

5 Capital

5.1 Capital Resource Allocation

The Council sets its Capital Programme as part of the annual Service and Resource Planning Process and determines its capital investment priorities based on an agreed set of principles as set out in the Capital & Investment Strategy.

No capital commitment shall be made unless the initial resource allocation is confirmed within the Capital Programme approved by the Council (either as a specified individual project or as part of a planned annual programme) or through the approval levels under section 5.1.1. This is the case for all capital projects and programmes regardless of the funding source identified, i.e. including those funded partly or fully by external grants, contributions, contingencies, revenue savings or reported capital surpluses.

The **Section 151 Officer** jointly with the **Corporate Director Communities** will ensure that appropriate arrangements are in place to monitor the capital programme and resources, control expenditure against approved budgets, and address any problems of overspending or resource re-allocation.

The **Section 151 Officer** will issue guidance as needed on governance and procedures.

5.1.1 New Inclusions

New inclusions to the approved Capital Programme are subject to capital prioritisation by **Cabinet**. New inclusions outside of the annual Service and Resource Planning Process can be agreed as follows:

- (i) Where the total estimated resource allocation is £50,000 or less, the **Corporate Accountant** can agree its inclusion into the capital programme;
- (ii) Where the total estimated resource allocation is between £50,000 and £500,000, the **Corporate Accountant** and **Senior Capital Governance Officer** can agree its inclusion into the capital programme, and this will subsequently be reported to Cabinet;
- (iii) Where the total estimated resource allocation is between £500,000 and £1,000,000, the **Corporate Director Communities** and the **Section 151 Officer** can agree its inclusion into the capital programme, and this will subsequently be reported to **Cabinet**;
- (iv) Where the total estimated resource allocation is above £1,000,000, the **Cabinet** can agree its inclusion into the Capital Programme, via the periodic Capital Report to Cabinet, based on the recommendations by the **Corporate Director Communities** and the **Section 151 Officer**.
- (v) The **Leader of the Council** may, in conjunction with the **Section 151 Officer**, approve any proposed change to the Capital Programme in advance of a report to **Cabinet** where **Cabinet** approval is required. In these cases, funding must be agreed by the **Section 151 Officer** and reported to **Cabinet** in due course.

5.1.2 Capital Governance Process

Capital Projects are managed across a series of defined stages, each one ending in a decision stage gateway (Business Case) and follow the governance framework as specified in 5.2.

The **service managers** responsible for the project or a programme delivery are required to ensure that robust strategic and gateway reviews are undertaken and consultations with the relevant **cabinet members** and key stakeholders are carried out in advance of business case approval.

Initial business cases for programmes of works should list individual schemes including a budget, timescales, scope and description of the works for each scheme.

Smaller value or simpler projects may request to combine stages and decision points. This requires approval from the **Corporate Accountant & Senior Corporate Governance Officer**.

All project and programme allocations in the capital programme must have an appropriate contingency allowance based on the risks associated with the project (and programme) and the decision stage gateway.

Upon approval of the Outline Business Case, the Project's (and Programme) overall budget moves from provisional to final. This is the baseline against which all future performance is measured.

5.2 Capital Expenditure

Provisional total Project (and programme) budgets are allocated, and initial Project (and Programme) budgets are released (capital expenditure can be incurred) following either:

- (i) the approval of the Capital Programme by the Council where initial business cases (or equivalent) are considered as part of the capital budget setting process; or
- (ii) the approval of initial business cases where these are submitted and considered in year (outside of the capital budget setting process) subject to the levels set out in 5.1.1.

Each remaining phase of funding is released following the approval of an updated business cases at each subsequent gateway (Stage 1 Outline Business Case & Stage 2 Full Business Case), as follows:

- (i) Where proposed projects have entered the capital programme under a) and b) above, and remain in line with the original scope and timetable and can be delivered within the approved budget agreed by Council/Cabinet, its release can be agreed by the **Corporate Accountant**;
- (ii) Where proposed projects have entered the capital programme under a) and b) above, but require changes to the agreed scope, delivery timetable and approved budget, the **Section 151 Officer** is responsible

for determining the level at which approval must be sought in line with section 5.2.2 below;

5.2.1 Contractual Commitments

Once a project is approved as per 5.1.1 and enters that Capital Programme, contractual capital commitments for project and programme delivery can be entered into in line with the capital approval levels set out in the Scheme of Delegation, when the following conditions are satisfied:

- (i) all sign offs required by the Contract procedure Rules (CPRs) are in place and activities are compliant with CPRs;
- (ii) the relevant decision stage gateway (business case) covering the upcoming stage that contractual spend will occur has been approved in line with the approval levels set out in 5.1.1 and 5.2.2.

In all circumstances, the **Section 151 Officer** (or nominated representative) must confirm that the revenue implications of the project or the programme are affordable based on the current business case under consideration.

Where the programmes or projects include issuing capital grants to third parties, relevant officers should seek appropriate legal and financial advice, draw up a funding agreement and specify evidence required to demonstrate the capital spend and other related output measures.

Where there are changes to the tender figures or any other variations, this will fall within the provisions of section 5.2.2 below (*and see Section 9 Income and Expenditure paragraph 9.3.5 Contracts for Capital Works*).

5.2.2 Variation in time, cost and scope

Where any decision or other variation will (or may) produce an increase to the total cost of that project or programme (and/or variation to expected delivery period or scope), a change request form must be completed, and additional approvals must be sought as follows:

- (i) Where the cumulative cost variation is less than £50,000, the **Corporate Accountant** must approve the change;
- (ii) Where the cumulative variation is between £50,000 and £500,000 or the project forecasts a change to an end of gateway date or there is moderate change to the scope then the **Corporate Accountant** and **Senior Capital Governance Officer** must approve the change;
- (iii) Where the cumulative variation is between £500,000 and £1,000,000, or the project forecasts a delay that will affect final go-live / practical completion, or there is a significant change to scope then the **Corporate Director Communities** and **Section 151 Officer** must approve the change;
- (iv) Where the cumulative variation is over £1,000,000 **Cabinet** must approve the change.

- (v) The **Leader of the Council** may, in conjunction with the **Section 151 Officer**, approve any proposed change to the Capital Programme in advance of a report to **Cabinet** where Cabinet approval is required. In these cases, funding must be agreed by the **Section 151 Officer** and reported to Cabinet in due course.

A cumulative cost variation is the total amount of cost change that the project has requested since the outline business case was agreed including any current request and comply with the approval levels in 5.2.2.

Where a variation occurs at the very end of a stage the change request can form part on the next business case document. Where such a change happens (or is foreseen) during a business case gateway, a change request document must be submitted for approval and comply with the approval levels in 5.2.2.

Services should explain the reasons for the reported variation and confirm their agreement to any scope changes in their reports and provide funding proposals to address the increased cost where relevant. Guidance and arbitration on what constitute a moderate or significant change of scope should be sought by the service from the **Corporate Accountant** and **Senior Capital Governance Officer**.

Approval can be sought at a higher level in the Scheme of Delegation (such as escalating to the **Section 151 Officer**) in all cases and where the viability and value for money of the scheme are threatened.

5.3 External Contributions

All external funding applications for capital resources should be in line with Corporate Plan objectives and be assessed against the agreed set of prioritisation principles for capital investment as set out in the Capital & Investment Strategy. **Service Managers** responsible for the application should inform the **Section 151 Officer** and the **Corporate Director Communities** about the proposed use of these resources and related implications prior to making an application.

In all circumstances, the **Section 151 Officer** (or nominated representative) must be notified and agree to all external funding applications and review the proposal on any implications to the Council's asset and infrastructure base or its Medium-Term Financial Plan.

Where external contributions are restricted for specific purposes, they should be used for the purposes for which they are issued in line with the relevant funding agreements or grant conditions. Where external contributions are partially or fully flexible, their use is subject to capital prioritisation by the **Cabinet** and approved subject to the levels set out at section 5.1.1.

Capital Programme entry for externally funded programmes and projects requires, in addition to the requirements at section 5.1.1, a formal notification by or a formal agreement with the relevant funding body or third party. Where there is a need to expend resources in advance of receiving such notification or agreement, approval must be sought from the **Section 151 Officer** based on a risk assessment.

Approval and variation thresholds stated in sections 5.2.1 and 5.2.2 above also apply to programmes or projects that are fully or partially externally funded.

5.4 Insurance reinstatements

In the case of insurance reinstatements sections 5.1.1, 5.2.1 and 5.2.2 apply if the Council is contributing additional resources. If there is a proposal to change the use of an asset or the service provided from this asset, the **Corporate Director Communities** and the **Section 151 Officer** should review the proposals and make recommendations to **Cabinet** as required.

5.5 Disposals of Land and Property

In respect of disposals of land and property, the processes followed should be robust and transparent and in accordance with current legislation. Section 123 of the Local Government Act 1972 specifies that surplus property should be sold on the open market for the best consideration that can reasonably be achieved.

5.5.1 Approval Limits

The **Director for Property Investment and Communities Facilities Management** should seek appropriate financial and legal advice before any disposal. Then, depending on the value of the disposal, different levels of approval are needed, as follows:

- (i) Where the estimated disposal value is less than £2 million, the **Director for Property Investment and Communities Facilities Management** may arrange for the disposal of land or property.
- (ii) Where the estimated disposal value is between £2 million and £5 million, a decision by the **Corporate Director Communities** and the **Section 151 Officer** to proceed with the disposal is required.
- (iii) Where the estimated disposal value of individual property assets is £5 million or more, a decision by **Cabinet** to proceed with the disposal is required.

5.5.2 Discounted Approval Limits

Disposals may be at a discounted or 'undervalue' level, below the 'best consideration that can reasonably be obtained'. The *General Disposal Consent 2003* gives local authorities the power to dispose of property at less than the full open market value without seeking the consent of the Secretary of State where such a sale contributes to the economic, social or environmental wellbeing of the areas, and where the undervalue does not exceed £2m. Full market value can also include non-monetary consideration if:

- (i) The service or accommodation contributes to one to the **Council's** priorities; and
- (ii) Provided that a case is made that in effect justifies the 'expenditure' of the foregone receipt in accordance with the normal processes for the allocation of capital resources.

In these cases, disposals can be controversial therefore local circumstances and the scale of the discount in price should be considered when deciding who should make

the final decision to sell and additional financial and legal advice should be sought. In general:

- (i) Where the 'undervalue' is less than £25,000, the **Director for Property Investment and Communities Facilities Management** may arrange for the disposal of the land or property
- (ii) Where the 'undervalue' is between £25,000 and £500,000, the **Director for Property Investment and Communities Facilities Management** must prepare a report to the **Section 151 Officer**, requesting approval to proceed with the disposal
- (iii) Where the 'undervalue' is £500,000 or more, the **Corporate Director Communities** and the **Section 151 Officer** must prepare a report to **Cabinet** requesting their approval to proceed with the disposal.

Approval can be sought at a higher level in all cases as agreed by the **Director for Property Investment and Communities Facilities Management** and the **Section 151 Officer**.

All capital receipts generated through the disposal of property assets are treated as a corporate resource and used to support the capital programme unless it is specifically agreed otherwise by **Cabinet** based on recommendations by the **Corporate Director Communities** and the **Section 151 Officer**.

5.6 Transfers of Property Assets (Land and Property)

The process followed for the transfer of property assets should be robust and transparent and in accordance Section 123 of the Local Government Act 1972 and any related Council's policies ([Community Asset Transfer Policy](#)).

The **Director for Property Investment and Communities Facilities Management** should seek appropriate financial and legal advice before any transfer. Then, depending on the estimated loss of income due to the transfer of the property assets, different levels of approval are needed. These are through the approval levels under section 5.5.2.

5.7 Acquisition of Land and Property

In respect of the acquisition of land and property where budget provision for an acquisition exists within the approved Capital Programme, the **Director for Property Investment and Communities Facilities Management** may approve a purchase of land or property in accordance with approval levels specified in section 5.1.1. and 5.2.2 above.