

Appendix 9: Ealing's Capital Strategy 2008/09 to 2010/11



EALING'S CAPITAL STRATEGY

2008/2009 TO 2010/11

1 INTRODUCTION TO THE 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 directed to the Council's corporate priorities. From 2002 it was a requirement of the ODPM (now the DCLG) that each local authority produced a capital strategy and Corporate Asset Plan. In 2005, this requirement was relaxed. However, it is good practice that Capital strategies and Corporate Asset plans are regularly reviewed and revised to meet the changing priorities and circumstances of each authority. This has been reflected in the framework for the Use of Resources Block and Corporate Assessment for the Comprehensive Performance Assessment.

This is an update to the Capital strategy agreed by Cabinet in February 2007 and will cover a 3-year period from 2008/09 to 2010/11, but will be reviewed on an annual basis so that it reflects the changing needs and priorities within the Council.

1.2 The key objectives of Ealing's Capital Strategy

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

- Ensures the Council's capital assets are used to support the delivery of 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 Capital Strategy does not allocate resources as this will be done as part of the decision making process on setting the four year rolling capital programme as part of the annual budget setting process.

1.3 The Council's Corporate Objective and Priorities

The capital budgets within the capital strategy support the key themes of the Council's Corporate Plan. Each capital proposal is required to set out on its appraisal form clearly how the project links to the corporate plan. The key themes of the plan are:

- **Environment, housing and culture** - to make Ealing a better place to live.
- **Safety** - to make Ealing one of the safest places in London.
- **Health and independence** - to reduce health inequalities and promote well being and independence for adults and older people.
- **Economy** - to ensure that there are opportunities for all people and businesses to prosper.
- **Children and young people** - to create a great place for every child and young person to grow up.

Appendix 9: Ealing's Capital Strategy 2008/09 to 2010/11

- **Organisational improvement** - becoming a high performing organisation, focused on the needs of its communities

2 APPROACH TO PRIORITISING INVESTMENT

2.1 The Capital Programme 2007/08 to 2010/11

The existing capital programme covering the period 2006/07 to 2009/10 was agreed as part of the budget setting process at Council on 6th March 2007 and updated by Cabinet on 26 June 2007 in light of the 2006/07 final outturn for capital spend.

The existing Capital programme is currently being updated as part of the 2008/09 Budget process and will be agreed at Council on 4th March 2008. The Programme will be updated to cover the years 2007/08 to 2010/11.

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 early in each financial year, usually around 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 expenditure.

As part of the budget and service planning process, services submit capital proposals using a standard Capital Appraisal Bid form, which includes the identification of the following information:

- Description of the project
- Project outcomes, (including how it supports the Council's key objectives)
- Priority Level of proposal (explained below)
- Key dates and milestones
- Alternative options
- Analysis of options
- Capital Costs of Scheme
- Revenue implications
- Funding Source
- Risks

Proposals of a capital nature require rigorous appraisal and testing before they can be considered.

2.3 Prioritising Capital Projects

Elected Members determine the projects to be included within the capital programme in the light of the relative priorities and the overall impact on the revenue budget. Schemes that require use of the Council's own capital resources (such as prudential borrowing or capital receipts), are categorized according to the following, in order to assist the decision making process:

- **Level One Priorities** – these schemes are unavoidable to meet statutory and legislative requirements in the provision of services. It includes items such as health and safety, new legislation etc. By their nature, these schemes are a first call on available resources
- **Level Two Priorities** - these are schemes, which can repay part of the investment cost by producing cost savings in service provision, or else generate at least 50% external funding, subject to satisfactory revenue implications. Additionally level 2 priorities include those assets that generate income and are at risk of losing it without capital investment for health and safety reasons or reduced customer satisfaction e.g. leisure centres and outdoor sports facilities

Appendix 9: Ealing's Capital Strategy 2008/09 to 2010/11

- **Level Three Priorities** relate to non-mandatory service provision and schemes with lower thresholds than those at Level Two, but which meet the Council's needs and objectives and enhance the quality of life for those living and working within the Borough.

The capital bid appraisal form is attached in the Annex.

2.4 Assessment of Proposals and Timetable

Services present their proposals to budget review meetings, which take place during October each year. The budget review meetings will review the overall budget of each service; so will look at the revenue and capital budget proposals. The Capital bids will be assessed by using the information set out in the capital appraisal form as described above. The Council's policy is to agree its capital programme on an annual basis at its meeting in March. Once approved, the programme is published in the Budget Book and published on the Council's website. The timetable for capital proposals proceeding into the capital programme is as follows:

Date	Action
July/Aug Sept	Services develop initial bids within Departmental Management Teams Bids submitted along with rest of budget and service plans to Strategic Finance for review of initial bids alongside resources available
Oct/Nov	Projects reviewed at budget review panel meetings
Dec/Jan	Strategic Finance prepare draft capital programme for consultation
February	Cabinet considers and recommends final capital programme to Council
March	Council approves capital programme

The first step in the assessment of capital proposals is to divide capital bids into 2 groups determined by the way in which the proposal is to be funded, as follows:

- Specific capital schemes which attract external funding or already have identified capital funding such as grants, section 106 funding, partnership funding or revenue contribution and therefore have no capital resource implications for the Council, and,
- Capital proposals which require Capital funding via either Prudential borrowing or capital receipts.

3 FUNDING SOURCES AND INVESTMENT DECISIONS

The following funding sources are available to fund capital programme investment:

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 can decide how much it borrows to fund the capital programme. The current policy is to borrow the amount that the Council considers to be 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, instead of the historical practice of local authorities only being able to borrow in line with central government prescribed limits, each local authority must decide its own borrowing limits. These must take account of the authority's financial situation, medium term plans and in particular affordability, as funding capital expenditure has an ongoing revenue cost which must be met from either Council Tax or housing rents.

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.

Appendix 9: Ealing's Capital Strategy 2008/09 to 2010/11

3.2 Capital Receipts

A capital receipt is an amount of money exceeding £10,000, which is received from the sale of an asset. The need to generate capital receipts is a fundamental part of the asset management strategy. Rationalisation of assets has benefits such as reducing revenue costs relating to these assets and also releases assets for disposal. Capital receipts are a major 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.

Current rules require 75% of Right to buy receipts to be pooled, so that only 25% is usable by the Council. In addition, '50% of other housing receipts have to be pooled unless the Council can offset them against affordable housing or regeneration schemes. Rather than pay 50% to the government the Council uses the proceeds to either fund affordable housing developments or undertake works to achieve the Decent Homes Standard within its own housing stock.

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 sales. Any in-year shortfalls need to be met for increased borrowing, up to the "Authorised Borrowing Limit".

3.3 Specific Funding for Schemes

Revenue Funding

Although the opportunities to fund capital expenditure directly from the general fund revenue budget are limited, there are examples of revenue funding of capital. Funds are allocated from the Housing Revenue Account to supplement the capital resources allocated to improving the Council's housing stock. The ring-fenced Parking Places reserve account has been used for funding Highway and Car Park improvements and Passenger safety.

External Funding

This covers a variety of funding sources such as specific invitation from central Government – for example through earmarked grant funding. Schools benefit from a significant amount of capital grants to fund projects in schools. We also receive funding from Transport for London (TFL) to fund capital expenditure in Streets. Ealing has also been able to fund a significant amount of its capital expenditure through negotiated Section 106 Planning Gain Agreements.

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 requiring full Council funding 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 that the scheme meets 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

- 4.1 Officers monitor implementation of the Capital Programme with reports being submitted monthly to the Finance Strategy Group, and then to Corporate Board and Members. The Monitoring is then reported to Cabinet on a quarterly basis. .
- 4.2 All processes and procedures relating to the monitoring of the capital programme are 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.

Appendix 9: Ealing's Capital Strategy 2008/09 to 2010/11

- Where the scheme is over £250k, officers must submit a report to Members detailing the main elements of the project including the revenue implications and are not authorized to commit expenditure on the capital budget without prior formal release of funding.
- Officers must ensure that the budget for each capital project is under the control of a nominated project manager.
- Any major projects (over £250,000 lifecycle cost) which arise during the year outside the normal budget process will only be considered for addition to the programme if they can be accommodated from savings elsewhere in the capital programme (not slippage) and the requirement for the capital expenditure is an extraordinary service demand which could not be anticipated in the normal planning processes. These projects must be reported on an individual basis to Members with consideration given to the Council's overall priorities and resources.

- 4.3 Procedures for the monitoring of the capital programme have been further strengthened with the setting up of the Capital Review Board, of a group made up by senior officers from each of the Council's directorates to:
- Receive reports on progress on service capital programmes to monitor and challenge;
 - Monitor compliance with the financial approvals process;
 - Receive capital option appraisals ensuring that investment proposals are consistent with key corporate goals and service objectives and are affordable; and
 - Receive post completion appraisals

It meets on a bi-monthly basis, with the first meeting taking place in July 2007. This process supplements the monitoring reports considered by Finance Strategy Group and Corporate Board on a monthly basis.

5 PARTNERSHIP WORKING

Ealing will work in partnership with other agencies and service providers to ensure its ambitions for the area are delivered as well as investing in its own right. Ealing aims to facilitate capital investment by other bodies where it meets local priorities.

The main vehicle for partnership working in the Borough is the Local Strategic Partnership, which brings together all of the key stakeholders – including the Council, Ealing Police, the Ealing Primary Care Trust, Ealing Chamber of Commerce, Ealing Homes and West London Learning and Skills Council.

One example of the way in which services have worked together through the Partnership to use resources more effectively and optimise the use of assets has been the investment in housing stock with our partners Ealing Homes using funding from the Government.

6 POST IMPLEMENTATION REVIEWS (PIR)

- 6.1 Where schemes have a value of more than £500k, officers must submit projects for post-completion review and appraisal so that outputs can be assessed, any cost variances examined and lessons can be learnt from the management of the project.
- 6.2 At the end of the project, services must submit a post implementation review form to the Executive Director of Corporate Resources via the Strategic Finance capital team. The post implementation appraisal for all projects costing over £0.5M, should be reported to Members within six months of completion of the project. The appraisal form for the PIR is attached within the Annex.

7 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. Ealing fulfils this requirement in the following ways:

- The appraisal pro-forma has a section to highlight the revenue implications of capital projects.
- 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.

Appendix 9: Ealing's Capital Strategy 2008/09 to 20010/11

Key officer contacts on the Capital Strategy

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