# 1 CAPITAL STRATEGY

## 1.1 Purpose and Aims of the Capital Strategy

The Capital Strategy outlines the council's approach to capital investment, ensuring that it is in line with the council's corporate priorities. It is good practice that capital strategy and asset management plans are regularly reviewed and revised to meet the changing priorities and circumstances in Ealing. Ealing Council's capital strategy is reviewed on an annual basis to reflect the changing needs and priorities of the residents.

## 1.2 The key objective of Ealing's Capital Strategy

The key objective of the Capital Strategy is to deliver a capital programme that:

- Ensures the council's capital assets are used to support the delivery of services according to priorities within the corporate plan and the council's vision;
- Links with the council's asset management plan;
- Is affordable, financially prudent and sustainable;
- Ensures the most cost effective use is made of existing assets and new capital investment;
- Supports other Ealing service specific plans and strategies.

The resources to deliver the capital strategy are allocated through the budget review process that sets the four year rolling capital programme as part of the annual budget setting process.

## 1.3 The Council's Corporate Objectives and Priorities

The capital budgets within the capital strategy support the key priorities laid out in the council's corporate plan. Each capital proposal is required to demonstrate on its appraisal form clearly how the project links to the council's six overarching priorities.

- **A prosperous borough** – Create the right conditions for economic growth by maximizing the employment and housing supply benefits of HS2, bringing forward substantial residential, retail and leisure developments at Ealing Broadway, Acton and Southall. Continue the programme of town centre and public realm improvements, providing affordable and high quality housing and meeting the ongoing demand for school places across the Borough. Attract and retain desirable businesses by making Ealing an exciting and dynamic residential and business location.
- **A safer borough** – Make Ealing one of the safest boroughs in London by lowering crime rates, reducing fear of crime and tackling anti-social behaviour and hate crime by implementing various initiatives e.g. installing CCTV, alley gates, improved street lighting and work with developers to "design out crime" in new homes. Ensure that Ealing is a safe place for children and young people to grow up.
- **A healthier borough** – Use Ealing public health, leisure and parks resources to make a significant positive impact on the health of the population. Deliver major improvements to our parks, leisure and sports facilities and ensure access to high quality facilities that will maximise benefits to our residents.
- **A cleaner borough** – Achieve a consistently high level of clean streets and reduce the air pollution across the borough. Encourage recycling and reduce the amount of waste that goes to landfill and improve the design and quality of our streets, town centres, housing estates and parks.

- **A fairer borough** – Ensure cost effective use of resources to deliver maximum benefits for residents and businesses. Focus the use and management of our property and assets and attract internal and external funding to achieve our top strategic objectives. Deliver world class customer service and ensure customer satisfaction and value for money for Ealing residents and businesses.
- **An accessible borough** – Deliver a sustainable and effective transport infrastructure and make it easier and safer to drive, cycle and walk in the borough. Provide better interchange with transport links and work with TFL, Crossrail and Network Rail to improve our stations. Invest in improvement to our roads and footways as well as parking services.

## 2 APPROACH TO INVESTMENT PRIORITISATION

### 2.1 The Capital Programme

The existing capital programme covering the period 2016/17 to 2019/20 was agreed as part of the budget setting process at council on 23 February 2016 and updated by Cabinet in June 2016 in light of the 2015/16 final outturn for capital spend.

This current capital programme is being updated at present as part of the 2017/18 budget setting process and will be agreed at Council on 21 February 2017. The revised capital programme going forward will cover the years 2017/18 to 2020/21.

### 2.2 Identification and prioritisation of Capital Investment needs

The basis of the capital programme is driven by the budget and service planning process. This process begins in the early stages of the financial year (June/July). The size of the capital programme is determined by:

- The need to incur capital expenditure
- Capital resources available
- The revenue implications flowing from the capital expenditure.

As part of the budget planning process, services submit capital proposals to be considered by Members for investment decisions. In general, a capital investment appraisal process will focus on:

- Strategic case – policy and strategic fit
- Economic case – value for money, cost/benefit context
- Financial case – affordability and resources
- Commercial case – commercially viable e.g. is outsourcing a better option?
- Management case – capabilities and capacity within the council to be able to manage and deliver such a project.

Capital investment proposals are presented on the standard capital bid appraisal form that includes the following sections: description of the project, project outcomes (including how it supports the council's key priorities), key dates and milestones, costs of the scheme, revenue implications, funding source, risks, evaluation and scoring matrix and dependencies (factors/events that need to happen before the project can proceed).

## 2.3 Capital Projects Evaluation and Scoring Matrix

Members determine the projects to be included within the capital programme in light of the relative priorities and the overall impact on the revenue budget.

Each capital bid is scored using a weighted matrix based on its significance to Ealing Council's corporate priorities and is awarded a rating ranging from 0 to 10.

To assist the decision making process capital investment proposals are prioritised on the basis of the final awarded score according to the following categories:

- 8 –10 points: High Priority
- 5 – 7 points: Medium Priority
- 1 – 4 points: Low Priority

## 2.4 Assessment of proposals and timetable

The council's policy is to agree the rolling capital programme on an annual basis at the February Council meeting. Once approved, the programme is published in the Budget Book and on the council's website. For new capital proposals the prioritisation adheres to the following timetable:

| **Date** | **Action** |
|---|---|
| Sept-Nov | Projects considered at budget review panel meetings |
| Nov | Cabinet considers new capital investment proposals |
| Feb | Cabinet considers and recommends final capital programme to Council |
| Feb | Council approves capital programme |

## 2.5 Invest to save – capital proposals

The council's invest-to-save mechanism allows services to drive innovation in service provision, delivering cash savings that are repaid to top up the invest-to-save reserve. This invest-to-save reserve can be accessed at any time, not just during the budget setting process.

## 3 FUNDING SOURCES AND INVESTMENT DECISIONS

### 3.1 Borrowing

The council seeks to minimise the level of borrowing required to finance capital expenditure by maximising grants and contributions received, and ensuring that any surplus assets are sold. The council has discretion to decide how much borrowing is required to fund the capital programme. The current policy is to borrow only the amount that the council considers to be prudent and affordable.

The Local Government Act 2003 replaced the previous system of local government capital finance with a new one, known as the 'Prudential Regime' from 1 April 2004. In the Prudential Regime each local authority decides their own borrowing limits, whereas previously local authorities were only able to borrow in line with central government prescribed limits. These new borrowing limits must take account of the authority's financial situation, medium term financial plans and in particular affordability, as funding of capital expenditure has an ongoing revenue cost which must be met from council tax or, for housing investment, from housing rental income.

CIPFA has developed a Prudential Code of Capital Finance in Local Authorities, which specifies those indicators that the council must consider as a part of its budget setting process. These are included in the annual budget report to Council and have become an increasingly important aspect of the annual budget setting process.

### 3.2 Capital Receipts

A capital receipt is an amount of money exceeding £10,000, which is generated from the sale of an asset. The rationalisation of the asset portfolio is a fundamental part of the asset management strategy it provides benefits such as reduction in revenue costs that relate to surplus assets and it also releases assets for disposal. Capital receipts are an important funding source for the current capital programme.

The council's policy is to treat all capital receipts as a corporate resource, enabling investment to be directed towards those schemes or projects with the highest corporate priority. This means that individual services are not reliant on their ability to generate capital receipts.

The timing and value of asset sales is the most volatile element of funding. As a result, the Executive Director of Corporate Resources closely monitors progress on asset disposal. Any in-year shortfalls need to be met from increased borrowing, up to the "Authorised Borrowing Limit" which is agreed annually by Council as part of the Treasury Management Strategy.

### 3.3 Specific Funding for Schemes

<u>Revenue Funding</u>
Although the opportunities to fund capital expenditure directly from the general fund revenue budget are limited, there are examples of revenue funding contribution to capital e.g. funds are allocated from the schools' individual revenue budgets to supplement the capital resources allocated to schools improvement and expansion projects.

External Funding
This covers a variety of funding sources such as:

- Specific invitations from central government, for example through earmarked grant funding. Schools benefit from a significant amount of capital grants to fund their expansion and improvement projects.
- Ealing also receives funding from Transport for London (TfL) to fund particular capital schemes such as highways improvements.
- A significant amount of capital expenditure is funded through negotiated Section 106 Planning Gain Agreements.
- Ealing also works in partnership with other agencies and service providers to ensure the ambitions for the area are delivered. Ealing aims to facilitate capital investment by other bodies where it meets local priorities.

## 3.4 Consideration of Capital Proposals Attracting Specific Funding

Schemes attracting partial external funding, such as grants for private sector housing, will be assessed in the same way as those schemes which require 100% of funding from borrowing and will only be included within the capital programme if they meet the council's needs, objectives and priorities. Schemes attracting 100% external funding would normally be included automatically within the capital programme, subject to confirmation of the external funding and the scheme meeting the council's priorities. Such schemes are usually supported by capital grants, or receipts from agreements under Section 106 of the Town and Country Planning Act 1990. A capital bid appraisal form still needs to be completed for these proposals.

## 4 MONITORING OF THE CAPITAL PROGRAMME DELIVERY

Officers monitor implementation of the capital programme on a regular basis with reports being submitted monthly to the Finance Strategy Group, and to Corporate Board and Members. A budget update report is taken to Cabinet in January, July and October each year.

The requirement to monitor the capital programme is set out in the council's Financial Regulations. The following are key controls:

- All capital expenditure must be carried out in accordance with contract procedure rules and financial regulations.
- The expenditure must comply with the statutory definition of "capital purposes" as interpreted in guidance issued by the Executive Director of Corporate Resources.
- Once the scheme has been included in the capital programme following the budget setting process, a further report providing more detail and seeking specific approval must be submitted to Cabinet for schemes with a value over £0.500m or to the Finance Strategy Group with the relevant Portfolio Holder sign off for schemes costing less than £0.500m.
- Officers must ensure that the budget for each capital project is under the control of a nominated project manager.

## 5 LINKS TO THE MEDIUM TERM FINANCIAL STRATEGY (MTFS)

All capital investment must be sustainable in the long term through revenue support by the council or its partners. All capital investment decisions consider the revenue implication both in terms of servicing the finance and running costs of the new assets. The impact of the revenue implications is a significant factor in determining approval of projects. The use of capital resources has been fully taken into account in the production of the council's MTFS.