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| <i>Owned by:</i>                        | <i>Vicki Basley</i>  |
| <i>Version:</i>                         | <i>3.0</i>           |
| <i>Executive/Council Approval date:</i> | <i>February 2020</i> |
| <i>Date for review:</i>                 | <i>February 2021</i> |

## 1. Introduction

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### 1.1 Description

The Capital Strategy (the Strategy) brings together Waverley Borough Council's (Waverley's) detailed policies, procedures and plans relating to cash investments and property assets.

This three-year Strategy sets out how Waverley will manage the investment of its capital resources and the financing of capital expenditure in order to contribute towards the achievement of its key objectives and priorities.

The Strategy includes the appraisal process for determining capital investment decisions and the process for analysing funding requirements.

The Strategy also provides a framework by which capital expenditure decisions are made as required by the Prudential Code for Capital Finance in Local Authorities to provide good governance.

## 2. Structure of the Capital Strategy

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The Capital Strategy sets out Waverley's processes for the various stages and aspects of considering and carrying out capital projects.

- Scope (section 2.1)
- Project initiation (section 2.2)
- Prioritisation of capital projects (section 2.3)
- Monitoring and evaluating projects (section 2.4)
- Revenue implications (section 2.5)
- Framework for the management and monitoring of the capital programme (section 2.6)

### 1.2 Objectives

The objectives of the Strategy are to:

- prioritise and deploy capital resources in advancement of the Corporate Objectives
- support service plans
- invest in assets that reflect the corporate priorities
- manage Waverley's investments, property and other assets effectively and efficiently

- Funding of capital projects (section 2.7)
- Asset Management (section 2.8)
- Affordable housing (section 2.9)
- Asset reviews (section 2.10)

### 2.1 Scope

The Strategy covers all capital investment and capital expenditure decisions undertaken by Waverley as an individual local authority and also those entered into by Waverley under group or partnership arrangements.

## 2.2 Project Initiation

Capital projects will be subject to a robust justification process which brings together a clear business case with sufficiently detailed costings to ensure that the rationale for the decision can be easily understood.

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

Business cases must be prepared in accordance with Waverley's Project Management toolkit.

The business case must state where responsibility for project delivery lies and which officers are responsible for each task in the project.

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

An assessment of officer resource requirements and availability must be included in proposals to ensure that both delivery of projects and day-to-day work is covered. That assessment must include a time based resource plan to highlight significant pressure on resources.

A formal process for supervision and review of the capital project at regular and defined intervals must be annexed to the business case to ensure that the project

will be subject to thorough oversight for its duration.

## 2.3 Deciding on the prioritisation of capital projects

Proposed capital projects will be assessed in relation to alternative potential projects and on impact to financial resilience against the following criteria:

- Strategic fit – corporate objectives that are being met by the expenditure
- Identified need – why the project is required eg vital repairs to or major non-revenue maintenance of existing assets
- Achievability – this may include alternatives to direct expenditure by Waverley such as partnerships with others, rent or buy options and other alternative delivery vehicles
- Affordability and resource use – to ensure that total capital investment and expenditure remains within relevant limits if the project is approved
- Practicality and deliverability
- Revenue generation to be achieved from the proposed capital investment
- Non-monetary impacts such as future economic growth, social well-being or environmental benefit

## **2.4 Monitoring and evaluating projects**

In assessing potential capital projects Waverley 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 expenditure**

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 Waverley's Risk Appetite Statement.

Due diligence process and procedures will include:

- Scrutiny of the capital programme by the Value for Money and Customer Service Overview & Scrutiny Committee
- Identification of the risk to both the capital investment and the anticipated revenue generation
- Understanding the potential impact on the financial sustainability of Waverley if the risks are realised
- 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) is responsible for ensuring 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 all the criteria set out in section 2.3.

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**

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

This ensures Waverley'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 prioritising projects and making investment decisions. Revenue implications include increases and decreases in both income and costs.

Items with negative revenue implications include:

- cost of borrowing (including Minimum Revenue Provision)
- loss of investment income if reserves or useable capital receipts are used
- running costs associated with an acquired asset such as:
  - salaries of employees or management fees or other outsourcing costs
  - heat and light etc
  - administrative support costs
  - future maintenance

Items with positive revenue implications include:

- additional income
- any positive impact of investment and economic growth on Waverley's council tax base and business rates income
- direct revenue savings
- savings from efficiencies

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

A Project Manager will be assigned 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.

There is a standard approach to project management that is used across Waverley. It consists of a standardised set of project documentation which allows a thorough and transparent overview of projects and the assessment of project progress against initial plans and milestones. 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 Waverley's Financial Regulations.

## 2.7 Funding of capital projects

### 2.7.1 Funding

Proposals for capital projects shall identify the capital funding requirements for the timescale of the project.

Capital funding must be appropriate for the project. Possible sources are:

- 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
- National Lottery
- Heritage Lottery Fund
- Matched funding
- External (prudential) borrowing
- Internal borrowing

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

If grant funding is being sought, the project appraisal process must include bidding timeframes and the likely success of being awarded a grant.

### 2.7.2 Flexible use of capital receipts until 2021/22

Local authorities are permitted to use capital receipts to fund projects which are forecast to generate ongoing savings.

If Waverley plans to use this funding option for one or more capital projects a document must be prepared listing the projects, the expected savings or service transformation outcome for each project, and the impact on Waverley's prudential indicators.

### 2.7.3 Borrowing

Waverley's approach to borrowing is set out in the Treasury Management Framework.

Waverley 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 a 'prudent' amount of their revenues each year as a provision for the repayment of debt'. Prudent provision should ensure that debt is repaid over a period that is reasonably similar to the period over which the capital expenditure is expected to provide benefit.

## 2.8 Asset Management

Waverley's arrangements for the corporate review of existing assets are contained in the Strategic Asset Management Plans 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. These assets, together with Waverley's other assets, are held in the Asset Register which is maintained and updated on a regular basis.

### 2.8.1 Property Investment

These are investments made outside the normal treasury management activity and are taken with the aim of supporting corporate priorities through property investment.

The detail is contained in the Property Investment Strategy which documents the elements of the Investment Strategy:

- Supporting corporate priorities
- Investment principles
- Legal powers
- Funding
- Acquisition process
- Governance and due diligence
- Exit strategy
- Performance reporting

The Executive has authority to bid, negotiate and complete on property acquisitions and investments as set out in the Property Investment Strategy.

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

## 2.9 Affordable Housing

Waverley recognises the demand for affordable housing.

In addressing this need it will consider a range of options:

- Private developments, including investment as part of the Property Investment Strategy
- 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 Asset 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 corporate priorities. The use of assets needs to be considered as customers' needs and expectations change.



### 3. Other Considerations

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All capital schemes must comply with Waverley's policies and legislation such as the Financial Regulations and Contract Procurement Rules.

Reference should also be made to other strategies and plans, namely:

- Corporate Strategy 2019-2023
- Property Investment Strategy 2020-21
- Treasury Management Framework for 2020-21
- Housing Revenue Account Asset Management Strategy 2015-20
- Financial Regulations 2019-20
- Contract Procurement Rules 2019-20
- Tax Strategy 2019-20
- Risk Appetite Statement (Executive 5 February 2019)
- Medium Term Financial Plan 2020-24

#### **Glossary**

CIPFA – Chartered Institute of Public Finance and Accountancy

HRA – Housing Revenue Account

MRP - Minimum Revenue Provision

Property Terrier – information system for property assets