

## **Appendix 3 – Capital Strategy**

### 1. Overview

- 1.1. The capital strategy is the overarching document that sets out the framework in which capital projects are designed, prioritised and delivered to support the strategic aims of the council. This strategy brings together the key issues considered by Lambeth in making decisions around capital investment: governance, resources and approach to risk.

### 2. Capital Expenditure and Financing

- 2.1. Capital expenditure is the money spent on the maintaining, improving or acquiring assets which will last for several years and reflects the ambition and aspirations of the council.
- 2.2. Capital expenditure can be funded by externally provided resources such as grants and developer contribution (section 106 or Community Infrastructure Levy) or internally held resources such as capital receipts from the disposal of surplus assets or contribution from reserves or revenue.
- 2.3. Any capital expenditure not met by the sources above will have to be funded from borrowing. The council will hold resources in reserve for various reasons and if projects which will pay back its investment before those reserves are required, the council can use temporarily use these funds in lieu of new external borrowing. This is referred to as internal borrowing.
- 2.4. In recent years, Lambeth was able to rely on capital receipts and other external resources to fund the capital programme without new borrowing. The Asset Management strategy sets out the Council's approach to managing its physical estate to maximise efficiency through appropriate usage and identifying surplus properties for disposal. However, as the disposal programme reduces, we have reviewed the approach to funding the programme with borrowing.
- 2.5. The council has a duty to ensure any new borrowing is affordable, prudent and sustainable. Therefore, in considering new projects where borrowing is required, the council will take into impact on revenue for the repayment of debt through the application of the MRP policy as required by the CIPFA Prudential Code. In addition, the on-going impact on revenue, including maintenance and running costs will also be taken into consideration.
- 2.6. The Treasury Management Strategy sets out the Councils current debt portfolio, borrowing policy and the associated budget implications. It also contains the Investment policy and prudential indicators showing borrowing limits and affordability.

### 3. Overview of Governance Processes

- 3.1. Council will set the total available general fund resources for new projects and this will be reviewed annually. The figure is based on the expected level of grants, developer contributions, capital receipts and borrowing capacity with associated revenue implications.

- 3.2. Cabinet will allocate within the funding envelope set by Council into themes into the Capital Investment Programme (CIP). These themes are based around an area of responsibility and/or function, for example, parks and play or cemeteries, or a priority such as clean air.
- 3.3. For each theme and the programme as a whole, the following factors will need to be balanced:
  - How works under the theme promote and implement aims of the Borough Plan?
  - Are the works implementing the aims of any agreed strategies or fulfilling funding commitments?
  - Does the investment open up further opportunities for Lambeth and/or partners?
  - Likely funding profile for each theme as not all funding will be equally applicable to all types of work
- 3.4. Each theme will be managed by a lead Director who, with the Strategic Director and Cabinet Member will have the certainty to plan over a longer horizon and flexibility to shape their programme to respond to the changing environment.
- 3.5. In addition, we expect to continue to receive grants for projects defined by the funder such as schools devolved formula capital grant from the Department for Education and Transport for London through the Local Implementation Plan which will be added to the CIP when the allocations are known.
- 3.6. The Infrastructure and Capital Delivery Studio will be the centre of delivery excellence for capital projects with the skills and ability to deliver any project or programme of work. The Studio will work with asset owners across the council to ensure there is excellent forward planning of repairs, improvements, upgrades and new assets to support the Borough Plan and statutory requirements.
- 3.7. The CIP budget and spend information is reported on a quarterly basis to Management board as well as part of the Financial Planning reports.