APPENDIX A

CAPITAL STRATEGY
2022-23 – 2030-31

1. INTRODUCTION AND BACKGROUND

This Capital Strategy is an overarching document which sets the policy framework for the development, management and monitoring of capital investment. The strategy focuses on core principles that underpin the council's capital programme; its short, medium and long-term objectives; the key issues and risks that will impact on the delivery of the programme; and the governance framework required to ensure the capital programme is delivered and provides value for money for residents of Southwark.

The capital strategy aligns with the priorities set out in the Borough Plan and other key council strategies. The strategy is integrated with the medium-term financial strategy and treasury management strategy.

2. CORE PRINCIPLES THAT UNDERPIN THE CAPITAL PROGRAMME

The key principles for the capital programme are summarised below:

- Capital investment decisions reflect the aspirations and priorities included within the Borough Plan and supporting strategies;
- Schemes to be added to the capital programme will be subject to a gateway process, prioritised according to availability of resources and scheme specific funding, fairer future for all commitments and factors such as legal obligations, health and safety considerations and the longer-term impact on the council's financial position;
- The cost of financing capital schemes, net of revenue benefits, are profiled over the lifetime of each scheme and incorporated into the annual policy and resources strategy and budget;
- Commissioning and procuring for capital schemes will comply with the requirements set out in the council's constitution, financial regulations and contract standing orders.

Risk review is an important aspect of the consideration of any proposed capital or investment proposal. The risks will be considered in line with the risk management strategies we have in place and commensurate with the council's low risk appetite. Subject to careful due diligence, the council may consider a moderately higher level of risk for strategic initiatives, where there is a direct gain to the council's revenues or the ability to deliver its statutory duties more effectively and efficiently.

3. GOVERNANCE FRAMEWORK

The council's constitution requires the Council Assembly to agree the capital strategy and programme at least once every four years and in the event of a significant change in circumstances. The reports from the chief finance officer will consider the compliance of proposed schemes in the programme with the medium term financial strategy, the capital resources available to the council, the revenue implications of the proposed capital expenditure, and any other relevant information.

Democratic decision-making and scrutiny processes provide overall political direction and ensure accountability for investment in the capital programme. These processes include:

- Council Assembly approves the Borough Plan which sets out the strategic priorities for the council;
- Council Assembly is ultimately responsible for approving the Capital Strategy, Treasury Management Strategy and capital programme;
- Cabinet receives regular capital monitoring reports, approves variations to the programme and considers new bids for inclusion in the capital programme;
- Portfolio holders are assigned projects in line with their responsibilities;
- Scrutiny committees can call in Cabinet reports, receive and scrutinise reports;
- All projects progressing to the capital programme follow the constitution, and financial regulations;
- The capital programme and capital expenditure is subject to internal and external audit.

Approval to spend on individual capital schemes will only be given once procedural guidelines have been complied with and assessed to the satisfaction of the strategic director of finance and governance.

Senior officer teams exist within directorates to monitor the delivery of the directorate capital programme. Directorate management teams must consider and recommend all additions, variations to their directorate capital programme before being agreed by the strategic director of finance and governance and then by cabinet.

4. CAPITAL INVESTMENT PRIORITIES AND PLANS

The capital programme for the council is a long-term ambition, with the lifetime of new and existing assets stretching far into the future. The obligation for maintaining and improving council dwellings and operational buildings is very long-term and as such will be considered accordingly in financial and asset management planning.

Capital investment plans are driven by the Borough Plan, the council's key strategic document that sets out the council's vision, ambitions, values and priorities. Council assembly agreed a refreshed 2018-2022 Council Plan in November 2020, and that it would be referred to as the Borough Plan. The refreshed plan includes the following key capital commitments:

- Increase the number of council homes in Southwark, with at least 1,000 more built or on site by 2022
- to retrofit council homes to make them greener

- to Improve the reliability and energy efficiency of the heat networks that serve our council homes
- to deliver quality new homes for residents on the Aylesbury Estate
- Work with the community to agree major improvements to the Tustin Estate
- Refurbish and expand Maydew House, increasing the number of council homes and providing new council rented key worker homes
- Restore the Walworth Town Hall with a new publicly accessible and protected community space
- to deliver a new library and GP health centre on the Aylesbury estate
- to open a new, modern leisure centre at Canada Water by 2023
- to plant 10,000 new trees by 2022
- to open a new library and heritage centre on the Walworth Road
- to open two nursing homes
- to build extra care housing

The council will continue to prioritise work to tackle the Climate Emergency and more detail about the council's action to reduce carbon and improve the environment is set out in the Climate Emergency strategy. The refreshed plan includes a commitment to making Southwark a Low Traffic Borough with more space for walking and cycling.

The application and planning for capital expenditure obligations and objectives can be considered over short, medium and long-term time horizons. Long-term forecasts are not easily predicted and the accuracy of all financial estimates will be limited. However, long-term forecasting is valuable in informing strategic plans taking account of the cumulative sustainability and affordability of existing and planned investment, which will need to be repaid over future periods. For major projects and investments, the funding and financial implications need to be planned well in advance. The council maintains an approved capital programme that covers a ten-year period. Prudential indicators for capital expenditure and financing are set out in Appendix E.

5. TREASURY MANAGEMENT

Treasury Management is concerned with keeping sufficient but not excessive cash available to meet the council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of resources will be met by prudential borrowing. The council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Each year the council assembly agrees an annual treasury management strategy covering the management of council's debt and cash investments (Appendix B).

6. ASSET MANAGEMENT PLANNING

Cabinet approved the new Asset Management Plan in January 2021. The Plan sets out the council's ambitions for existing stock and future investment decision-making. It was developed in consideration of the new Borough Plan and how the decisions that the council take around property can help to achieve these, prioritising climate change and recognising the hugely important role in providing and building stable communities.

The Councils future asset management decision-making will follow a clear and robust process, ensuring that decisions are aligned to corporate ambitions and are in the best interests of the Borough as a whole.

The new Asset Management Plan sets a policy framework for the efficient stewardship of the authority's property assets. It emphasises the strategic significance of a multi-billion pound property portfolio deployed in, and aligned to, the fulfillment of the Council's corporate priorities.

It is supplemented by a Commercial Property AMP, adopted in 2016, to provide additional detail in respect of this important part of the estate, which generates incomes that fund council services, whilst contributing to our borough's vibrancy and all levels of its economy.

The way in which the council uses scarce resources is a fundamental theme for the new Asset Management Plan. In the current financial climate AMP 2021 envisages only essential, affordable investment aligned to strategic priorities:

- Acquisitions of land for new buildings
- Acquisitions of new stock of dwellings
- Investment opportunities within the existing stock
- Investing in the future of Canada Water
- Securing sustainable, high quality employment opportunities;
- Securing economic and infrastructure investment
- Delivering a sustainable response to Climate Emergency and achieving Carbon Net Zero for Southwark by 2030

The council will continue to realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to prevailing market conditions.

7. COMMERCIAL ACTIVITY AND INVESTMENT PROPERTY

Returns from property ownership can both be income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is considered in assessing the attractiveness of a property for acquisition. However, yield is rarely the sole or primary objective of property acquisitions.

Historically, property has provided strong investment returns in terms of capital growth and generation of stable income. However, property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. The investment appraisal, external professional advice, local strategic knowledge (ensuring all investments are in Southwark) and risk assessment ensure that commercial investments remain proportionate to the size of the council and that the revenue impact can be managed, should expected yields not arise.

The strategy makes it clear that the council will continue to invest prudently to take advantage of opportunities as they present themselves, supported by our robust governance process.

The council is mindful that PWLB loans are not available to local authorities planning to buy investment assets primarily for yield.

8. LOANS AND OTHER LIABILITIES

The council has discretion to make loans for a number of reasons, primarily for economic development. These loans are treated as capital expenditure.

By advancing loans to other bodies, the council is exposing itself to the risk that the borrower defaults on repayments. The council must therefore ensure that these loans are prudent and that the risk implications have been fully considered, and that the cumulative exposure of the council is proportionate and prudent.

The council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are agreed by Cabinet and will be subject to close, regular monitoring.

In addition to debt liabilities set out in the treasury management strategy, the council is committed to making future payments to cover any pension deficit. The pension fund is subject to a triennial valuation and the revenue implications are built into the Medium Term Financial Strategy.

9. REVENUE BUDGET IMPLICATIONS

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and Minimum Revenue Provision (or debt repayment in HRA) are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream, i.e. the amount funded from council tax, business rates and general government grants (see Prudential Indicators).

Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend up to 50 years into the future. Capital investment decision-making is not only about ensuring that the initial allocation of capital funds meets corporate and service priorities but also ensuring that the asset is fully utilised, sustainable and affordable throughout its whole life. This overarching commitment to long- term affordability is a key principle in any capital investment-appraisal decision. In approving the inclusion of schemes and projects within the capital programme, the strategic director of finance and governance must be satisfied that the proposed capital programme is prudent, affordable and sustainable.

10. KNOWLEDGE AND SKILLS

The council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

The council establishes project teams from all the professional disciplines across the council as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision.

Internal and external training is provided for members to ensure they have up-to-date knowledge and expertise to understand and challenge capital and treasury decisions taken by the strategic director of finance and governance.