

# General Fund Capital Programme Governance Arrangements

## Background

Each year, council assembly agrees an annual capital strategy which provides the policy framework for the development, management and monitoring of capital investment. The strategy focuses on the core principles that underpin the council's capital programme; its short, medium and long-term objectives; the key issues and risks that will impact the delivery of the programme and the governance framework required to ensure the capital programme is delivered, providing value for money for residents of Southwark. The capital strategy aligns with the priorities set out in the Council Delivery Plan and is integrated with the medium term financial strategy.

## Capital Strategy

The capital strategy sets out the core principles that underpin the capital programme which are summarised below:

### *Core principles*

- Capital investment decisions reflect the aspirations and priorities included within the Council Delivery 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, council priorities and 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 legislation, the council's constitution, financial regulations and contract standing orders.

## Capital

### *New capital bids*

- An overall funding envelope - the affordability criteria - will be determined by the estimated capital funding available, which is within a predetermined and prudent limit on borrowing
- Each capital bid will require a business case
- A newly established capital board will review the capital bids for compliance with the assessment principles and recommend those that can be funded within the pre-defined funding envelope, for cabinet approval

### *Variations and virements*

Variations to an agreed project (already included in the capital programme) need to follow the council's gateway process. Variations that change the project due to a policy change, change in specification or an enhancement to the original programme are considered to be new capital bids.

Variations and virements that occur due to overspends and/or unforeseen costs to the original project plan are not subject to the bidding process but should be reported through the capital monitoring process to cabinet.

## **Capital investment decisions**

The application and planning for capital expenditure obligations and objectives should be considered over short, medium and long-term time horizons. Long term forecasting is critical to informing strategic plans taking account of the sustainability and affordability of existing and planned investment, which will need to be repaid over future periods.

Capital investment plans are driven by the council delivery plan, the council's key strategic document that sets out the council's vision, ambitions, values and priorities. In the summer of 2024, the council delivery plan will be reviewed and reshaped in line with Southwark 2030, our jointly owned strategy with partners for the borough.

The plan is centred on seven separate themes:

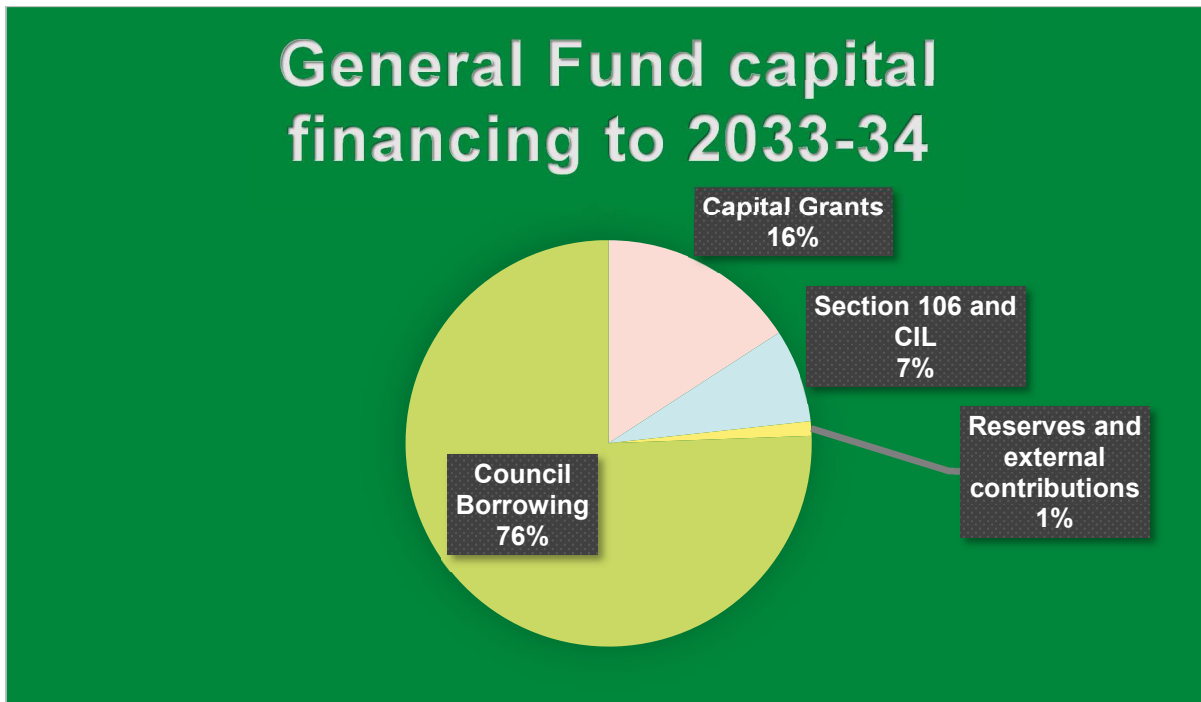
- transforming the borough
- a thriving and inclusive economy
- a healthy environment
- quality, affordable homes
- keeping residents safe
- investing in communities
- supporting families

In addition to the investment in planned projects to meet the ambitions of the council plan, there will be other capital projects that will need to be undertaken due to statutory requirements, health and safety compliance as well as the need to maintain existing assets.

## Capital financing

General Fund (GF) capital projects are financed by:

- Council borrowing (76%)
- Capital Grants (16%)
- Section 106 and CIL contributions (7%)
- External contributions and capital reserves (1%)



Council borrowing is the largest source of financing the capital programme, with the cost of borrowing financed by the general fund revenue budget. To ensure that the capital programme remains affordable any new capital bids will need to comply with this capital governance process.

Under new accounting regulations (IFRS 16) any asset leased for more than one year is classed as a finance lease and therefore a form of capital expenditure. There may be cases where the procurement of assets such as buildings, vehicles or equipment for long term use where leasing maybe favoured instead of outright purchase. In these cases the same governance processes will apply for leasing of the asset

## The bidding process

New capital bids from council departments will require a business case which is signed by strategic directors and the lead cabinet member. The business case will set out:-

- A brief background to the proposed project
- The reasons why the project is a council priority
- Compliance with council's procurement process
- The expected yearly capital costs
- The estimated full capital costs
- Any revenue implications arising from the project
- The length of the project to completion

A sub-group of the Corporate Management Team (CMT) will form a newly established Capital Board, which will review both the business case for each capital bid and the affordability within the agreed overall funding envelope. If the total capital bids exceed the overall funding envelope then the projects will be prioritised.

The Strategic Director of Finance, the Director of Corporate Finance, the Leader of the Council and the Lead Member for Communities, Democracy and Finance will decide on the final capital projects to be submitted for cabinet approval.

## Affordability

An annual funding envelope will be set based on:-

- Prudent levels of borrowing, taking into account
  - prevailing interest rates

- affordability of financing costs to the General Fund budget
- the level of MRP chargeable to the GF
- Availability of other funding sources including;
  - Reserves
  - External Contributions
  - S.106 and CIL
  - Capital Grants

## Prioritising capital projects

Schemes to be added to the capital programme will be prioritised according to availability of resources and scheme specific funding, council priorities and commitments and factors such as legal obligations, health and safety considerations and the longer term impact on the council's financial position. All proposed capital projects must comply with the requirements set out in legislation, the council's constitution, financial regulations and contract standing orders.

New capital projects will be considered on the basis of:-

- Statutory requirements
- Health and safety considerations
- Alignment to the council delivery plan and council priorities
- Maintaining current assets
- 'Invest to Save' – projects that will bring in future net revenue income to the council
- Projects where there would be a significant cost to not going ahead or significant reputational risk of not going ahead
- Funding source (impact on the council's finance)

## Templates

The templates can be accessed on the Source and are appended here

- Business case template (Word)
- Business case template (Excel)

The business case template has to be signed off by the Strategic Director and this sign off provides assurance that

- the governance arrangements are in place in manage the projects;
- managers have the appropriate and up to date skills, including Continuous Professional Development (CPD) training and qualifications to manage the capital project

# Timelines

The Capital Board will review the capital bids in July and October. The deadlines are set out in the table below

Activity	Responsibility	July 2024 Capital Bids	October 2024 Capital bids
Capital projects prioritised to deliver council priorities	Members	June 2024	September 2024
Business case signed by Strategic Director and lead Cabinet Member and returned to corporate finance	Department	26 June 2024	25 September 2024
Collation of capital bids and Capital Board report	Corporate finance	Monday 8 July 2024	7 October 2024
Capital Board	Capital Board	tba (15-26 July 2024)	tba (14 -25 October)
Strategic Director Briefing to Cabinet Member of capital board outcome	Department	27 August 2024	26 November 2024
Final report to cabinet (agenda planning) as appendix to capital monitoring report	Corporate Finance	3 September 2024	2 December 2024
Cabinet meeting to agree new bids	Cabinet	24 September 2024	7 January 2025

# Appendices

Business case template (Word)

Business case template ( Excel)