Corporate Capital Strategy

FEBRUARY 2019

ROYAL BOROUGH OF GREENWICH

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1.1 Purpose of the capital strategy

The sustained squeeze on public spending makes it ever more important for the Council to deploy its resources efficiently so that it can continue to provide high quality services to residents, visitors and partners. Capital assets are the Council's most valuable resource other than its staff. How capital resources are deployed and capital assets are developed is therefore a key part of the Council's strategic planning.

This capital strategy forms the foundation of the Council's long-term planning and delivery of its capital investment. It sets the parameters for the capital programme, which will be updated each year will help to ensure that capital resources are used efficiently to achieve the best possible outcomes within constrained budgets.

The *Prudential Code for Capital Finance in Local Authorities* ('the Code') sets a framework to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable. The Code, which is published by the Chartered Institute of Public Finance and Accountancy (CIPFA), has legislative backing. As part of the prudential approach the Code requires authorities to have in place a capital strategy. It says:

> 'In order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.'

In addition to the Code, with its focus on financial and risk management issues, CIPFA has published *Capital Strategies and Programming*, which considers in more detail the practical issues involved in capital planning and delivery. This strategy has been prepared taking into account the guidance in both these publications.

The approval and implementation of this strategy should help to ensure that:

- capital investment is targeted towards supporting the Council's corporate objectives
- the stewardship of assets is properly taken into account in capital planning
- capital investment is prudent, sustainable and affordable and provides value for money
- members and senior officers have a common understanding of the long-term context in which investment decisions are made and all the financial risks to which the Council is exposed
- capital projects are delivered on time and within budget
- there is improved transparency at programme level along with a clear process for member engagement
- the Council is seen as an exemplar of good practice in its capital planning.

1.2 Executive summary

The capital strategy forms the foundation for the long-term planning of capital investment, building upon existing principles and processes successfully deployed in the delivery of the Council's diverse and ambitious capital programme. This is based on sound asset and resource planning, which looks across the whole asset base. Clear capital investment objectives, taking into account the need to fulfil statutory duties, the desire to pursue corporate priorities and the need to respond to demographic and other changes are reflected throughout.

The Council will maintain coherent processes for:

- formulating the capital programme with clear criteria to ensure that capital investment continues to be directed towards meeting corporate objectives
- approving and amending the capital programme and for scrutinising decisions relating to capital planning.

There will be a clear gateway process for projects to progress through various stages starting with an outline project brief and finishing with a lessons learned report, with on-going cycle of review outcome testing.

There will be convergence to an annual cycle for formulating a rolling multi-year capital programme, which will be overseen by a new Capital Board. Cabinet will approve the programme in February each.

In order to successfully deliver the programme the Council will:

- continue to ensure it has the skills, and expertise needed
- further strengthen the corporate programme management function
- streamline governance, monitoring and reporting processes
- ensure the sound financial position is maintained through sustainable deployment of resources.

The Council will maintain a measured approach to risk, particularly in relation to:

- the use of alternative models for the delivery of capital investment
- the incurring of other long-term liabilities
- capital investment for commercial return.

Such proposals will, as far as practicable, be subject to the same evaluation process as for capital schemes.

2. Purpose of capital investment

2.1 Definition of capital expenditure

Capital expenditure is spending on assets that will provide a benefit beyond the current financial year. This is distinct from revenue expenditure, which relates to the day-to-day costs of running services. Because it provides a long-term benefit, capital expenditure is also known as capital investment.

Capital expenditure includes spending on:

- Purchase of new assets
- Creation of new assets
- Enhancing and/or extending the useful life of existing assets.

A more detailed definition of capital expenditure, as it applies to UK local authorities, is contained in the *Practitioners' Guide to Capital Finance in Local Government* (CIPFA, 2012).

Table [1] provides some real examples from this borough of different types of capital expenditure.

Table [1] – Examples of Capital Expenditure by the Council	
Type of capital expenditure	**Examples**
Purchase of new assets	Acquisition of street properties Purchase of vehicles
Creation of new assets	Construction of Eltham Cinema
Enhancing existing assets	Boiler and roof renewal at housing estates and schools
Long-term financial investments	Purchase of Nelson House

The Council's policy on the treatment of expenditure as capital (capitalisation) is set out in Annex 1. This sets a threshold of £10,000 below which expenditure that would otherwise come within the definition of capital is treated as revenue. The Council's policies on depreciation and componentisation are set out in notes to its published accounts.

2.2 The importance of asset planning

Introduction

Capital planning is principally about investment in assets and should therefore be founded on sound asset planning. It is only by looking across the whole asset base that cost-effective decisions can be made about capital investment priorities and about disposal of assets. Asset planning will therefore be joined up with capital planning and be at the heart of the Council's decision-making.

The ultimate goal of asset planning is to align the asset base with the Council's corporate objectives. The ability to realise this goal is constrained by:

- The sufficiency, suitability and condition of the existing asset base
- The capital resources available for investment
- The revenue resources available to meet running and other costs.

The Council's asset planning will be underpinned by four strategies:
- the Transport Strategy
- the Housing Strategy
- the Greenwich ICT Strategy
- the Property Asset Strategy.

These four strategies cover all of the Council's land, buildings and infrastructure assets. The Transformation Board will be responsible for areas such as asset planning for vehicles. As part of the plan of action in Appendix 3 it is proposed that the Council should develop an asset strategy for vehicles.

The consultation draft of the Transport Strategy was approved by Cabinet in March 2018. Following the completion of public consultation the final version will be put to Cabinet for approval in 2019. The strategy sets out the projects required to deliver the transport vision. These are divided into those that can be delivered within a five-year timescale and within existing funding, those to be delivered by 2031 and those that are aspirational. Capital expenditure proposals arising from this strategy will be developed and considered as part of the process set out in Section [3.2].

Cabinet agreed the five principles of the Housing Strategy on 21 March 2018.

The Greenwich ICT Strategy was adopted in 2014.

The Property Asset Strategy is being put to members for approval at the same meeting as this capital strategy. A summary of the draft strategy is provided below.

The Property Asset Strategy

The Property Asset Strategy sets a broad strategic direction for the Council's property over the long term to ensure the portfolio is optimised to meet the Council's objectives. It covers all the Council's non-housing land and buildings.

A key recommendation in the strategy is that the Council should take a twin-track approach balancing:

- short-term 'efficiency' – identifying opportunities to reduce costs and release capital (from disposals) in order to meet current commitments including capital programme initiatives - and
- long-term 'opportunity' – identifying and delivering sites with latent value which can be exploited over time and support re-investment back into future Council priorities.

The following specific recommendations are relevant to the capital strategy:

- review the portfolio to identify assets that can be released, with the capital receipts used to support the capital programme in the short to medium term
- lower the operating costs of property through release of poorly performing assets
- support provision of integrated access to public services through joint working with partners to create multi-agency service facilities where opportunities allow
- identify and exploit the latent value of the estate with emphasis on where sites can be more intensively used or where opportunities to generate income/ value from alternative uses (commercial and residential) can be realised
- minimise future liabilities to the Council by reducing the backlog or lowering its overall carbon footprint by releasing buildings which are poorly performing in terms of CO2 emissions or maintenance unless they are service critical; and retro-fitting buildings to improve their sustainability
- challenge utilisation and use of the portfolio including buildings let on concessionary terms to occupiers.

The Property Asset Strategy also sets out a 'framework for action', which implies a wholesale review of property assets overseen by a new Strategic Property Board. The outcome of the review will be a key factor that is taken into account in capital planning.

In order for the approach set out in the Property Asset Strategy to be implemented, it needs to be reflected in the prioritisation of capital investment. The new Capital Board described in Section [3.2] will be responsible for ensuring that this is the case.

Asset management plans

From time to time the Council may develop asset management plans for specific groups of assets or for individual assets. These should be consistent with the relevant asset strategy, i.e. the Property Asset Strategy in the case of non-housing property assets, and specify how the strategy is to be implemented for the assets in question.

The process for prioritising capital investment should take into account the information provided in asset management plans. Again the new Capital Board will be responsible for ensuring this is the case.

Relationship between asset planning and capital planning

Asset planning and capital planning are inextricably linked at both the strategic and the operational level. This is illustrated in Table [2], which summarises the overlap between the asset strategy and the capital strategy.

Table [2] – Summary of Overlap between Asset Strategy and Capital Strategy		
	included in:	
	Asset strategy	**Capital strategy**
Purchase and construction of new assets	Yes	Yes
Investment in existing assets	Yes	Yes
Day-to-day management of existing assets	Yes	No, but costs of operating assets

		should be taken into account
Disposal and transfer of assets	Yes	Yes
Financing capital expenditure	No, but disposals strategy will affect capital resources	Yes

Investment in existing assets

The Council recognises the importance of maintaining and developing its existing assets as well as investing in new assets. This requires consideration of the cost of ongoing maintenance and meeting any maintenance backlogs. A significant proportion of capital resources need to be directed towards investment in existing assets so that the Council can continue to provide high quality services and reduce the operating costs of assets.

Disposals and transfers

Cabinet has previously approved a number of asset disposals which are yet to be carried out. A further list of disposals is being put to Cabinet for approval at the same time as it considers this Capital Strategy.

The Council's disposals policy is set out in Section [4.3] of the Property Asset Strategy. Property board will be responsible for ensuring that assets that are surplus to requirements in accordance with the criteria set out in that policy are identified and presented to Capital Board. Capital Board will then recommend to the relevant decision maker which assets should be disposed of. Detailed processes will be set out in a disposals manual, which it is recommended should be developed as part of the plan of action in Appendix 3.

The Council normally disposes of assets at market value in order to maximise the capital receipts. It has previously transferred some heritage buildings, such as Charlton House, to trusts in order to achieve a service objective, but in future will normally sell such assets at market value and, if appropriate, pay a grant to the relevant organisation. This will make subsidies more transparent.

Reducing the need for capital spending

The need for investment in particular assets or types of assets can be reduced by:

- intensifying the use of assets
- managing demand for services.

Hot desking is one example of how the use of assets can be intensified. It enables the overall amount of office accommodation to be gradually decreased, thus reducing the planned maintenance bill and making capital receipts available. However, the process needs to be carefully managed to avoid a negative impact on staff morale and productivity.

In some cases it may be appropriate to manage demand for services in order to ensure that both revenue and capital resources are targeted at providing services to those who need them most. One example of this is the eligibility criteria for passenger transport for vulnerable children and adults.

The new Capital Board will ensure that options for intensifying the use of assets and managing demand for assets are considered, where appropriate, when new projects are being proposed.

Review of ongoing costs

The cost of operating assets should be taken into account in determining whether to invest in, dispose of or replace existing assets and whether to purchase or construct new assets. This forms part of the consideration of the revenue implications of capital expenditure, which is discussed in Section [4.3].

2.3 Capital investment objectives

The purpose of capital investment is to ensure that the Council has the assets it requires to meet corporate objectives. This means fulfilling its statutory duties, pursuing priorities set out in corporate plans and providing services in accordance with Council policies. It also requires the Council to be responsive to demographic changes, new legislation and other external drivers.

The process for determining capital investment priorities in accordance with corporate objectives is described in Section 3.2. Ensuring that the evaluation criteria reflect those objectives is a key part of that process.

Statutory duties

The Council must ensure it fulfils its statutory duties as a local authority. This requires ongoing capital investment both to maintain existing assets and to meet changing needs.

The need to fulfil statutory duties will be taken into account in the criteria that the Council uses to evaluate proposals for capital projects.

Corporate priorities

The Corporate Plan 2018-2022 sets out the Council's vision and priorities for the next four years under the following eight themes:

- A Healthier Greenwich
- A Safer Greenwich
- A Great Place to Grow Up
- Delivering Homes through Economic Growth
- A Cleaner, Greener Greenwich
- Economic Prosperity for All
- A Great Place to Be
- A Strong Vibrant and Well-Run Borough.

Between five and eight objectives are set out under each theme. These objectives will be translated into proposals for action through directorates' service plans, which are being revised in accordance with the new Corporate Plan. Such proposals may include capital investment. For example, proposals to meet the objective 'to encourage young families to stay in the borough' could include capital schemes to provide housing suitable for young families and to create new nursery places.

The need for investment to meet statutory duties is not necessarily in competition with the desire to direct investment towards other corporate priorities. For example, the Corporate Plan objective 'to continue to invest in upgrading our libraries' supports the statutory duty 'to provide a comprehensive and efficient library service for all persons'.

The Corporate Plan priorities will be included in the criteria that the Council uses to evaluate proposals for capital projects.

Other Council policies

Other Council policies, plans and strategies are also relevant to capital planning. The emerging themes such as social value are particularly relevant because approximately one third of the Council's procurement by value is driven by capital schemes. Other relevant policies, which are briefly described in the Property Asset Strategy, include the Greener Greenwich Strategy 2016, the Voluntary & Community Sector Strategy, the Social Mobility Strategy 2018-22 and the Parks & Open Space Strategy 2017.

Council policies will be taken into account in the criteria that the Council uses to evaluate proposals for capital projects.

Demographic and other changes

Demographic, economic and social changes that affect the borough create a need for new infrastructure, including social housing, highways, school places, parks and recreation facilities. Infrastructure planning is therefore also a key component in the determination of capital investment priorities. This is clearly recognised in the Corporate Plan priorities, particularly under the themes *Delivering Homes Through Economic Growth* and *Economic Prosperity for All*.

Section [2.1] (Influences for Change) of the Property Asset Strategy provides more detail about national, regional and local factors that are driving change in the borough and to which the Council must respond.

Other external factors will from time to time affect capital investment priorities. These could include:

- central government initiatives and legislation
- events, such as the Grenfell fire.

The existence of various external drivers requires a degree of flexibility in how the Council prioritises the use of capital resources. There is therefore a need for the capital strategy to be reviewed from time to time so that it can be adapted to reflect changing priorities.

The impact of demographic and other changes will be taken into account in the criteria that the Council uses to evaluate proposals for capital projects.

3. Delivering capital investment

3.1 Introduction

In order to deliver capital investment in accordance with corporate objectives the Council will:

- establish a coherent process for formulating, approving, amending and monitoring the capital programme and also for scrutinising decisions relating to capital planning
- establish a robust process for individual projects to progress
- ensure it has the skills and resources needed to deliver
- use alternative delivery models appropriately
- carefully consider what risks are worth taking, depending on the rewards, and ensure risks are managed properly
- streamline governance, monitoring and reporting processes in order to facilitate delivery.

These themes are explored in Sections [3.2] to [3.7].

3.2 Formulation and approval of the capital programme

Development of the capital programme

The Council will move towards a new consistent corporate process for developing a rolling multi-year capital programme. This will operate on an annual cycle with clear timescales, clear information requirements and clear evaluation criteria. The purpose of the new approach is to ensure that capital resources are directed towards supporting schemes that best meet corporate objectives and that capital projects are deliverable.

A new Capital Board will consider project proposals and decide whether to recommend they should be included in the capital programme. The board's terms of reference will be developed as part of the plan of action in Appendix 3.

A second tier of programme boards will be responsible for developing programmes for specific service areas, such as schools, and will carry out an initial filtering process to reduce the number of project proposals that are considered by Capital Board. Capital Board may also delegate to the relevant programme board responsibility for further consideration of project proposals against a block allocation, particularly where capital resources are ring-fenced or it is considered desirable to treat them as ring-fenced. The proposed board structure is set out in Appendix 1.

The annual cycle that is envisaged, with indicative dates, is as follows:

March - Capital Board to invite project proposals and to set parameters including:

- timetable for the cycle including deadlines for submissions
- indication of overall level of resources expected to be available to allocate
- standard information that must be submitted for each project proposal

- evaluation criteria that will be used to prioritise projects

March – July – project boards to consider outline project briefs and shortlist those to be submitted to Capital Board

July – deadline for Capital Board to consider project briefs

July – November – feasibility studies commissioned and carried out where required

July – December – member engagement

December – deadline for Capital Board to consider business cases and to recommend to Cabinet which projects should be included in the capital programme

February – Cabinet to approve the capital programme for the following and subsequent financial years.

The first annual cycle will commence in June 2019 with an invitation to submit proposals for new projects to be included in the revised multi-year programme to be approved by Cabinet in February 2020. In the meantime requests for new project proposals to be progressed in advance of this cycle will be considered in accordance with the process set out below under the heading 'Amendments to the programme'.

More detail about the process for individual projects to progress, including the content of project briefs and business cases is provided in Section 3.3.

Evaluation of project proposals

The Council uses evaluation criteria to determine in principle whether a project should be prioritised. Project boards will use these at Gate 1 to filter project proposals and reduce the number that are submitted to Capital Board. This will avoid effort being wasted on developing low priority projects. The criteria will also be revisited by Capital Board as part of the information it considers at Gates 2 and 3.

The criteria will be used to provide an indication of the contribution a proposed project is expected to make to meeting Council priorities. The criteria will be continually reviewed and amended as appropriate to reflect lessons learned from applying it in practice, as well as changing priorities and external factors.

At Gate 1 the relevant project board will also check that the proposal meets the definition of capital expenditure and is consistent with the Council's policy on capitalisation.

In addition to the evaluation criteria, Capital Board, in evaluating project proposals, will consider:

- the whole life cost implications of the proposed scheme, including those arising from ongoing maintenance requirements, both capital and revenue

- readiness to deliver so that projects accepted into the programme can realistically be delivered in accordance with the timescales indicated by the phasing of the project within the multi-year programme.

Community Engagement and Consultation

Matters relating to capital investment and financing will be carried out in accordance with the Council's general principles on community engagement and consultation. Running alongside this there will be frequent chief officer/ lead member engagement will be undertaken.

Formal approval of the capital programme

Cabinet will approve the rolling multi-year capital programme at the same meeting each year when it recommends the revenue budget to full Council for the following financial year. The two decisions need to be taken at the same time, as part of the Council's medium-term financial planning, because of the revenue implications of capital expenditure, which are described in Section [4.3].

A consolidated programme, covering the financial years 2019/20 to 2028/29, a copy of which is attached at Annex 3, is put to Cabinet at the same meeting at which Cabinet agreed to recommend this strategy to full Council. This programme consists mainly of previously approved projects, which will take up a substantial proportion of the available resources. A revised programme, with projects prioritised under the first annual cycle [described above] will be approved in February 2020.

Where individual schemes are formally approved for acceptance into the capital programme, the capital budgets for the relevant financial years will also be deemed to have been approved. However, where a block allocation is approved as part of the programme, then a further decision may be required, in accordance with the scheme of delegation, to approve the capital budgets for individual schemes.

The Leader's Scheme of Delegation and Financial Procedures set out levels of authorisation for project approval.

Scrutiny

In line with arrangements for treasury management, the independent Audit and Risk Management Panel will take on the role of pre-scrutiny relating to the capital programme.

Amendments to the programme

Amendments to the programme, which will require formal approval by the relevant decision maker in accordance with the scheme of delegation, could include:

- addition of a scheme to the programme outside the annual cycle (see below)
- deletion of a scheme from the programme, e.g. because it is no longer required or because it is being postponed beyond the timeframe of the current programme

- changes to the overall capital budget of a scheme included in the programme
- changes to the timing of a scheme included in the programme, e.g. moving the capital budget from the first to the second year of the multi-year programme.

In some cases there may be a compelling reason why a proposed scheme should be progressed outside the annual cycle, e.g. urgent work is required due to an unforeseen event. For such proposals to be considered the project sponsor will be required to submit a project brief to Capital Board, including an explanation of why the proposal should be progressed ahead of the next annual cycle. The process for Capital Board to consider the proposal and decide whether to recommend that it should be included in the capital programme will be similar to that specified above for the annual cycle, although Capital Board may agree to expedite the process where appropriate.

Monitoring of the programme

In order to ensure that capital investment is delivered on time and within budget and that it meets corporate objectives, the Council will:

- carry out corporate capital monitoring
- apply the gateway process described in Section 3.3 to individual projects.

The chief finance officer will be responsible for ensuring that there is a consistent system for capital monitoring across the directorates. The programme boards will monitor their schemes on a monthly basis, using a Red-Amber-Green (RAG) rating for issues and risks.

Capital Board will monitor the programme on a quarterly basis and consider:

- the overall financial position
- issues highlighted as red or amber by the programme boards.

Cabinet will then review delivery of the capital programme twice per year as follows:

- July – consideration of outturn for previous financial year
- December – mid-year review of progress for the current year.

The focus of corporate capital monitoring is necessarily on whether projects are being delivered on time and within budget. It is therefore important that there is a complementary process to ensure that projects meet corporate objectives. This will be done by:

- requiring clear descriptions in business cases of how the proposed project is expected to contribute to corporate objectives
- requiring project sponsors to describe in lessons learned reports the extent to which the project has meet the intended objectives.

3.3 Gateway process for individual projects

The Council will implement a new gateway process, overseen by the Capital Board, for capital projects to progress. The purpose of this process is to ensure that:

- projects are delivered efficiently
- the process is made easier for smaller and simpler projects
- the Council is protected against risks such as legal challenges
- before a project is accepted into the capital programme
  - the costs, benefits and risks are properly assessed
  - there is a proper assessment of readiness to deliver
  - the procurement route is determined
- projects continue to meet corporate objectives and provide value for money as they proceed to the delivery stage
- lessons are learned and disseminated across the Council.

The proposed process is set out in detail in Appendix 2. In summary there will be six gates as follows:

- Gate 1 - outline project brief to the relevant project board
- Gate 2 - revised project brief to Capital Board
- Gate 3 - business case to Capital Board
- Gate 4 - report requesting formal approval for the project to be included in the capital programme with either approved capital budget or provisional capital allocation
- Gate 5 - tender evaluation report requesting formal approval for the award of contract
- Gate 6 – lessons learned report to Capital Board.

At Capital Board's discretion any of Gates 1, 2 and 3 may be combined. This means that a proposed project will be required to pass between two and four gates before it is accepted into the capital programme. The information required at each Gate will be commensurate with the size and complexity of the project in question. Capital Board may also agree that for the purposes of this gateway process projects may where appropriate be combined, e.g. a programme of roof renewals for buildings of the same type.

In order to ensure that projects are deliverable and cost estimates are realistic, feasibility studies will be required for all projects unless Capital Board agrees that:

- the project is too small for it to be value for money to carry out a feasibility study
- the costs can be realistically estimated without a feasibility study, e.g. because the project is similar to another that has been delivered recently.

The results of feasibility studies, where required, will form part of the information required to be submitted as part of the outline business case at Gate 3.

As part of the information included in project briefs and in business cases, sponsors will be required to explain why they have chosen the proposed option to achieve the intended service objective. The degree of detail that is appropriate will depend on the type of project. For more complicated projects, a full option appraisal may be required. Capital Board will decide what is appropriate. Full option appraisal will be carried out in accordance with recommended good practice, such as that set out in *Option Appraisal A Practical Guide for Public Sector Organisations 2017 Edition* published by CIPFA. Where there are different financing costs and other revenue implications under different options, sponsors will also be required to set these out in an appropriate level of detail as part of the option appraisal.

3.4 Skills and resources needed to deliver

The Council is keen to ensure that capital projects are delivered within time, are delivered within budget and meet corporate objectives. It also wants to ensure that delivery of the capital programme generally proceeds according to plan. In order to achieve this it will put in place the necessary skills and resources as described below.

Strategic	the skills required by elected members and senior management to determine policy, set strategies, take the right decisions, and ensure that the corporate culture and processes facilitate delivery of capital investment in accordance with corporate objectives
Asset management	the asset management skills required to support capital planning by identifying the need to invest in existing and to reshape the portfolio by investing in new assets and disposing of existing assets
Programme management	the resources and skills required to oversee and direct the overall delivery of the capital programme
Core delivery	the core resources and skills – notably project management, procurement and contract management – that are needed on a day-to-day basis to deliver capital investment
Support	the specialist skills – e.g. financial and legal - required to support core delivery teams

The Council will as part of its workforce development strategy keep under review whether it has sufficient skills and knowledge in each of these areas.

External treasury management advisers already provide training for new members of the Audit and Risk Management Panel and for relevant staff after each municipal election. As part of the plan of action in Appendix 3 the Council will consider how this form of training might be extended to cover capital planning.

The Council will also:

- take appropriate steps to ensure skilled staff are recruited and retained
- put in additional resources where necessary to facilitate delivery
- the Council will also keep under review the extent to which it uses its own employees, consultants and contractors to deliver.

The Council recognises the importance of retaining a significant in-house delivery team so that:

- there is a core group of people within the wider delivery team who feel loyal to the Council and committed to delivering its objectives

- there is a degree of continuity to enable corporate knowledge to be retained
- the in-house team has sufficient skills and resources to:
  - know what needs to be delivered to meet Council objectives
  - understand technical requirements
  - manage external consultants and contractors effectively.

The Council currently has an in-house team of permanently employed project managers, but will need to build up its capacity in this area following the successful Building Council Homes for Londoners bid.

The Council will keep under review:

- whether the resources of the Property Department need to be strengthened in order to fulfil the corporate landlord function and deliver the programme of disposals
- how the decentralised approach to procurement is working, bearing in mind the specialised skills that are needed to procure construction-related professional services, such as architects and quantity surveyors, and to procure construction contracts.

Corporate programme management is needed to facilitate delivery of the capital programme. The Council will aim to minimise the use of over programming (to avoid slippage in the programme as a whole) because it considers that it is better to:

- ensure estimated timescales are realistic
- focus on delivery of the multi-year programme rather than achieving a target spend in each financial year
- bring forward high priority projects that are more ready to deliver if other projects are delayed.

The Council will therefore, as part of the plan of action in Appendix 3, strengthen its corporate programme management function in order to support the work of the Capital Board and improve delivery. This will cover both general fund and HRA schemes, although the remit of the corporate function in respect will be more limited for HRA schemes given that the funding for these is ring-fenced. Both HRA schemes and other major programme areas, such as schools, also require programme management at the service level. It will also be part of the remit of the corporate programme management function to ensure this is the case.

3.5 Alternative delivery models

Alternative delivery models may be defined as ways of delivering investment in assets used to provide Council services other than by means of direct capital expenditure by the Council. Such models are many and varied, but may include delivering capital investment through:

- outsourcing contracts
- PFI contracts
- joint ventures
- companies owned by the Council

- independent companies set up by the Council
- shared services where another local authority invests in its own assets used to provide services on behalf of this Council as well as itself.

Table [3] provides examples of alternative delivery models that the Council has used to deliver capital investment.

Table [3] – Examples of Alternative Delivery Models used by the Council	
Model	**Capital investment undertaken**
Greenwich Leisure (an independent not-for-profit company)	Investment in leisure centres [some funded by capital grant, other, notably lifecycle, from services fee]
Schools PFI contract	Rebuilding of two secondary schools
NRCs PFI contract	Construction of care homes
Meridian Home Start Ltd (an independent not-for-profit company)	Construction of affordable housing
Managed services contract for mult-functional (printing)	Provision of multi-functional (printing) equipment

The government announced in the 2018 budget that it would no longer be using the PFI model as it has proven to be inflexible and overly complex.

In addition, as an alternative to securing capital investment in assets, the Council may rent assets or take out short term leases of assets. Currently the Council leases specialist vehicles, which it does not have the in-house expertise to maintain. It also has short-term leases of some buildings, usually because the building is only required for a limited time.

In some cases the use of alternative delivery models may result in other long-term liabilities being incurred. These are discussed in Section [4.2].

The Council will consider the use of alternative delivery models for delivering capital investment only where there is a clear business case for doing so. The proposed use of such will come under the remit of the Capital Board and be subject to the evaluation and gateway processes described in Sections 3.2 and 3.3. Every proposal to use an alternative delivery model must include an option appraisal comparing the proposed model with delivery through a conventional capital scheme.

3.6 Attitude to risk

As a public body the Council has an obligation to act prudently, particularly in relation to financial matters. On the other hand, it may need to take a reasonable level of risk in order to get things done – to achieve long-term savings through ‘invest to save’ schemes, for example.

It is essential that elected members and senior officers understand the risk implications when they are taking decisions about capital expenditure, investments and treasury management. This is particularly important when alternative delivery models (see Section [3.5] or commercial activities (see Section [5]) are proposed. It is also essential that risks are kept under continuous review and managed properly, not only to protect the Council against financial loss and damage to its reputation, but also to ensure that projects are delivered.

The Council's general policy is to minimise risk, but it recognises that there is a trade-off between risk and reward and that the potential reward may sometimes justify incurring a higher risk. The types of scheme where this is most likely to be the case are:

- invest to save schemes where there is uncertainty about the exact level of savings that will be achieved
- investment designed to stimulate regeneration and growth, including the provision of new infrastructure.

In order to ensure that risks are understood and that it has access to knowledge and skills commensurate with its risk appetite the Council will:

- make the consideration of risk part of the remit of the new Capital Board
- require business cases to set out potential risks in an appropriate level of detail depending on the size and complexity of the proposal
- where innovative schemes, alternative delivery models or commercial activities are proposed, require business cases to set out how the Council will source any specialist knowledge and skills that may be required
- require risk registers to be maintained for approved projects and for these to be used to actively manage risks
- ensure that relevant staff receive training in how to manage risk, e.g. as part of a recognised project management course
- where appropriate enable staff to develop knowledge of alternative delivery models through research and training.

The Council's attitude towards risk in relation to specific areas and activities is set out elsewhere in this document as follows:

- treasury management - Section [4.2]
- other long-term liabilities – Section [4.2]
- commercial activity - Section [5].

3.7 Facilitating Delivery

Robust processes for approval, monitoring and scrutiny of the capital programme are needed, but should be designed and administered in a way that facilitates, rather than hinders, project delivery. It is important to make monitoring and reporting requirements as simple as possible for delivery teams, so that they can focus their effort on the activities required to move projects forward.

In order to facilitate delivery the Council will seek to:

- rationalise and clarify governance processes

- standardise the formats of reports, while allowing the detail provided to vary depending on the size and complexity of different projects
- improve the design of templates to make them as user-friendly as possible
- be clear about what information is required and when
- ask for no more information than is required
- avoid duplication of effort in providing the same information more than once
- ensure corporate documents are well thought through and written in plain English
- ensure the scheme of delegation, financial regulations and procurement rules are consistent with each other and are clearly communicated across the organisation
- ensure there is good communication between delivery teams and those responsible for determining and administering the approvals process
- ensure those responsible for determining and administering the approvals process have a good understanding of the specific requirements of capital projects and works contracts.
- ensure finance, procurement and legal teams allocate their resources appropriately, so that they can provide timely input to the approvals process for capital projects.

The Capital Board will be responsible for taking appropriate steps to achieve these objectives and in particular to make processes simpler for smaller and more straightforward projects.

4. Capital funding strategy

4.1 Funding of the capital programme

Funding requirement

The process for determining the size of the programme, and therefore the overall level of funding required, is iterative because there are two variables – the available funding and the need to spend – neither of which is fixed. Each influences the other so that the funding cannot be finalised until the end of the process to evaluate and prioritise projects.

As part of the annual cycle described in Section [3.2] Capital Board will provide an indication of the overall of resources that it is expected will be available to allocate to new projects. This should help to prevent time and money being wasted on developing proposals for projects that have no chance of being approved.

Sources of funding

The possible sources of funding for capital expenditure are:

- capital receipts
- grants and contributions
- revenue contributions
- borrowing.

The extent to which the Council uses each of these sources of funding and intends to use them in future is set out below.

Capital receipts

Local authorities may use capital receipts to fund capital expenditure. Receipts from sales of council housing (HRA receipts) may only be used to fund HRA capital expenditure, but other receipts (general fund receipts) may be used to fund any general fund capital expenditure. In addition, under the government's flexible use of capital receipts policy, general fund capital receipts may in some circumstances be used to fund revenue expenditure.

Capital receipts have been a significant source of funding of the Council's capital expenditure in recent years and it is expected that this will continue to be the case.

A number of disposals that have been approved previously and which are expected to generate significant receipts, notably Riverside House and East Greenwich Library, have yet to be realised. A new programme of disposals, which it is estimated will generate approximately £3.25m of receipts is being put to Cabinet for approval at the same time as this Capital Strategy.

[The indicative programme for 2017/18 to 2028/29 shows that capital receipts will constitute about 21% of the Council's total capital resources, with a significant proportion relating to investment in temporary housing for homeless people].

The Council intends to utilise the flexible use of capital receipts with effect from the financial year 2019/20. Although the expenditure to be funded from this source is revenue expenditure, proposals for projects to receive this funding will be considered alongside capital project proposals to ensure that there is an integrated approach to determining priorities for the use of capital receipts and other capital funding. A copy of the Council's policy on the flexible use of capital receipts is provided in Annex 1.

Grants and contributions

The Council receives capital grants from the government for various services and from Transport for London for highways. Any grant that the Council receives for council housing (HRA grant) is ring-fenced. The general government grants for capital investment in schools is not ring-fenced to specific service areas, but there is a risk that the level of grant for future years will be reduced if the Council spends less than the full amount of the grant on the service in question. The same may apply to general grants for other services. Specific grants, which by definition may only be used for the specified purpose, are also provided by the government and by other bodies.

Grants have been an important source of funding for the Council's capital expenditure in recent years and it is expected that this will continue to be the case. Significant grants in recent years have been those from the Department for Education for additional school places and from TfL for highways. The grant from TfL for 2019/20 is £4.0m. However, the Council will not receive any grant for additional school places in 2020/21. This is because the DfE is assuming that all the required school places will be provided in free schools and academies, which receive direct funding from the government. Other significant grants include Disabled Facilities Grant, which is £2.3m for 2018/19, the grant for maintenance of school buildings and the grants for the two PFI contracts. The latter are revenue grants, but are intended to provide support for the capital elements of the PFI schemes.

The Building Council Homes for Londoners bid envisages that £32.6m of the £240m total will be funded from Affordable Housing Grant provided by the GLA.
Other significant specific grants that the Council has received in recent years include those from the Marathon Trust and Sport England for investment in sports facilities.

Contributions made as a condition of the granting of planning consent, through Section 106 and the Community Infrastructure Levy (CIL), are a significant source of funding the Council's capital spending. The types of capital scheme that can be funded from Section 106 depend on the specific provisions of the agreements for the developments in question. Those that can be funded from CIL receipts are infrastructure projects aligned to the Council's published Regulation 123 list. Cabinet receives annual reports detailing the level or receipts and utilisation. Transformation Board will have day-to-day responsibility for governance controls and monitoring of spend against allocations.

Section 106 contributions are ring-fenced to fund investment related to the specific development from which the contribution has been derived, but CIL contributions are pooled and may be used to fund investment related to any of the developments from which the contributions have been derived. The Council has a commitment to contribute £15m to TfL as part of the funding arrangements for the fit-out of the Woolwich Crossrail Station. The funding agreement with TfL sets out that this amount will be secured by way of the Council's Crossrail related Section 106 roof tax (which has secured £8.4m) and a 50 per cent contribution from the borough's residential CIL receipts until the £15m contribution is reached. The agreement states that based on current forecasts it is expected that the financial contribution will be made in full by 2022/23. CIL and s106 streams will be managed within a new transformation project board.

[The indicative programme for 2017/18 to 2028/29 shows that grants and contributions will constitute about 23% of the Council's total capital resources].

In many cases an application must be submitted in order to receive a specific grant, but it may not be in the Council's interests to pursue such opportunities because:

- it is impractical to investigate all possible opportunities for grant funding
- applying for the grants and managing the projects in question can divert delivery resources away from other projects that are a higher priority
- specific grants are sometimes conditional on the Council providing match funding, which is not then available to meet other priorities
- the capital scheme may saddle the Council with long-term operating costs that it cannot afford.

The Council publishes annual reports on both CIL and Section 106 income and expenditure. In order to ensure that appropriate use is made of specific grants, Capital Board will establish a corporate process to monitor such grants, and reporting will be brought in-line with the proposals set out in this report. This forms part of the plan of action in Appendix 3.

<u>Revenue contributions</u>

The continuing squeeze on the Council's funding in recent years has reduced the scope for revenue contributions to capital expenditure. This is expected to remain the case for the foreseeable future.

[The indicative programme for 2017/18 to 2028/29 shows that revenue contributions will constitute about 39% of the Council's total capital resources].

<u>Borrowing</u>

There has been relatively little borrowing in recent years to fund capital expenditure. In 2016/17, for example, the increase in the capital financing requirement, representing the amount of capital expenditure incurred in that year to be met from borrowing, was only £13m. Projected amounts for the following four financial years, as reported to full Council in March 2017, were between £12m and £23m.

The acquisition of street properties to provide temporary accommodation for homeless people is the most significant area of capital expenditure currently being funded from borrowing. The overall investment of £65m over the financial years 2018/19 – 2019/20, approved by Cabinet in January 2018, is being funded 30% from right to buy receipts and 70% from borrowing. This investment will reduce revenue spending on private sector leased accommodation and result in an overall saving.

In October 2018 Cabinet agreed to pursue a bid to the Greater London Authority (GLA) under the Building Council Homes for Londoners programme. The programme is to be partly funded from grant and partly from prudential borrowing. In November 2018 the GLA approved grant under the bid. As a result of this the Council will be undertaking substantial prudential borrowing.

Housing authorities were until recently were subject to a borrowing limit, known as the HRA borrowing cap, on the amount they could borrow to fund investment in council housing. This was set by the government for each authority. The cap for Greenwich was £335m. The cap was abolished with effect from 30 October 2018. The Council will be re-considering its strategy for investment in council housing.

[The indicative programme for 2017/18 to 2028/29 shows that borrowing will constitute about 17% of the Council's total capital resources].

Forecast of capital expenditure and funding

The Council's forecast of resources to fund the capital programme over the next ten years, and the commitments against those resources, is set out in Annex 3.

4.2 The management of debt and borrowing

Repayment of debt

There is a statutory requirement for local authorities to calculate and set aside some of their general fund revenue as provision for debt repayment. This is known as the minimum revenue provision (MRP). The authority is required to determine an amount of MRP for the current financial year which it considers to be prudent. Guidance issued by MHCLG indicates that the period over which debt is repaid should be aligned with the period over which the capital expenditure provides a benefit.

The Council's policy on MRP is agreed by full Council in February each year. The key provisions of the policy for 2018/19 are that:

- the MRP for supported borrowing will be 2% per annum so that the whole debt is repaid over 50 years
- the MRP for prudential borrowing will be calculated over the remaining useful life of the expenditure based on the annuity method, with estimated life periods of 40 years for land and buildings and seven years for vehicles and equipment.

The policy includes further provisions relating to finance leases and service concessions (e.g. PFI) and to statutory capitalisations that do not create a fixed asset.

Prudential indicators

In accordance with the Code the Council sets prudential indicators each year in order to ensure that it acts prudently in relation to borrowing and debt. Full Council is asked to agree the prudential indicators including authorised limit and operational boundary for the following three financial years at its meeting when it also considers the revenue budget. Following the abolition of the HRA borrowing cap in October 2018 there is no longer any specific restriction on borrowing for investment.

Treasury management

Treasury management can be defined as 'the management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.

Treasury management covers all cashflows, whether related to revenue or capital transactions. One of its main functions is to ensure there is sufficient cash to fund the Council's capital expenditure. This may involve arranging long or short-term loans or using longer term cash flow surpluses.

Full Council agreed at its meeting in March 2018 to adopt CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. In accordance with that code:

- the Council maintains:
  - a Treasury Management Policy Statement, which sets out the policies and objectives of the Council's treasury management activities
  - Treasury Management Practices, which set out the manner in which the Council will seek to achieve those policies and objectives
- full Council receives the following each year:
  - A Treasury Management Strategy Statement (including the annual investment strategy) for the year ahead
  - a mid-year review report
  - an annual review report of the previous year
- the Council delegates:
  - Responsibilities for implementing and monitoring treasury management policies and practices and for the execution and management of treasury management decisions
  - The role of scrutiny of treasury management strategy and policies to a specific named body (the Audit and Risk Management Panel).

The Treasury Management Strategy Statement for 2018/19 was agreed at by full Council in March 2018. The equivalent strategy for 2019/20 is expected to go to full Council in February 2019, along with the revenue budget and prudential indicators for 2019/20.

The Treasury Management Policy states that the identification, monitoring and control of risk will be the prime criteria by which the effectiveness of treasury management activities will be measured. This means that the Council will, in accordance with the Code, prioritise security and liquidity over yield, but will give particular priority to security.

Responsibility for implementing and monitoring treasury management policies and practices is delegated to the chief finance officer who appoints a treasury manager to execute treasury management decisions and perform treasury management on a day-to-day basis.

In accordance with the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes pre-scrutiny of treasury management strategy and policies is the responsibility of the Audit and Risk Management Panel.

Other long-term liabilities

Other long-term liabilities are liabilities that are equivalent to borrowing, which may arise from:

- PFI contracts
- finance leases
- financial guarantees
- investments and loans that are made on non-commercial terms in order to achieve a service objective.

Under the Prudential Code authorities are required to treat other long-term liabilities as part of their debt, along with borrowing, and to apply the same robust decision-making processes to ensure that all debt is affordable, prudent and sustainable. Furthermore authorities are required to ensure that the financial risks are identified and quantified when decisions are taken to enter into long-term liabilities.

Other long-term liabilities are relevant to the capital strategy not only because they come within the definition of debt, but also because the purpose of entering into them is to deliver capital investment, such as the rebuilding of the two secondary schools under the schools PFI contract.

The Council keeps a register of loans and investments on its treasury management system. As part of the implementation of the financial reporting standard IRSF9 this will be extended to cover financial guarantees. The Council's most significant other long-term liabilities are shown in Table [8].

Table [8] – The Council's Most Significant Other Long-Term Liabilities

Liability	**Value in balance sheet as at 31.03.18 (£000)**
PFI contract for schools	83,335
PFI contract for care homes	15,705
Lease of industrial units	1,673

Loans of approximately £60m are being made to the housing company, Meridian Home Start Ltd, for the provision of affordable housing. These will appear as other long-term liabilities in the Council's balance sheet.

The Council recognises that there may be special risks associated with entering into other long-term liabilities. It will require proposals to enter into other long-term liabilities to be subject to the same evaluation, approval and gateway processes, described in Sections [3.2] and [3.3], as for capital projects. This should ensure that:

- all the Council's debt is affordable, prudent and sustainable
- there is a common process for prioritising capital investment proposals
- the Council properly considers the risks associated with long-term liabilities and the cumulative impact on its overall level of debt.

The Chief Finance Officer keeps long-term liabilities under review.

External debt and internal borrowing

The Council's long-term projection of capital expenditure to be met from borrowing is set out in Annex 3. The use of external debt and internal borrowing will be determined in accordance with the Council's treasury management policies.

4.3 Revenue implications of capital expenditure

The revenue implications of capital expenditure need to be considered both when:

- determining the overall size of the capital programme and how it is to be financed, particularly the amount of prudential borrowing that should be undertaken
- evaluating individual projects.

In addition, as part of the asset planning process described in Section 2.2, the running costs of existing assets need to be taken into account in order to determine priorities for maintenance, enhancement and replacement of assets and, accordingly, for the development of suitable capital investment proposals.

The key constraint on the Council's ability to fund capital expenditure is its ongoing revenue budget position. In considering how much capital investment it can afford, therefore, the Council will estimate the overall impact on future revenue budgets and exercise prudence to ensure that the level of capital investment is sustainable.
The chief finance officer will advise members on the overall size and financing of capital expenditure as part of the report to Cabinet in February each year asking it to approve the rolling multi-year capital programme. Decisions on the revenue budget and the capital programme will be taken at the same time to ensure they are joined up.

When individual project proposals are being evaluated, it is essential that the revenue implications are fully understood so that:

- the aggregate revenue effect of projects accepted into the capital programme matches what has been assumed in determining the overall size of the programme and its funding
- projects are prioritised in accordance with corporate priorities.

The Capital Board will be responsible for ensuring that revenue implications of project proposals are fully taken into account in the evaluation and gateway processes described in Sections [3.2] and [3.3] and treated on a consistent basis.

The following types of revenue implication need to be considered:

- running costs and savings
- financing costs
- any costs of developing the proposal that cannot be treated as capital expenditure.

Each of these is considered below.

Running costs

The long-term effects of capital expenditure on running costs vary widely depending on the type of project. Table [5] provides some examples.

Table [5] – Examples of How Capital Schemes Affect Running Costs		
Type of scheme	**Example**	**Impact on revenue budget**
Planned maintenance	Resurfacing of highway	Reduction in cost of day-to-

		day repairs and reduced liability claims
Provision of new infrastructure	Electrical vehicle charging points	Additional costs of maintaining new infrastructure
Invest to save	Replacement of sodium with LED street lamps	Reduction in energy costs
Income generation	Purchase of automatic number plate recognition technology	Net decrease due to additional income from compliance and fines exceeding running costs

Where capital projects are expected to generate savings, an assessment is required of whether the long-term savings justify the upfront capital investment e.g. where investment of £1m over the next two years is expected to generate ongoing savings of £0.1m per annum. The Council uses net present value analysis, applying HM Treasury's discount rate, for this purpose. Risk also needs to be considered, particularly when projecting additional income. The Council will apply an appropriate percentage adjustment, depending on the degree of risk, to the expected savings to take account of such risk.

Project sponsors will be required in project briefs to specify the net effect of the proposed project on running costs. More detailed information will be provided in business cases. Capital Board will be responsible for ensuring that the estimates of costs and income are realistic and that risks have been properly taken into account.

Lessons learned from previous projects will be taken into account in the evaluation of both costs and risks. The requirement for a lessons learned report to be provided for each completed project, as set out in Section [3.3], and for lessons learned to be disseminated across the Council through a strengthened programme management function, will support this.

Costs of prudential borrowing

Where the Council undertakes prudential borrowing, it incurs debt charges in the form of repayments of principal and interest payments, which depend on the terms of the loan. As part of its treasury management function the Council takes out loans on the best terms available to meet its overall prudential borrowing requirement rather than loans related to specific projects. A common interest rate, reflecting the overall cost of borrowing and standard repayment periods, depending on the type of asset, is therefore used to assess the financing costs of proposed projects.

Project sponsors will be required in project briefs to specify the borrowing requirement for the proposed project. The chief finance officer will ensure that this has been calculated correctly and reflects the Council's overall costs of borrowing.

Costs of other types of financing

The impact of other types of financing on the revenue budget is shown in Table [6].

Table [6] – Costs of Other Types of Financing	
Type of financing	**Impact on revenue budget**
Revenue contribution	Whole amount charged to current year's budget
Capital receipts	Loss of income from investment of the receipts/ loss of rents from commercial properties
Grants and contributions	None

Feasibility costs

The costs of developing a proposed capital project must be charged to revenue until it is assessed that there is a high degree of certainty that an economic benefit will flow from the new asset. All such costs are therefore chargeable to revenue where the project does not go ahead. Where the project does go ahead, any costs incurred in financial periods prior to the commencement of the project, for which the accounts have been closed, must also remain charged to revenue.

Such costs depend on the size and complexity of the proposed project and how far the proposal is developed before a decision is taken not to proceed. Increasing costs are committed at the following stages:

- engagement of a project manager
- engagement of specialist external advisers
- commissioning of feasibility study
- commissioning of further work in advance of the main procurement process, e.g. ground investigation, outline design, enabling works
- commencement of main procurement process
- entering into a contract.

The gateway process described in Section 3.3 is intended to minimise abortive expenditure by filtering project proposals at an early stage and then ensuring they continue to meet corporate objectives and are deliverable before they proceed to further stages.

5. Commercial activity

In recent years local authorities have been granted increased powers to engage in commercial activities. Commercial activities that involve capital expenditure or the incurring of other long-term liabilities and are therefore relevant to the capital strategy, consist of long-term investments whose primary purpose is to generate a financial return. They exclude investment of short-term cash surpluses as part of day-to-day treasury management activity and investments whose primary purpose is to achieve a service objective. The alternative delivery models described in Section 3.5 do not come under the heading of commercial activities because their primary purpose is to deliver capital investment rather than to achieve a financial return.

Commercial investments may include:

- holding shares in companies for a financial return
- commercial loans to companies and other organisations
- holding property for a financial return.

The Council follows CIPFA guidance on investments and carries out due diligence before undertaking any investments. Thus far the Council has undertaken limited commercial activity; it invests primarily in order to achieve service objectives rather than a financial return and has a measured approach to commercial activity. As part of the plan of action in Appendix 3 the Council will develop an investment strategy, which will be incorporated in this capital strategy.

Income from commercial activity is relatively small and does not have a material impact on the revenue budget and council tax calculation.

Such opportunities will be subject to the same evaluation and gateway process overseen by the Capital Board and to the same approval and scrutiny procedures as other proposals for capital expenditure. However, urgent decision-making may sometimes be needed in order for the Council to benefit from a commercial opportunity. Capital Board may therefore need to consider relevant proposals outside the annual cycle and to expedite the process.

Where appropriate, the Council will obtain independent external expert advice, including legal advice, when it is considering engaging in commercial activities or where such advice is required in respect of existing commercial activities.

Investment assets are managed alongside the Council's commercial portfolio within Property Services. Internal professional expertise will be deployed to ensure returns are maximised and reflective of market rates. Delegations are in place to enable the Director of Regeneration, Enterprise and Skills to agree commercial terms. Reporting of performance and risks will be via the Property Board.

The investment strategy will set out the Council's approach to commercial investment, including its policy on borrowing for this purpose. The Council has so far not borrowed for commercial investment.

Current commercial activities are summarised below, the authority will continuously keep under review the purpose for which assets are held.

Nelson House

The Council currently holds only one investment property, Nelson House, which is occupied by the Department of Work and Pensions.

Annex 1 – Council's Policy on Capitalisation

[see Appendix B]

Annex 2 – Flexible Use of Capital Receipts Policy

[see Appendix C]

Annex 3 – Consolidated Multi-Year Capital Programme

[see Appendix F]

Appendix 1 – Board Structure

[the Corporate Capital Board will be chaired by the Chief Finance Officer, project boards will be chaired by the relevant Director (or nominated deputy), with the new transformation project board chaired by the Chief Finance Officer (or nominated deputy)]

Appendix 2 – Gateway Process

Gate	Required information	Outcome if project passes this gate	Indicative timing for annual cycle
1	**Outline project brief** including all the information required to determine whether the proposal meets the Council's evaluation criteria	Confirmation that the proposal may proceed to Gate 2 and either: (a) Confirmation that the outline project brief information may be submitted to Capital Board unamended or (b) Details of additional/revised information that must be submitted to Capital Board	Outline project brief to be considered by the relevant Project Board between March and July preceding the financial year in which capital spend is to commence
2	**Revised project brief** including: (c) All the information in the outline project brief and: (d) Any further or revised information that the relevant Project Board requires the project sponsor to provide to Capital Board and either: (e) Explanation of why feasibility study is not needed or: (f) Confirmation that a feasibility study will be carried out, along with: (i) Proposed timescale for feasibility study to be completed and: (ii) Either confirmation that funding for feasibility study is already in place,	Confirmation that the proposal may proceed to Gate 3 and either: (a) Confirmation that feasibility study is not required (b) Confirmation that feasibility study is required along with: (i) confirmation that proposed timescale for feasibility study to be completed is acceptable or specification of different timescale for it to be completed and: (ii) Where funding for the feasibility study has been requested, confirmation as to whether or not	Revised project brief to be considered by Capital Board no later than the July preceding the financial year in which capital spend is to commence

	e.g. because the sponsoring department has set aside funding from its own revenue budget or request for funding for feasibility study	this has been granted	
3	**Business case** including: (a) All the information included in the project brief, revised if appropriate and: (b) A realistic estimate of the overall capital cost and phasing, taking into account the results of the feasibility study if Capital Board has required one to be carried out at this stage and: (c) Proposal as to how the project should be procured and the timescale for submission of lessons learned report (e.g. within three months of practical completion)	Confirmation that the project will be recommended for inclusion in the capital programme	Business case to be considered by Capital Board no later than the December preceding the financial year in which capital spend is to commence
4	Any further information that may be required for the **Capital programme report** in order for Cabinet or the relevant decision maker acting under delegated authority to decide whether to approve the scheme	Project included in capital programme with capital budget for the relevant year(s) so that spend may commence from the beginning of the relevant year and the project may proceed to procurement in accordance with the procurement route proposed in the business case	Information to be submitted In accordance with the timescales for the corporate capital programme report to go to Cabinet in February of the relevant year, which must be no later than the February preceding the financial year in which capital spend is to commence
5	**Tender evaluation report** with details of tenders received, the evaluation process and why it is recommended that the preferred tender should be accepted	Contract may be awarded to the preferred tenderer	Report to be submitted to the relevant decision maker as soon as possible after tenders have been received
6	**Lessons learned report** following post-project review	Confirmation that lessons learned report is satisfactory and no further information is required	Report to be submitted to Capital Board in accordance with the timescale set out in the procurement report

Notes:

1. The above process will be subject to any additional requirements under the Council's constitution, scheme of delegation, financial regulations and contract procedure rules.
2. Gate 2 does not apply to projects where Capital Board agrees no feasibility study is required.
3. Gates 2 and 3 may be combined at the sponsor's discretion.
4. Gates 2 and/or 3 may be combined with Gate 1 with the permission of Capital Board.
5. Indicative timing for annual cycle applies to projects that are to be submitted for approval as part of the corporate capital programme report to Cabinet in February. Actual timing for the cycle will be set each year by Capital Board.
6. Sponsors may seek approval for the project to commence in any of the years of the multi-year capital programme and for the capital budget to be allocated accordingly, but will need to bear that resources for the earlier years of the programme may already have been allocated to other projects
7. Project proposals submitted outside the annual cycle will be progressed at the discretion of Capital Board and the relevant decision makers.

Appendix 3 – Plan of Action

The references in the second column of the following table are to sections of this capital strategy.

Action	Ref
Develop an asset strategy for vehicles	2.2
Develop a disposals manual	2.2
Define terms of reference of Capital Board	3.2
Develop new standardised corporate reporting standards for the programme and capital schemes	3.7
Consider how the form of training already provided to members and officers for treasury management could be extended to capital planning	3.4
Strengthen the corporate programme management function	3.4
Establish a corporate process to monitor specific grants	4.1
Develop an investment strategy to be incorporated in this capital strategy	5