payback period;
- Risk assessment of achieving payback;
- Impact on service.

As an indicative guide the payback period should be 3 years or less. Any proposals will be reported to Policy and Resources Committee at the appropriate time for consideration. Subject to the amount of capital expenditure required the approved prudential indicators for the year may require to be amended.

- 4.3 Proposals for expenditure on assets are scrutinised to ensure that all potentially capitalised costs are funded through the capital programme, as this is the most economical way for the Council to fund replacement of failed elements or life-expired assets. Enhanced capital expenditure can be used to deliver revenue savings.

5. CONCLUSION

- 5.1 The Council aims to support the development of its Capital Plan according to its agreed policy to achieve its agreed objectives of a sustainable asset base, at an appropriate standard, to support the Council's key priorities.
- 5.2 The Capital Strategy sets out the links between asset management planning and capital planning and indicates the other considerations taken into account when preparing the Capital Plan.