Waverley Borough Council

# Capital Strategy

Version 1.0

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## 1. *Purpose of the Capital Strategy*

This three-year Capital Strategy sets out how the Council will manage the investment and financing of capital resources to contribute towards the achievement of its key objectives and priorities. This includes the appraisal process for determining investment decisions and the process for identifying and prioritising funding requirements.

The Capital Strategy is a framework by which capital expenditure decisions are made. It is required under the Prudential Code for Capital Finance in Local Authorities as good governance.

The objectives of the Capital Strategy are to:

- Prioritise and deploy capital resources in advancement of the Corporate Objectives
- Support service plans
- Look for opportunities for cross-cutting and joined up investment
- Invest in assets that reflect the visions and aspirations of local people in service delivery
- Manage investment and the Council's property and other assets effectively and efficiently

## 2. *Overview*

The Capital Strategy considers all aspects of the Council's capital expenditure and extends to areas where the Council is able to influence others through the use of its capital resources. It forms part of the Council's integrated revenue, capital and balance sheet planning.

The strategy covers capital expenditure, capital financing and asset management and is one of the key strategies alongside the more operational strategies for these and other areas including Treasury Management, Tax, Property Investment and service areas such as housing and other spending areas. It also gives an overview of how associated risk is managed and the implications for future financial sustainability.

The strategy provides a set of objectives and a framework, within CIPFA codes and statutory legislation, by which new capital projects are evaluated and investment decisions made whilst ensuring funding is targeted towards meeting priorities.

The Capital Strategy:

- States the council's processes for:
  - Project initiation
  - deciding on the prioritisation of capital projects
  - monitoring and evaluating schemes
- Takes account of significant revenue implications
- Provides a framework for the management and monitoring of the capital programme
- Identifies funding and provides a basis to inform bidding for additional capital resources (eg from the National Lottery, government initiatives)
- Apprises the corporate review of existing properties

## 2.1 Scope

The Capital Strategy includes all capital expenditure and capital investment decisions not only as an individual local authority but also those entered into under group arrangements or other partnership arrangements.

## 2.2 Project Initiation

Capital projects will be subject to robust justification process, bringing together a clear business case with sufficient detailed costings to ensure transparent decisions can be taken.

Proposals must be given independent oversight and review of the project in terms of validation arrangements, estimated figures and project milestones.

Business cases will be prepared in accordance with the Council's Project Management process.

A formal process on a rolling basis for supervision and review of projects has been drawn up to ensure they are subject to thorough oversight for the duration of the project.

To ensure project delivery is achievable robust project management arrangements are being implemented with ownership of projects siting in the initiating department and clearly defined areas of responsibility for each task in the project.

For larger projects where feasibility is less certain viability assessments robust business cases will be required before bids are made for funds. This includes undertaking all preparatory work to fully understand the requirements of a project before budget is sought.

An assessment of officer resource will be required when considering projects to ensure both delivery of projects and day-to-day work is covered, including a time based resource plan to flag significant pressure on resources.

A clear link between budgets and service plans must be presented to Members of the Council.

## 2.3 Deciding on the prioritisation of capital projects

Capital projects will be assessed for:

- Strategic fit – corporate objectives are being met by the expenditure
- Identified need – eg vital repairs and maintenance of existing assets
- Achievability – this may include alternatives to direct expenditure by the Council such as partnerships with others, rent or buy options, alternative delivery vehicles
- Affordability and resource use – to ensure total capital investment remains within sustainable limits
- Practicality and deliverability
- Revenue generation is achieved from the Investments
- Non-monetary impacts such as future economic growth, social well-being or environmental

## 2.4 Monitoring and evaluating schemes

In assessing potential capital schemes the Council will have regard to:

- Governance arrangements
- How each scheme will be reviewed
- The formal approval process

### 2.4.1 Governance process for approval and monitoring of capital spend

For all capital investment the appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of risk being considered in accordance with the Council Risk Appetite Statement.

Due diligence process and procedures will include:

- Scrutiny of the capital programme by Value for Money Overview and Scrutiny Committee
- Identification of the risk to both the capital sums invested and the returns
- Understanding the potential impact on the financial sustainability of the Council if the risks come to fruition
- Identifying assets being held for security against any potential debt or charges on assets
- Seeking independent and expert advice where necessary

The Strategic Director (Section 151 Officer) will ensure that Members are adequately informed and understand the risks of capital investment decisions.

### 2.4.2 How each scheme will be reviewed

The business case put forward for a capital project will be reviewed to ensure it takes account of stewardship, value for money, prudence, sustainability and affordability.

Investment decisions will consider risk and reward and how the project contributes to the achievement of corporate objectives.

The phasing of projects over more than one financial year will be assessed to ensure timetabling of plans and budgeting is realistic and funding is available over the life of the project.

Contingency budgets will be considered as part of the review process to increase transparency of budgeting and to avoid over-budgeting of funds.

### 2.4.3 The formal approval process

Project proposals will be put to Council for formal approval together with funding requirements and, if successful, will form the Council's capital programme which is the Council's plan of capital investment for future years.

This ensures the Council's overall capital strategy, governance procedures and risk appetite are fully understood by all members.

## 2.5 Revenue Implications

The revenue implications of capital investment must always be considered in investment decisions and prioritisation of projects. These include costs and savings implications.

Costs to consider include:

- Cost of borrowing (including Minimum Revenue Provision)
- Loss of investment income if reserves or useable capital receipts are used
- Running costs associated with the asset:
    - salaries of employees or the appropriate management fee of outsourcing
    - heat and light etc
    - administrative support costs
    - future maintenance

Savings, including benefits, to identify in the proposal include:

- Any positive impact of investment and economic growth on the Council's council tax base and business rates income
- Capital projects that generate income, revenue savings or efficiencies

## *2.6 Framework for the management and monitoring of the Capital Programme*

A standard approach to project management is used across the Council. A standardised set of project documentation allows a thorough overview of projects and makes the assessment of project progress against initial plans and milestones transparent. These documents include risk registers and project baselines.

The finance system is used as a tool for budget management and is accessed by both finance staff and project managers to give up to date information on project spend.

Close monitoring and reporting of slippage is undertaken to give more timely reporting which then allows for greater flexibility with capital spend allowing opportunities for alternative projects to be introduced.

Full requirements in regard to management of financial information can be found in the Council’s Financial Regulations.

The Council will assign a Project Manager to each project to oversee planning, delivery, management, skills assessment and governance of capital projects.

Project management must be used on every project irrespective of funding source.

## *2.7 Funding the Strategy*

Proposals for capital projects must identify the funding requirements for the timescale of the project including any revenue implications.

Funding must be appropriate for the project and will come from:

- Reserves
- Capital receipts – from the sale of assets or finance lease receipts
- Government grants – such as disabled facilities grant funding
- Third party grants and contributions
- Community infrastructure Levy
- Revenue contributions
- Other developer contributions
- External (prudential) borrowing

Any restrictions on borrowing or funding of ongoing capital finance eg HRA requirements will be assessed.

Project appraisal will consider additional or alternative funding sources, match funding opportunities, bidding timeframes and the likely success of being awarded a grant. Other funding sources may include national lottery, government grant, heritage lottery fund etc.

### *2.7.1 Flexible use of capital receipts from 2016/17 to 2021/22*

The Secretary of State believes that individual local authorities are best placed to decide which projects will be most effective for their area. The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings.

If the Council plans to use this funding option a strategy will be prepared setting out the planned use of this flexibility, listing the projects and the expected savings or service transformation outcome for each project, and the impact on the Council's prudential indicators.

### *2.7.2 Borrowing*

The Council's approach to borrowing is set out in the Treasury Management Statement.

The Council may consider internal or external borrowing.

The following issues will be considered prior to undertaking any external borrowing:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risk
- Borrowing source

Minimum revenue provision (MRP) – local authorities are required to set aside some of their revenues as provision for debt each year of an amount considered to be 'prudent'. Prudent provision should ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefit.

The Executive has authority to bid, negotiate and complete on property acquisitions and investments with a total individual cost of up to £10million, within a total aggregate sum of £30million over the period 2018/2019 to 2020/2021, subject to the decision fully satisfying all the criteria and process requirements set out in the Property Investment Strategy.

## ***2.8 The corporate review of existing assets - Asset Management***

The Council's arrangements for the corporate review of existing assets is contained in the Property Investment Strategy and the Housing Revenue Account Asset Management Strategy. These provide frameworks for the operational work of asset management and the aims and objectives and the current property portfolio and the plan of asset management including acquisitions, maintenance requirements and planned disposals.

The land and building assets are contained in the Property Terrier. These assets, together with the Council's other assets, are held in the Council's Asset Register which is maintained and updated on a regular basis.

### *2.8.1 Commercial Investment*

These are investments made outside the normal treasury management activity and are taken with the aim of making a financial surplus for the Council.

The detail is contained in the Council's Property Investment strategy which documents the Council's requirements for:

- Ensuring effective due diligence
- Risk appetite
- Proportionality in respect of overall resources.
- Independent and expert advice and scrutiny arrangements

Performance is monitored by the Value for Money Overview and Scrutiny Committee.

## 2.9 Other developments

### *2.9.1 Housing*

The Council recognises the demand for affordable housing.

In addressing this need the Council will consider a range of options:

- Private developments
- Build new homes from within the Housing Revenue Account within the limitations of the self-financing reforms.
- Seek alternative approaches for financing and supporting house building such as establishing council-owned housing companies and developing new relationships with delivery partners such as housing associations and private developers.
- The acquisition and appropriation of land and the transfer of assets from the HRA to the General Fund.

### 2.10 Service reviews

As part of service planning asset reviews will be undertaken to consider the use of existing property and whether it can be better used in achieving the Council's objectives. The use of assets needs to be considered as customers' needs and expectations change.

Examples include:

- Consideration of sales of assets not being used to deliver operational services or those not delivering best value, eg ransom strips
- A lease on a council owned property may be up for renewal which could create opportunities for change
- The local plan could redesignate a particular area which would allow for the potential redevelopment of council owned land or property.

### 2.11 Other Considerations

All capital schemes must comply with legislation and Council policies such as the Financial Regulations and Contract Procurement Rules. Reference should also be made to other strategies and plans of the Council.

Documents for reference are:

- Corporate Plan
- Property Investment Strategy
- Treasury Management Strategy
- Asset Management Strategy
- Financial Regulations
- Contract Procurement Rules
- Medium Term Financial Plan

### 2.12 Glossary

CIPFA – Chartered Institute of Public Finance and Accountancy

HRA – Housing Revenue Account

MRP - Minimum Revenue Provision