

with 45% of them recycled, the highest percentage yet by Greenstream. The 530 sq. m. of re-used carpet has reduced waste to landfill or incineration by 33 tonnes.

As a direct impact of this collaborative way of working, Ministry has been able to expand its footprint and employ additional staff who were otherwise furthest from the job market, while also establishing a factory of 8,000 sq. ft. that is fit for further growth and projects of this nature. This is in part due to the

forward-thinking of both Swansea's property team, Ministry's leaders and Swansea's procurement innovators. Trust between client and supplier remains a pivotal agenda; a collaborative partnership requires openness on both sides and the fact that Ministry was on the National Procurement Service framework 'Lot 6' afforded the client the ability to save considerably while not scrimping on quality.

Other benefits that have presented themselves have been less obvious:

one recent initiative with the university relates to how post graduate students will be able to assist, via structured study, in how the authority runs its business and projects, while the Council can reciprocate with mentoring.

Swansea Council plans to move offices within the next 4 years and has recognised the need to transition towards workplace practices that will suit a more agile workforce in the new building.



DEVELOPING A STRATEGY FOR YOUR CAPITAL



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Chris from CIPFA outlines the context and requirements for developing an authority's capital strategy. He includes practical advice for surveyors to consider and follow – it's a potentially daunting list to deal with effective asset management for informed decision-making, and comply with the capital strategy requirements by the deadline of 1 April 2019.

Introduction

During August 2018, CIPFA delivered a Better Capital Strategies Roadshow, as a means of informing local authorities about the new requirement to develop and publish a capital strategy, and to provide further information and support on how to go through that

process. It was apparent during those roadshow events that many local authorities are not as prepared as they could or should be, to develop a fully robust capital strategy.

This article outlines some of the significant obstacles which many authorities identify as a potential impediment to them developing a robust capital strategy in accordance with the requirements. There could be obstacles relating to information local authorities hold on their property assets, as well as obstacles around the management arrangements of the portfolio.

Experience tells us that the production of the capital strategy is likely to be led by the finance team; the strategy should be treated as a corporate document. I

would suggest that while finance may lead the process, property teams have a critical role to play in the provision and analysis of information, assessment and quantification of risks, and development of property-related strategies that necessarily need to feed into the process.

Where does the requirement for a capital strategy arise?

In November 2017 CIPFA published revised and updated editions of 2 important codes. These codes impact on strategic asset management and the ability of local government to ensure that their property estates are both financially sustainable and are able effectively to contribute to the commercialism agenda. The codes are the Prudential Code and the Treasury

"...the authority is required to consider all of the resources currently available to it and those estimated to be available in the future, together with the totality of its capital plans and income and expenditure forecasts."

Prudential Code (CIPFA, 2017)

Management Code.

The aim of the Prudential Code is to support:

- Local strategic planning
- Local asset management planning
- Proper option appraisal.

It is intended to ensure that:

- Capital expenditure and investment plans are **affordable**
- External borrowing/other long-term liabilities are within **prudent and sustainable levels**
- Treasury Management and other investment decisions are in accordance with **professional good practice**

What is the purpose of the capital strategy?

The capital strategy is intended to give a high-level overview of how capital expenditure, capital financing, investments and liabilities, and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed, and what the implications might be for future financial sustainability.

The capital strategy should be tailored to the authority's individual circumstances. It should include sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and how they will meet legislative reporting requirements.

What should the capital strategy include?

In terms of capital expenditure, the capital strategy should include:

- An overview of the governance process for approval and monitoring of capital expenditure, including links to the authority's policies on capitalisation

- A long-term view of capital expenditure plans, where long-term is defined by the financing strategy of, and risks faced by the authority, with reference to the life of projects/assets

- An overview of asset management planning including the cost of past borrowing, maintenance requirements and planned disposals

- Any restrictions around borrowing or funding of ongoing capital finance, for example requirements around the Housing Revenue Account or Police Funds.

The strategy should additionally include:

- The authority's approach to commercial activities, including processes ensuring effective due diligence and defining the authority's risk appetite in respect of these, including proportionality in respect of overall resources

- Requirements for independent and expert advice and scrutiny arrangements

- An overview of the governance process for approval and monitoring and ongoing risk management of any other financial guarantees and long-term liabilities

- A summary of the knowledge and skills available to the authority and confirmation that these are commensurate with the authority's risk appetite.

What are the obstacles to developing the strategy?

When it comes to the property aspects, some of the obstacles to an authority developing a robust capital strategy can be self-imposed, such as perhaps a pulling away from taking a strategic approach to the management of property assets. Others are as a result of understandable responses to constrained budgets over a number of years, such as reductions in condition survey frequency. Either way, together they have left many authorities ill equipped to understand properly the

capital demands of their property portfolios going forward, leaving them in a weak position when trying to plan for how they will meet that need, and hence exposed to the risk of future financial instability.

Equally, the discipline of assessing potential capital supply from the property portfolio is not always as well developed as it could be, even though organisations often already have the opportunity to readily identify and quantify this potential supply, but do not recognise it.

If your organisation has gaps in knowledge, whether in the area of capital demand or capital supply, this can result in poor capital prioritisation, through ill-informed decision making. The key question for those reading this article is: what will it take to put your organisation in a strong knowledge position in this area?

What should we have in place?

In helping you to answer that question for yourself, here is our summary of some of the areas you might like to consider. Some of these you may say you have in place or in development, which is great. Others of you may decide you are not well advanced or even not in place at all, in which case you have a ready action plan:

- How do you prioritise capital spend and is this a transparent and equitable process, set within a disciplined framework?
- Is there a discipline of written business cases for all capital expenditure, which includes a corporately agreed approach to option appraisal which fully assesses risks, and includes sensitivity analysis?
- Do you as a matter of course undertake post project reviews of all capital schemes, so that lessons are learned for future capital bids, business case evaluation and project delivery?
- Do you have up to date condition surveys of your assets and do you know the rate at which they are deteriorating?

- Have you set building condition standards, so that you know what level of repair the organisation aspires to across the different asset groups?
- Have you assessed the full life cycle costs of repairing your property portfolio and costed alternatives?
- Do you know which building elements or components will be likely to fail, and when?
- Do you have full visibility on the repairing covenants you are committed to where you occupy properties under lease, and has this been quantified and costed?
- Do you have an estate strategy, and does this set out how you manage compliance with lease covenants by tenants that avoids or minimises future impact on the organisation's budgets?
- Does the estates strategy set out how you monitor and manage building obsolescence?
- If you are investing in commercial property, do you have clear investment criteria, a robust governance framework, clear monitoring and reporting processes that identify investment risk through the life of your intended ownership of the asset, and an agreed investment exit strategy?
- Are staff and elected members provided with regular appropriate training in areas such as strategic asset management, project management, business partnering, property investment etc., so that they can make informed decisions?
- Is there a corporate business planning process whereby each service sets out how their service is transforming and what the impact there is going to be on property assets?
- Does the organisation adequately resource and skill property business partnering staff to work with services, to understand their property asset requirements?

- Does the organisation have an asset strategy which pulls together asset requirements from the full range of other corporate strategies, so that there is a cohesive and comprehensive plan of where the organisation wants to be, and how it will get there?
- Has the organisation gone through a formal asset challenge process, questioning the necessity for each and every asset, how each asset performs, how fit for purpose it is and what it costs?
- Has the organisation used the asset valuation process to identify alternative use values on operational assets, to identify new sources of capital?

I would recommend that the information you compile around the capital demand and capital supply for your property portfolio (and indeed any other asset group the organisation might have, such as highway network, plant, vehicles, equipment etc) should be plotted onto a timeline over a suitable planning horizon, showing peaks and troughs in the net capital demand. This will do two things.

Firstly, you may find there is scope to re-profile the timeline of either capital spend or capital receipts, thus smoothing out some of the peaks and troughs, making management of the capital programme much more achievable.

Secondly, and more worryingly, it could well tell you that you will never have enough capital to maintain the assets you have. If that is the case with you, then the organisation has some serious decision making ahead. I would suggest this process is invaluable if your goal is the attainment of a healthy, well-funded, sustainable and fit for purpose capital programme.

How are you positioned?

At this point you might be sat with a very smug grin on your face that tells the world that you have everything in place. I truly doubt there will be very many people like that, but if that is you, then either you are way ahead of

the curve - or you need to go back and read the article again, just in case you are deluded.

The optimistic among you will have a shortlist of actions. The realists amongst you will have a much longer list of actions.

Now you have your list of actions, you need to decide in what order to deliver it, over what timescale you will deliver it, who will deliver it, what it will cost to deliver it, and where the money will come from to deliver it. I wish you all good luck.

Your authority's first capital strategy must be in place by 1 April 2019. For that to happen, it must first be approved by full Council (or your equivalent), and before that can happen, it needs to be prepared and considered as part of the organisation's budget-setting process, which for many of you reading this article, will already be well underway.

So time is short. This means that for some authorities, it may take more than one budget round to get themselves where they need to be. That doesn't mean you should do nothing, but you do need to remain realistic about what is necessary and achievable in a reasonable timescale, and focus on that. Inevitably there will have to be some prioritisation of actions, so my advice is to take a risk-based approach to the actions, focussing on those which are likely to have the most significant impact on financial sustainability for the organisation.

Just one final thing. What about the pessimists, you ask? They, of course, have not got this far through the article, having given up half way because they believe that they will never be able to achieve any of it. Perhaps it is the pessimists that need the most help on this journey, and as authors of the 2 new codes, CIPFA is uniquely placed to provide that support where needed.