



TOWER HAMLETS

CAPITAL STRATEGY 2010 - 2025

A picture of
Development &
Regeneration





TOWER HAMLETS

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Executive Summary

Introduction

This Capital Strategy is the first by Tower Hamlets to look forward 15 years. It is among the first in Local Government to take such a long term view, and the announcements of Government funded programmes do not span the same period. Therefore it has been necessary to make some broad assumptions based on the current programmes.

The two most significant assumptions are:-

- That the Tower Hamlets population is forecast to increase by 50% over the period (as identified in the Local Development Frameworks evidence base).
- That capital funding provided directly by Government will reduce while the public spending deficit is tackled.

Summary of Issues Arising

The resulting forecasts show that after the funding indicated by Government for the current programmes ceases, there will be increasing reliance on local funding to bridge the gap between extrapolated need and available resources. In the latter years of the forecast this could be as much as £40m.

Locally generated funding comes from;

- Disposal of assets
- Locally funded borrowing or revenue contributions to capital investment
- Developer contributions

As revenue funding is similarly affected by the forecast reduction in Government settlements there is likely to be little or no scope for prudential borrowing. The main available "local" funding will be either from sale of surplus assets or developers contributions. Each of which have constraints and neither are likely to be significant enough on their own to bridge the funding gap.

Tower Hamlets has the largest housing and employment growth agenda's in the country at present. In order for this to be realised, substantial investment will be required in new social and physical infrastructure, as well as providing the appropriate supporting local services. Tower Hamlets Council cannot fulfil the aspirations of regeneration for the Borough alone. Strong and productive partnerships are essential to the delivery of such an ambitious investment programme.



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This strategy sets out the priorities identified for the Borough of Tower Hamlets in order to focus resources as they become increasingly constrained. The strategy is not the detailed Capital Programme but it outlines the parameters within which the annual capital programme is agreed.

Management and Governance

- The plan will continue to be **updated annually** and to support the Total Place agenda in future years by being the vehicle to harmonise the investment plans of the **Tower Hamlets Partnership**.
- The continued **monitoring** of the strategy will be essential to ensure that investment, that will be increasingly dependent upon **funding from property**, whether through disposals or developer contributions, remains sustainable.
- The **governance** structure therefore also needs to be **kept under review** to ensure delivery.

Funding the Programme

The challenge of funding the need for capital investment going forward will rest upon;

- * Clear **priorities** for capital investment derived from the Community Plan, Asset Strategy and Infrastructure Delivery Plan and work with partner organisations.
- * A programme of **disposal of surplus assets**
- * Revenue planning that establishes the **scope for further borrowing**.
- * Negotiation and allocation of **developer contributions** which takes account of investment needs.

Format of the document

The Strategy is presented in a logical form. It deals with the complex interrelationships which need to be managed to ensure matching changing demands with the scarce resources to meet them. It does this with diagrams, short paragraphs and by presenting the information in discrete sections.



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Section One starts at the strategic level, describing the Borough and then how the clear demand for investment is translated through the Partnerships Community Plan into to the detailed planning of the Council.

Section Two explains the purpose of the Strategy the timescale it covers and its place in the wider planning hierarchies.

Section Three is the workplace of the strategy. It draws widely on other plans and strategies to define the investment need. Compiling initially at a borough wide level using the Local Development Framework (LDF) suite of documents and then from a service perspective drawing on the annual Directorate plans. The final part goes on to discuss the historic sources of funds and how the balance is set to change.

Section Four demonstrates how the Governance of capital investment works and how the application of project and programme management techniques ensure that approval, monitoring and delivery are aligned to the high level priorities from Section One.

Section Five considers the links to other key strategies which are not specifically referred to elsewhere in the document.

The final document will be available on the website where the referenced documents will be available through hyperlinks



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Section One

Context

This Section is in three parts and describes the context in which the Capital Strategy is set.

It starts with an overview of the Borough providing a high level backdrop for the investment requirement and opportunities.

It then looks at the overarching policy statement, the Community Strategy, and how the vision articulated there drives investment in the Borough.

The final part of this section is specific to the Council and describes the strategic and resource planning framework within which the high level aspirations are translated into budgets which drive practical delivery.





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Context

The Borough

Tower Hamlets is a place of contrasts, where wealth and affluence sit beside poverty in many areas. It is also a place of diversity, variety and considerable opportunity.

Tower Hamlets is a geographically small but densely populated Inner London Borough where demand for land is high, supply limited, and property prices reflect that despite the recent economic downturn. Development within the Borough has been at a high level since the 1980's - the demand for new homes, associated infrastructure development and the arrival of the Olympics and Paralympics along with the Thames Gateway developments all suggest that this growth will continue for the period of this Strategy and beyond. This creates both opportunities and challenges for the Council and its partners.

Some key facts underline the complexity of the challenges inherent in the Borough;

- **Official statistics indicate that the high population growth in the Borough of the last decade is set to continue. The population of 200,000 is predicted to rise by 50% to 300,000 by 2020, needing a further 31,500 new homes in the Borough. Tower Hamlets already has one of the highest population densities in inner London.**
- **Average house prices in Tower Hamlets are significantly higher than the average in England and Wales, out of reach for most local people.**
- **Tower Hamlets is the third most deprived Borough in the country.**
- **Tower Hamlets is one of the most ethnically diverse areas in the country. About half of Tower Hamlets' total population are from black and minority ethnic communities, and around 110 different languages are spoken by our school pupils.**
- **The proportion of young people living in Tower Hamlets currently stands at 35%, nearly double the 18% average for the rest of inner London, and over 70% of our young people are from minority ethnic backgrounds.**
- **Tower Hamlets is a 'community of communities' - so a one-size-fits-all approach to problem solving, services and improvements will not work.**



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- **There are many new communities moving into the borough and this changing profile will affect the expectations and aspirations of public services over time. Living up to these aspirations will require investment.**

- **Tower Hamlets will have the world's greatest sporting occasion on its doorstep in 2012 when it co-hosts the Olympic and Paralympic Games.**

- **As a dense urban area with a high level of development, local energy use and CO₂ emissions are high. Helping to tackle climate change and improve air quality represents a significant challenge.**

The main challenge is, and will continue to be, to make sure that the many different and specific needs that exist in Tower Hamlets are identified, understood and addressed.

Living Up To People's Aspirations

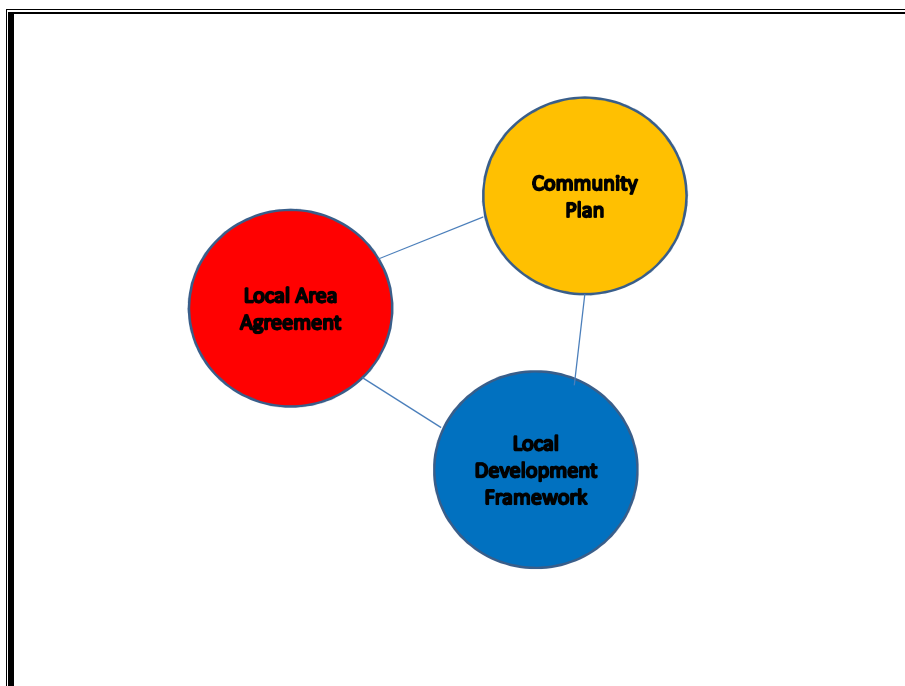


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Context

The Community Plan

The Community plan is based on extensive consultation and encapsulates in its broad themes the key aspirations for Tower Hamlets. This is the guiding plan which directs and informs the subsidiary plans and strategies. It is formulated with other partners, through the Tower Hamlets Partnership and encapsulated by the Local Area Agreement which sets key performance targets across the Borough. It is both feeds from and into the major planning document – the Core Strategy of the Local Development Framework which sets out the changes to the physical environment to 2025 and the demands and opportunities that they will create. This link is shown in the simple diagram below;



The Community Plan shapes the Strategic and Resource Planning Framework of the Council and is the starting point for all the Directorates of the Council to frame their Service strategies and action plans. The same high level ambitions may be traced through the Strategic and Resource Planning Framework, Service and action Plans to individual projects, and the Council does this through regular monitoring reports to Cabinet, Council and The Partnership meetings.

The vision, which was developed after extensive consultation with the local community, is captured in the four themes of the Borough's Community Plan.



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A Great Place to Live – Provide affordable housing and strong neighbourhoods, Strengthen and Connect Communities; Support vibrant town centres, and a cleaner, safer public realm, Improve the environment and tackle climate change,

A Prosperous Community – Support lifelong learning opportunities for all, Reduce worklessness and Foster enterprise,

A Safe and Supportive Community – Empower vulnerable people and support families; Tackle and Prevent Crime, Focus on early Intervention,

A Healthy Community - Improve health and reducing differences in people's health by promoting healthy lifestyles.

Overarching the four themes is a commitment to One Tower Hamlets – which is about working well as One Council, bringing the community together and providing clear leadership.

One Tower Hamlets – Creating a place where everyone is free to live how they want and where they feel proud to be part of One Tower Hamlets

All Council strategies (including the Capital Strategy) are based upon this vision.

Tower Hamlets' strategy for delivering this vision identifies 15 key priorities, with associated objectives and targets, linked to the themes of the Community Plan. The key priorities form the basis of Service Planning and Resource Allocation providing a consistent focus, they are listed on the following page.



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Community Plan Themes and Strategic Plan Priorities

One Tower Hamlets

**Reduce inequality and foster strong community cohesion
Work efficiently and effectively as One Council**

A Great Place to Live

**Provide affordable housing and develop strong neighbourhoods
Strengthen and connect communities
Support vibrant town centres and a cleaner, safer public realm
Improve the environment and tackle climate change**

A Prosperous Community

**Support lifelong learning opportunities for all
Reduce worklessness
Foster enterprise**

A Safe & Supportive Community

**Empowering older and vulnerable people and support families
Tackle and prevent crime
Focus on early intervention**

A Healthy Community

**Reduce differences in people's health and promote healthy lifestyles
Support mental health services to improve mental health
Improve access to and experience of local health services**



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Context

The Strategic and Resource Planning Framework

The term Strategic and Resource Planning Framework describes the resource parameters within which the Council can operate. Set out below is a simplified diagram to demonstrate how individual plans and strategies fit together within the framework.

At the head of the diagram is the Community Plan which, as described above, is a product of consultation with the Tower Hamlets Partnership, businesses and residents and is substantially informed by the Local Development Framework.



Shown below the Community Plan are the Medium Term Financial Plan (MTFP) and the Strategic Plan. These are key documents updated annually and contain more detail on what is to be achieved, over what period of time and by what actions. The MTFP covers 3 years and results in the recommendations for the level of Council Tax and rents, required to generate the necessary resources to fund the aspirations for the future.

At the next level are shown the more detailed plans and strategies, which set out in detail the activities which support the Community Plan. The Asset Management Plan looks in detail at the Council's estate, through which it will deliver services either directly or through partners. The Directorate Plans look in detail at the coming year and set out actions and targets at service level. There is one plan for each directorate which encompass targets from a number of other statutory and non-statutory plans themed around key service areas such as, The



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Children and Young Peoples Plan and the Health and Well Being Plan, each Directorate is appraised against its achievement. The Capital Strategy (this document) is updated annually and this year, for the first time, will look forward 15 years to 2025. This mirrors the timeframe of the Council's agreed Infrastructure Delivery Plan and describes the Council and Partnership's need for investment in the provision of public services as a consequence of that plan. Its purpose is to ensure that the investments necessary to deliver the Community Plan aspirations are affordable, in the medium and longer term and to provide a strategic direction to the use of capital funding. The next section gives more detail about this plan.

The stylised diagram of the Strategic and Resource Planning Framework gives a very simplistic guide to how the various plans fit together. However it will be apparent that there are many more documents that have an impact on Capital Investment many of which are referenced in Section 5.



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Section Two

An Integrated Capital Strategy

This Section explains the purpose of the Strategy

It discusses the rationale for the timescale of the Strategy

And

It recognises the importance of working with Local and National partners

[Section 4 will detail the governance structure through which the integrity of the priorities identified by consultation and defined in the Community Plan, is safeguarded through to practical delivery.]



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The Capital Strategy

Purpose

This is a short Introduction to the Capital Strategy which focuses on its purpose which put simply is;

To ensure effective investment by directing Capital resources to those programmes and projects that maximise the achievement of the aspirations set out in the Community Plan.

Effective capital investment is essential to the delivery of the Council's priorities, enabling the Council to contribute to the prosperity and well-being of the Borough.

The Council owns £ 1,782m in assets (statement of accounts 2008/09). It also exercises significant influence over assets that it doesn't own but which also shape the Borough, through Planning guidance, partnership working and enforcement.

With regard to its own assets the Council renews and enhances these, primarily through its annual programme of capital works which is typically in the region of £100m. The Medium Term Financial Plan identifies the Councils estimated Capital spending for 3 years, reviewed annually as part of the budget process.

The Capital Strategy is the primary road map against which the Council plans, implements and subsequently tracks the achievement of priorities as they relate to Capital Investment. As stated in the previous section it is a fundamental component of the Council's overall budget strategy.

Timescale

This year the Strategy will project forward 15 years, recognising that Capital Investment can take typically in the region of 5 years from identifying a need to final completion. For major integrated developments, like Docklands, the timescale is considerably longer. So a Strategy which maps these investments and their effect needs to cover a similar period.

The Strategy builds upon the Infrastructure Delivery Plan which is part of the Local Development Framework. This extensive document charts the projected rise in population in Tower Hamlets to 2025 and identifies the consequent future



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demands upon the public services. It identifies the needs for new schools, hospitals, roads, leisure facilities and open spaces.

The Capital Strategy builds upon the LDF over the same timeframe. It will be updated annually on a rolling basis.

More specifically the Capital Strategy:-

- Ensures the most effective utilisation of the Council's assets to attract and/or complement investment in the Borough and supports the delivery of the Council's Asset Strategy;
- Provides an aspirational statement of intent to attract external funding to maximise the total resources available;
- Facilitates partnership and multi-agency working by providing clarity of purpose over the short, medium and longer term;
- Provides the necessary lead-in time to secure resources for major investment

An integrated strategy

The Capital Strategy cannot be viewed in isolation. It influences and is influenced by other strategies and plans. The requirement for capital investment in public assets in Tower Hamlets is greater than can be delivered by the Council using its own resources. The Council has a record of working with its public sector partners, voluntary & community organisations and developers to lever in funding to meet those needs.

A high proportion of Tower Hamlets' capital resources relate to specific grant or national government funding. This funding is obtained through a formal bidding process and reflects local requirements within the context of national priorities.

This necessitates the Council's continuing to:-

- Work with partners to deliver investment to the area
- Ensure that the Medium Term Financial Plan takes account of the Capital commitments identified from the Service plans.
- Ensure that Service Plan commitments take account of resource constraints.

Working with Partners in Localities

Tower Hamlets will work in partnership with other agencies and service providers to ensure that its ambitions for the area are delivered. As well as investing in its own right, Tower Hamlets will aim to facilitate capital investment by other bodies where this helps to address local priorities.



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The main vehicle for partnership working in the Borough is the Tower Hamlets Partnership (the Borough's Local Strategic Partnership), which brings together all of the key stakeholders - residents, the council, the police, the health service, public services, voluntary and community groups, faith communities and businesses. In particular, it gives residents a much stronger say in the way that services are provided through the Local Area Agreement (LAA).

The Tower Hamlets Local Area Agreement 2008-2011 was agreed by Council in June 2008. This is the mechanism for delivering Community Plan goals; and services across the Partnership to the agreed priorities of the LAA by allocating resources, including capital resources, in accordance with those priorities.

Local residents are involved, through the Local Area Partnerships (LAPs), groups where residents work with ward councillors and delivery partners to realise the targets in the Local Area Agreement using innovation and local knowledge. They work with services to distil the Community Plan aspirations into Local Area Action Plans shaping local areas and delivering localised priorities. Assets owned by different parties are utilised where appropriate to support delivery of these priorities.

Most major projects initiated by or involving the Council now include an element of shared working, and shared service delivery involving other agencies. The Council will continue to work in these and other ways, to ensure that best use is made of limited resources for optimum benefit to the community.

A Case Study: The Ocean Estate

New Deal for Communities (NDC) is a key programme in the Government's strategy to tackle multiple deprivation in the most deprived neighbourhoods. Ocean NDC is a ten-year renewal programme focused on the Ocean Estate in central Stepney. The council's vision for the housing element of this major project is to appoint experienced development consortia to undertake the range of roles in regenerating the Ocean Estate, and redeveloping 5 key sites. The value of the overall programme will exceed £200m, with the Council and NDC contributing more than £40m over the lifetime of the project (including previous years). Works will include:-

- Demolition and site clearance works;
- Development of approximately 530 homes for private sale;
- Construction of approximately 340 affordable homes;
- Refurbishment of approximately 1240 existing Council owned homes, including approximately 440 leasehold dwellings;
- Development of approximately 700m² of non-housing space (forming part of the residential blocks) for retail, office or other agreed uses;



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- **Construction of new shops to replace an existing terrace of 16 shops beneath Marmora House;**
- **Construction of community facilities and major environmental improvements across the Ocean Estate;**
- **Management of the new-build affordable housing;**

The scale of refurbishment will depend on the resources which can be made available through the overall programme, with the cross-subsidy generated from the homes for sale assuming particular importance. The Council will be seeking to maximise investment arising from this procurement, for example, through expert programming of works and marketing of the homes for sale; generation of cross-subsidy in cash or (more likely) kind, optimising tax advantages, use of overage on the sales programme on a phased basis, which would be subject to a robust development agreement. The Council will also be seeking the maximum forward-funding from the development partner (ahead of the sales income) to contribute to the refurbishment and environmental works programme.

Updating the strategy in Partnership

From the work done for the Infrastructure Delivery Plan some of the major investment required in public services as a result of population Change has been specifically quantified, as has some of the major developments already being progressed, especially in the NHS.

Public sector investment needs to be planned across the whole of Tower Hamlets (on a “Total Place” basis) and each year when this strategy is updated it will build upon the work done this year to include the needs and funding identified by partner organisations in the public and third sector. Tower Hamlets has a proud tradition of working well with partners and the community plan theme of One Tower Hamlets will ensure that all the bodies that make up that partnership will work consistently to coordinate and therefore maximise the investments in services and assets that meet the aspirations of the community.

Role in the Strategic & Resource Planning Process

The Strategic & Resource Planning (SARP) process is the process by which the Council sets its Medium Term Financial Plan and annual revenue and capital budgets. The Capital Strategy is a key document in this process, informing decisions on spending priorities for investment, and is the starting point for the annual capital planning process.



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Section Three

Investing in Services

This Section has two interrelated parts;

Part One

Identifies the Investment requirement by,

Restating the Councils Capital Programme giving practical application to the Community Plan priorities.

Identifying the new requirements related to population growth from the Infrastructure Delivery Plan of the LDF

And adding to these the aspirations in the Directorate Plans

Part Two

Identifies the likely resources to fund the projects and programmes identified in Part One and their likely availability.

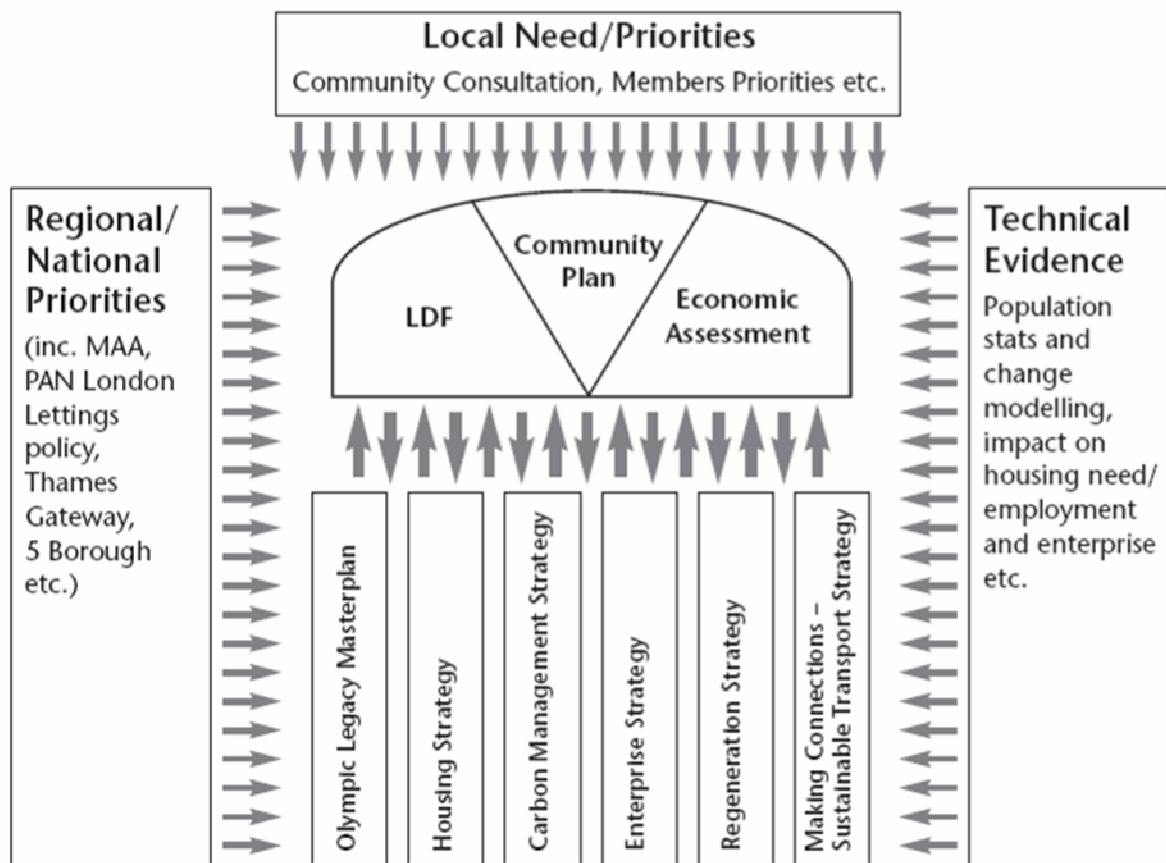


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Overarching Investment

The Infrastructure Delivery Plan (IDP)

As part of the process of drawing together the Local Development Framework there has been an extensive piece of work commissioned that maps the effect of population growth predictions in Tower Hamlets on the demands for public services up to 2025. The directorates of the Council have been consulted on the effects on their services and a costing document has been drawn up to identify the new public sector investment required in the Borough. A schematic of the detailed process is reproduced below;



This document has been used as the basis for mapping the financial investment required by the Council from 2010/11 through to 2024/25. To which has been added the “regular” annual Council Capital requirements, determined with reference to the Directorate Service Plans, as outlined in the following paragraphs.

The results of the LDF Core Strategy consultations were consistent with those of the Community plan re-enforcing the place shaping agenda with the “Big Spatial Idea” of re-inventing the hamlets.



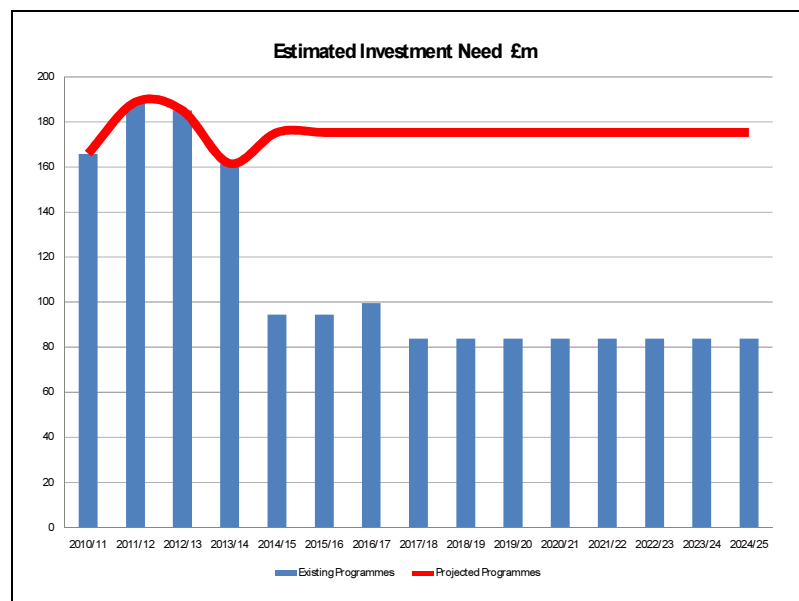
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The investments identified through the IDP as a result of additional population are combined with the annual service investment requirements. This shows an annual requirement of £166m in 2010/11 peaking at £189m in the following year before showing a gradual decline to 2013/14 as the Building Schools for the Future (BSF) programme has transformed the Boroughs Secondary schools and they re-open after the works. The years after this tend to show a reduction but this is not a true reflection of need within the Borough. The main reason for this is because this is among the first Capital Strategies to cover 15 years and being at the leading edge the announcements from the funding bodies are not on the same timescale.

This is illustrated in the example below.

Example of Future Funding assumptions -TfL

Transport for London funding is usually announced before the beginning of the financial year as indicative. For instance this is approx £3m in each of the next 3 years. However previous experience shows that the indicative funding is likely to be added to in year. In the previous two years the actual spend has been in excess of £5m. There will clearly be continuing need for investment in transport infrastructure, despite a general downward pressure on public spending. Pending the announcements the most reasonable assumption is a maintenance of the status quo.



Service Investment Need



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The following key priorities are most likely to have a major influence on the future capital investment requirement. They have been extracted from the Directorate Service Plans. Other priorities in the plans may also need capital investment as they are implemented either as part of a wider existing programme or in their own right.

A Great Place to Live – Provide affordable housing and strong neighbourhoods, Strengthen and Connect Communities; Support vibrant town centres, and a cleaner, safer public realm, Improve the environment and tackle climate change,

- Delivering a programme of acquisition and new build to reduce overcrowding
- Securing private and public investment to deliver a supply of new housing focused on affordable housing to meet local needs
- Achieving improvements in the quality of housing management through Tower Hamlets Homes and unlock resources to deliver the Decent Homes Programme
- Reshaping major estate renewal projects, including the Ocean Estate and Blackwall Reach, with key partners
- Engaging in the Olympic Legacy Masterplan process to secure maximum benefits for Tower Hamlets
- Deliver the borough-wide Town Centre Strategy
- Spearhead and coordinate the implementation of the High Street 2012 Vision so that it is clutter-free, pedestrian-friendly and accessible
- Improved Road Safety
- Preparing for the Olympics
- Improvement works to draw people into the Borough
- Driving Forward Recycling Performance
- Municipal Waste Strategy
- Improving Performance of Cleansing Services and Better Street Scene Management
- Localising Services
- Continuing to Improve Open Space
- Demonstrate the authority's requirements on environmental sustainability through specification and contract management
- Maximise the opportunities brought by the BSF programme, Primary Strategy for Change (PSfC) and greater extended services in schools
- Rebuild and refurbish all of the secondary schools in the borough and many of our primary schools through BSF and PSfC, ensuring that wider community facilities are factored into the plans wherever possible



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- Deliver services in more accessible settings within the community such as Children's Centres, schools and GP surgeries

A Prosperous Community – Support lifelong learning opportunities for all, Reduce worklessness and Foster enterprise,

- Develop and implement the Five Borough Strategy that uses the Olympic Games to support business expansion
- Provide world class Information and Communication Technology (ICT) equipment to all schools through the Building Schools for the Future (BSF) programme
- Implement plan for schools based 'meshed' IT network
- Develop and deliver specific programme of employment advice, outreach and support, with additional financial incentives, for homeless families in temporary accommodation

A Safe and Supportive Community – Empower vulnerable people and support families; Tackle and Prevent Crime, Focus on early Intervention.

- Deliver a range of targeted programmes of improvement to private sector housing stock that support vulnerable households to live independently, safely, securely and free from fuel poverty
- Further enhancing the CCTV network
- Develop community access to all schools as part of the extended school offer, including the role of schools in signposting their community to other local services
- Extend youth service provision across the borough
- Improve and extend playgrounds in the borough
- Develop new extra care sheltered housing provision and improve range of support within existing provision
- Evaluate funding and role of Home Improvement Agencies
- Continue to develop housing options and homelessness prevention services
- Reduce the numbers of homeless households in temporary accommodation
- Develop Centre for Independent living and Community Learning Disability Service
- Improve performance on access to local independent accommodation for people with learning disabilities



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- Review role of direct provision day centres to make them 'fit for purpose' for the new landscape of personalised services and personal budgets

A Healthy Community - Improve health and reducing differences in people's health by promoting healthy lifestyles.

- Work in partnership to deliver London Cycle Hire Scheme
- Implementation of the Leisure Centre Strategy
- Develop creative and interactive curricular resources linked to sport and the Olympics and Paralympic Games
- Implement the recommendations of the Mental Health and Accommodation Review and, commission a wider range of housing options for service users, and increasing the number of people in settled accommodation
- In partnership with PCT and Mental Health Trust, develop a strategy to meet the needs of people with dementia and their carers

One Tower Hamlets – Creating a place where everyone is free to live how they want and where they feel proud to be part of One Tower Hamlets

- Develop the asset management strategy to enable Tower Hamlets buildings to be used more efficiently and effectively
- Continue to support Third Sector Organisations to enhance their capacity to better deliver services to local communities
- Replace core case management system
- Develop a comprehensive Forward Planning process for the Council
- Develop and implement the Third Sector Strategy
- Co-ordinate and deliver the 'Our Tower Hamlets' Campaign
- Secure an appropriate Members' Support Package
- Achieve Level 3 in the Equality Framework Assessment
- Maximise the Council's performance in the Comprehensive Area Assessment
- Strengthen Partnership working
- Ongoing programme of Disability Discrimination Act works
- Refresh the Capital and Local Priorities Programme
- Conclude the Council's information management strategy so that the full potential of the council's IT infrastructure is leveraged to deliver service improvements and financial efficiencies
- Business Case for Information Management Strategy



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Available Resources to fund capital spending

Traditionally the Council has supported an annual capital programme of about £100m. Although in the past 3 years this has reduced, it is likely to exceed £100m in the next 3 years with the implementation of the wave 5 Building Schools for the Future (BSF) programme of works.

The programme is shown in two parts to reflect the funding sources;

The Mainstream Programme consists of the major national, government sponsored projects and programmes and is predominantly funded in the form of Capital Grants and supported borrowing approvals.

The Local Priorities Programme consists of the key local projects and programmes that can be funded through the generation of Capital receipts from the disposal of surplus assets.

The Council recognises that its capacity to deliver its ambitious capital programmes will be principally constrained by the availability of capital resources.

The resources are principally derived from the main funding streams:

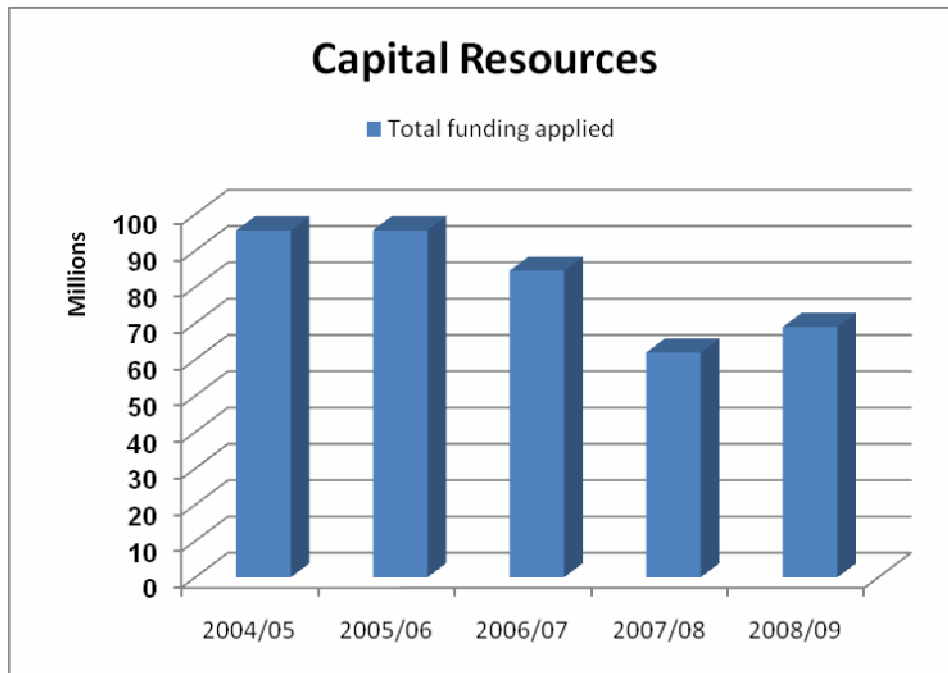
- Central Government and other external funding
- Council resources and
- Developers

The Graph below shows the level of total resources applied over the previous five years:



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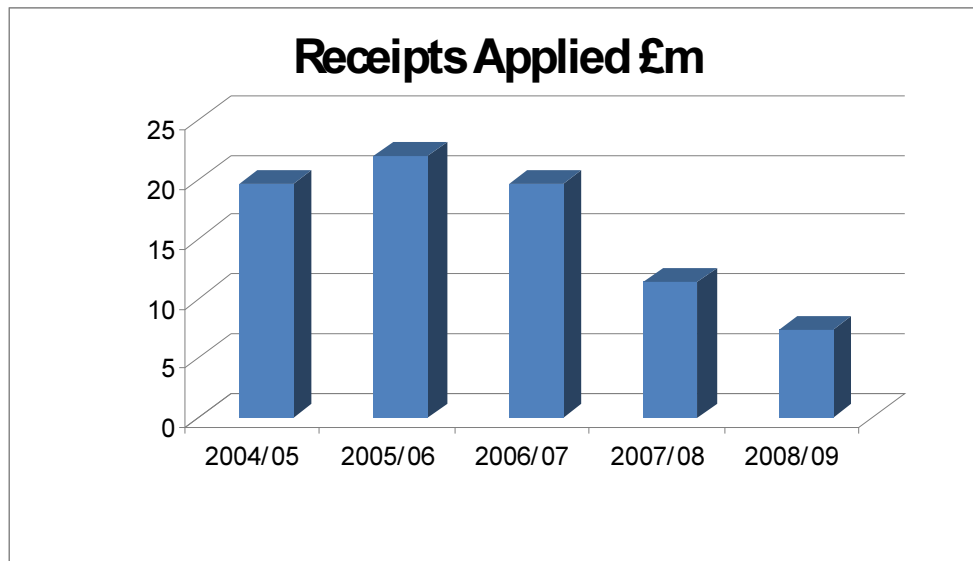
It is clear, from the historical data that the Mainstream programmes supported by Government continue to be funded, although to provide something which deviates from the national standards needs the application of local funds as a top up. However recent economic developments have meant that the Government has needed to channel substantial resources into the national financial systems and it is widely anticipated that this will translate into reduced funding for the Public Sector now the economy is showing signs of recovery.

The Locally funded projects have relied on the use of capital receipts, these projects are only funded when receipts are available. Due to changes in the right to buy (RTB) discounts and the economic downturn, this source of funds is being depleted and not replaced. This is shown graphically below.

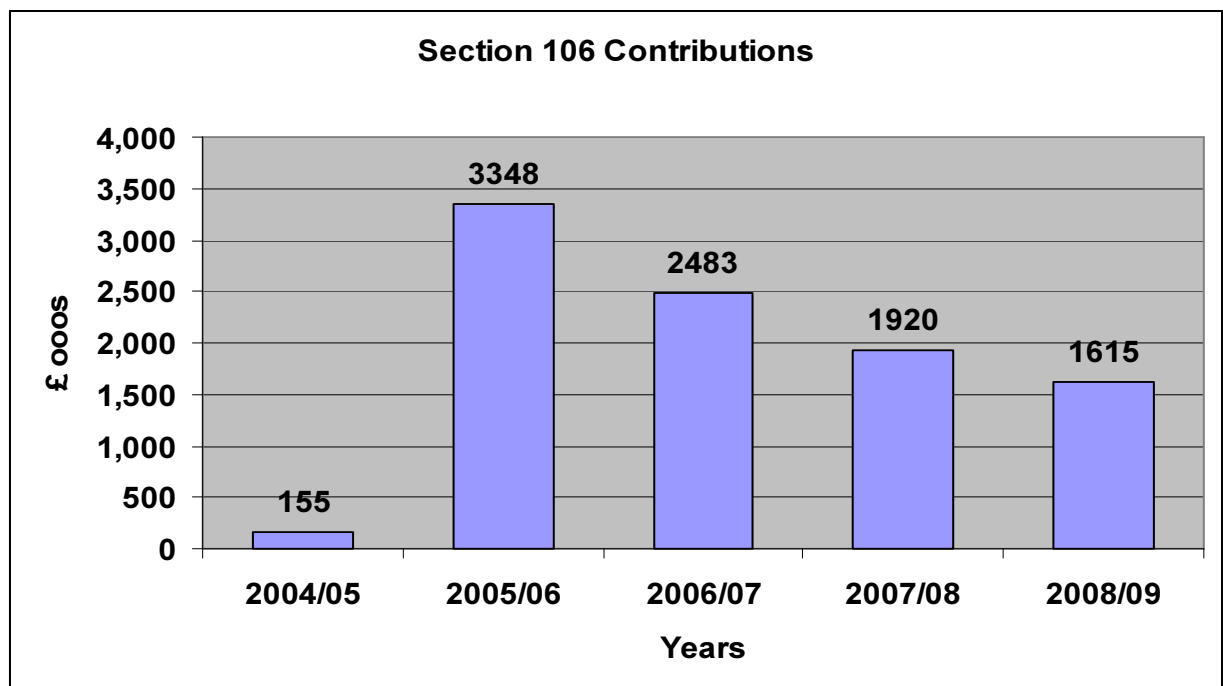


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A Further source of funding for infrastructure has been Developer contributions. The schemes which give rise to these contributions are beneficial to the borough and can provide a range of services including health and education. However they tend to be focussed in the area of development rather than across the Borough. Although it has been possible to supplement other programmes where the contribution is for a generic service provision e.g. affordable housing, education, play etc. Currently being consulted upon are proposals for a Community Infrastructure levy which would enable resources from this source to be applied more widely.

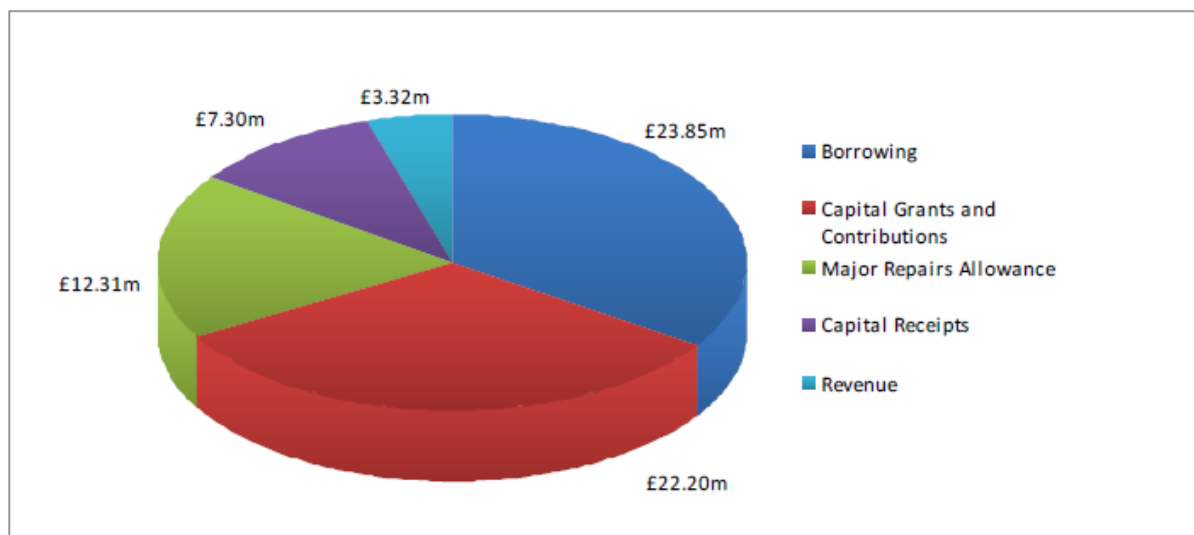




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HOW CAPITAL SPENDING WAS PAID FOR



Source 2008/09 Statement of Accounts

In common with most Local Authorities, Tower Hamlets adopts a pragmatic approach to funding.

At the bidding stage the Council will bid for funding for projects or programmes where the outcomes secured by the investment are consistent with the priorities from the Community Plan. Subject to that overarching consistency the Council will aim to maximise the benefits of the investment by using the most advantageous funding route. Decisions on financing are finalised by the Director of Resources (the Council's Chief Financial Officer as defined by S151 of the Local Government Act), normally during the accounts closure process in order to maximise the benefit to the Borough. All Capital projects are initiated, evaluated and managed in accordance with LBTHs project management protocol, the application of which ensures that projects are aligned with the strategic priorities set out in the Community Plan as cascaded through the Council's hierarchy of plans to the individual project manager.

Is there funding to match the identified needs?

A 15 year strategy requires assumptions to be made about the level of funding likely to be available in the future. The primary assumption has been that the required capital investment from 2014/15 onwards, in the absence of better information, is represented by an average of the four preceding years at £175m per annum. This is graphed splitting the Government based funding from that generated locally. For this graph the definition of Local funding includes reserves, receipts and developers contributions. The graph shows the level of investment required as a constant, the level of Government funding reducing



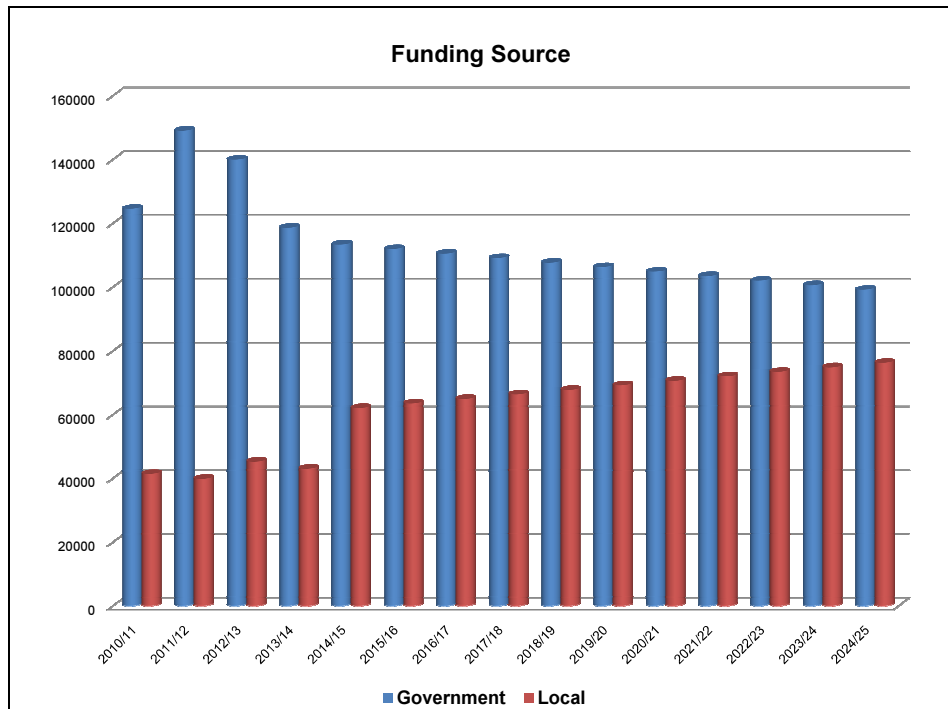
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and an increasing level of Locally generated funds needed to maintain the programme. If the assumptions prove to be correct the potential switch in funding from national to local is significant moving from a 75:25 split to something approaching 50:50 which equates to an additional annual contribution in excess of £40m.

The modelling assumes that when the comprehensive spending review is renewed with effect from 2011/12 it will start to reduce the funding to Local Government. There has been unanimity amongst commentators that there will be reductions but speculations about the extent. For the purposes of this strategy the assumptions are that in 2011/12 the central funding will reduce by 3% rising by a further 5% in each of the next two years with a 7% reduction in 2014 bringing the cumulative effect to 20%. Thereafter there is a modest 1% reduction each year which translates into a full 30% reduction by the end of the planning period in 2024/25.

The effect is shown in the following graph;



The funding assumptions are expanded upon in the following paragraphs;

Central Government Funding Sources



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Supported Capital Expenditure

This represents borrowing by the Council with the exercise of Government Credit Approvals, the associated loan charges of which being partially reimbursed by the Government through the revenue grant system. The authority's revenue settlement, at the Formula Grant floor, means that it no longer receives additional funding for supported borrowing as in the past, and decisions to spend Supported Borrowing allocations therefore need to take this into account. The additional revenue pressure that this creates limits the organisations ability to maintain the level of reserves or to demonstrate the affordability of unsupported borrowing. This is likely to remain the case until around 2015/16 after which it is hoped that the authority will rise above the grant floor. Until then, revenue forecasts need to create sufficient scope for efficiency savings to fund the cost of supported borrowing.

Direct Revenue Financing (HRA)

The formula for calculating the amount of Housing subsidy received by the authority includes a calculation for the amount necessary to maintain the housing stock called the Major Repairs Allowance (MRA) it is classed a revenue budget but it is used entirely to fund capital. The Housing Subsidy system, especially with respect to the funding of capital expenditure, is expected to be reformed over the next 2-3 years and the authority's capacity to fund capital investment will be dependent upon the outcome of those changes.

Third Party funding

Capital Grants – Either from government or local government bodies, such as Transport for London, or from quasi-governmental sources such as the National Lottery. These are currently normally announced on an annual basis (in the case of Government and TfL grants) or are the subject of individual bidding initiatives (as in the case of lottery funding or funding for major investment schemes such as Building Schools for the Future).

Locally Generated Funding

Developer contributions

These are funds that are effectively generated locally because they result from local development sometimes referred to as Section 106 contributions, because they are governed by section 106 of the Town and Country Planning Act 1990, these are payments in cash or in kind made by developers to mitigate the impact of development. The purpose of these contributions range from very specific works related to an individual development to generic service provision contributions resulting from major developments which will consume these



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services. In each case the purpose, amount and payment trigger will be written into the planning agreement. Developer contributions are part of the planning system, and are therefore subject to strict rules and regulations.

There are proposals to introduce a Community Infrastructure Levy (CIL) for larger developments to replace the Section 106 in part. It has been suggested that the Crossrail project could be partially funded in this way. The move to a pan-London element to the levy is likely to reduce local flexibility in the application of these funds.

Whilst the Council can expect a significant sum from future developments where the agreement is in place, the economic situation has caused a number of developments to be mothballed and some possibly to be abandoned, so the actual payments might never materialise. There is currently circa £30m of funds in the reserve, about half of which is committed to schemes in the current year.

The challenge for the authority will be to utilise the developer contributions system to optimise the contribution that such contributions can make to investment deriving from population growth, and to ensure that the contributions can be targeted at the highest priorities. It is very unlikely that developer contributions can be used to fund the whole capital funding cap.

Capital Receipts

As indicated earlier in this document, the Council currently owns assets valued at £1.782 billion. The vast bulk of these assets are used to provide public services and homes. However at any one time there will be assets that are surplus to requirements, and the opportunity arises to dispose of these assets to provide funding for new assets more relevant to current needs.

Cash arising from the sale of surplus Council assets – includes the usable part of receipts from the purchase by Council tenants of council dwellings under Right to Buy (RTB receipts). Under the pooling regulations, seventy-five per cent of all RTB receipts must be paid to the DCLG for redistribution to housing authorities on the basis of need. The remaining 25% is available for unrestricted use by the Council. For other disposals the whole receipt can be used to support capital spending.

These receipts have been significantly reduced by the downturn in the residential and commercial markets.

The Council manages its asset base to identify surplus assets and maintains a programme of disposal. Increasingly the Council works with partner organisations to this end. In light of current market conditions the Council's



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disposals programme has been put on hold as there are concerns that value for money cannot be secured when selling at the bottom of the market.

The disposals programme is also being further developed and is kept under review and will be reactivated when market conditions are considered appropriate. Other disposals are considered on a case by case basis (e.g. where they support delivery of council and partner objectives).

The Council adopts a prudent position as regards capital receipts (which can only be reinvested in capital schemes) and will not commit to funding a project with receipts until they have been realised, and the money is in the Councils accounts.

Prudential Borrowing

Since 2004, Councils have been able to borrow in excess of issued credit approvals, under the Prudential Code. The costs of such borrowing are met wholly by the Council through revenue budgets and must be monitored and controlled within a framework of published Prudential Indicators. With significant pressure on Revenue being forecast it is unlikely that there will not be sufficient capacity to fund borrowing funds in addition to making up the deficiency in grant for supported borrowing. By statute, prudential borrowing is only permitted where it is sustainable, affordable and prudent. The Council's interpretation of this is that it will consider such borrowing only where there is a short term requirement which is demonstrably finite and the revenue funds are identified or where there is a robust business case which demonstrates that the investment will generate savings sufficient to meet the borrowing cost within a reasonably short timescale so that it does not create an additional revenue pressure.

Additional prudential borrowing will be possible where the Council can deliver equivalent efficiency savings to fund it.

Revenue Reserves

All Councils hold specific earmarked revenue reserves apart from working balances.. It is usual that where a major investment can be foreseen that would clearly not be affordable in any one year that a reserve is accumulated. This is particularly necessary for capital items because the investment tend to be of a greater magnitude. Therefore there are no "spare" funds that are currently uncommitted but should there be revenue underspends in any year that are uncommitted then consideration will be given to earmarking these for capital investment where there is a credible business case.

Overall

The Council is not in a position to predict all the resources it will have available for capital investment over the next fifteen years.



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The challenge of funding capital investment going forward in particular rests upon;

- * Identifying priorities for capital investment derived from the Asset Strategy and Infrastructure Delivery Plan and work with partner organisations.
- * A programme of disposal of surplus assets
- * Revenue planning that establishes the scope for further borrowing.
- * Negotiation and allocation of developer contributions which takes account of investment needs.

The Council has organised itself to identify strategic funding opportunities as they become available and to ensure that the allocation of limited capital resources takes account of local needs and priorities. Sections 4 explains how this is achieved.



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Section Four

Managing the Process (The Mechanics)

This Section commences with an overview of the governance framework for capital

Then it considers the detail of the governance through the application of the Tower Hamlets standard project management discipline.

Particularly highlighting the links to Asset Management, Whole life costing and Risk Management



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Overview

All Capital schemes must comply with the governance framework of the Council. The Capital Programme is governed through a series of officer and Member decision making bodies and policy documents which are set out in the following table. The lists are not exhaustive and the specific details can vary marginally dependent upon the Capital scheme, but the principles remain consistent.



Section One at the beginning of this document illustrated how consultation with the community defined the direction of the Community Plan which in turn governs the direction of suite of key strategic documents, among which is the Medium Term Financial Plan. It is this plan and more particularly the early analysis shortly after the start of one financial year which defines the resource parameters for the subsequent years. The MTFP is therefore the starting point in considering the management of the capital programme, because the resource constraints it identifies will define the size and scope of the programmes that can be delivered in the short, medium and long term.

For the longer term, the Council has organised itself to ensure that it identifies capital investment and resourcing opportunities, and the details are set out below.

The Approval Process

The Capital Programme is set each year as part of the Strategic & Resource Planning process (SARP) and in accordance with the budget and policy framework. The Cabinet may approve additional capital schemes during the course of the year, providing funding is available within the Council's budget.



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Corporate Directors may approve additional schemes up to £250,000 in value under delegated authority, again subject to funding.

The LAB SARP process ensures that the project or scheme aligns with the Council's priorities as set out in the Strategy Plan, whether the initial investment will create a longer term financial and service commitment and if the Council and its partners have the capacity to deliver.

Corporate Governance

Two senior officer groups provide internal governance of capital strategies which informs the decision of Members;

The Asset Management and Capital Strategy Board is charged with;

- **Optimising the use of Capital and Property Assets within the Council**
- **Aligning the Asset Management & Capital Strategy with the Councils Strategic & Community Plans**
- **Maintaining an integrated approach towards Assets & Capital within the organisation**
- **Ensuring robust cross directorate scrutiny of all relevant projects is undertaken with full appraisal of the options.**

The Planning Contributions Overview Panel is charged with;

- **Providing a Corporate evaluation of development proposals where developer contributions may apply and to recommend specific measures for mitigation, prescription and compensation of the developments impacts by collectively agreeing Heads of Terms.**
- **To ensure that S106 monies are managed in accordance with the Councils constitution and comply with good project and programme management practices**
- **To monitor proper implementation/expenditure of existing S106 agreements and monies, and future developer contributions**
- **To ensure delivery in accordance with the terms of legal agreements**
- **To provide an annual planning obligations report to the Corporate Directors for Development Renewal and Resources**
- **To keep updated on relevant legislation and national policy development relating to planning obligations**

where Section 106 (Planning Gain) agreements are involved.

**Both boards are chaired by the Corporate Director – Development & Renewal.
Development of the Capital Programme**



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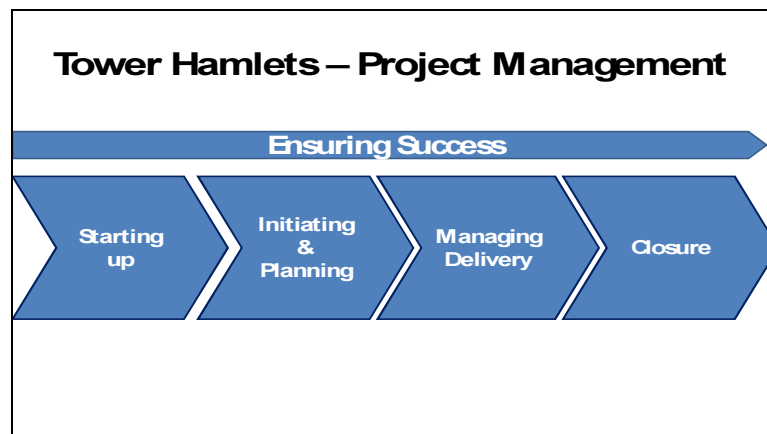
The development of the capital programme is a product of the Strategic & Resource Planning process, and this Capital Strategy is a key document which informs the decisions of Members in setting the capital programme.

The rolling three year Capital Programme itself is approved annually by Council following a recommendation by the Cabinet. The Cabinet's recommendation follows a detailed process involving leading Members.

Management and Monitoring (the Mechanics)

The principles of the project and programme management process apply to all capital schemes.

Individual project management resides with the lead Directorate for each project. Corporate Finance and Capital Delivery & Property Services have a role, through the Asset Management and Capital Strategy Board, to oversee all projects at the strategic level, to provide direction and support, and to provide a focus for potential cross-cutting efficiencies and savings.



All projects in Tower Hamlets are subject to the Project Management framework adopted by the Authority. The diagram above demonstrates the four phases of projects management which apply to all schemes and ensure proper governance. Capital projects and schemes are especially suited to the project disciplines of this framework. Individual elements of the framework may be scaled down where a project is small and simple.

The particular applicability is discussed below in each of the phases.



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The Project Mandate

This defines the project and how its outcomes will contribute to the priorities identified in the Community, Corporate and Service Plans. It provides an initial assessment prior to working up the more extensive business case.

Options Appraisal

This looks at, and costs the alternatives. It should include a “do nothing” and consider opportunity costs e.g. where land is provided at nil value what is the foregone capital receipt worth. The costings must be on a “whole life” basis and every new scheme must have a Carbon Reduction Impact Assessment (CRIA)

Business Case

This is the worked up fuller version of the mandate typically it provides for the project board, the objectives, the strategic fit, timescales and outputs, statement of resource requirements, analysis of costs Vs benefits, these will also consider the implications of and on climate change



Project Initiation Document (PID)

This provides a project overview which is then signed off by the project sponsor, the project board, the management team, Cabinet or Council depending on the impact and complexity of the project.

Project Plan

The Plan details the critical path, milestones and dependencies. This too will be signed off and subsequently used as the baseline monitoring document.



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Risk Register

This key document sits alongside the project plan and identifies what mitigations are required to ensure delivery in adverse circumstances. It, regularly updated, is also a prime monitoring document.



Highlight Report

This is the key monitoring document for the project board in relation to the project. It combines operational delivery against milestones and financial performance against profiled budget. The frequency will be determined by the board at the outset of the project after considering the outcomes, milestones and risk profiling.

Project Board

The size, composition and frequency of the Project board will be determined by the project. For instance in the case of the overall capital programme the Cabinet, when receiving the quarterly report from the Director of Resources is fulfilling a monitoring role akin to that of a project board.



A Project Completion Report at the end of the process confirms to the Project Board the successful delivery of the scheme or project. It also provides valuable practical lessons which provide useful reference when considering the capacity to delivery future projects before approval.

Authorisation Process

The Capital Programme for a rolling three year period is discussed and approved annually at Cabinet together with financial and service plans, within the framework of the Council's medium term financial plan.



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However, inclusion of a project in the Capital Programme does not constitute approval to spend until it has been agreed by the Cabinet. Approval or otherwise is governed by this strategy, and the Cabinet decision will have regard to a number of considerations which will include, strategic fit, the availability of funds, any ring-fencing attaching to those funds, and the capacity of the Council to deliver the programme.

Procurement and Value for Money

Tower Hamlets is committed to delivering value for money as an integral part of its resources strategies, including the capital strategy. Projects will be subject to VfM scrutiny at inception and at subsequent monitoring stages. To this end, procurement of goods and third party services will be in line with the Council's commissioning procedures. In particular, all procurements over £250,000 in value are subject to a mandatory Gateway process which assesses the progress of the project at key stages in its development and provides assurance that key decisions have been taken.

The Council will also consider ways of using existing and proposed delivery vehicles, such as the PCT's LIFTCo and the proposed Local Education Partnership (LEP) to deliver other projects where clear benefits from such arrangements can be identified. The LEP has been procured and established on the basis that it will, in due course, become the main vehicle for delivering Tower Hamlets capital investment programme.

The delivery of elements of the Housing capital programme have been delegated to the authority's ALMO, Tower Hamlets Homes.

Capital Programme Monitoring

Capital programmes and projects are monitored in the first instance within each Directorate. The Capital Programme allocated to each Directorate is the responsibility of the relevant Corporate Director. Each scheme is allocated to a senior officer whose responsibility it is to ensure that the project is delivered on time and within budget and to report to Cabinet if certain criteria for this are not met.

In addition a report has historically been prepared on a quarterly basis to inform Cabinet of the overall status of current capital position and potential outturn. The potential to move to monthly reporting is being considered. The report comprises a summary of annual spend, resources realisation and slippage. Most crucially the report will provide an early warning of any future resourcing shortfalls or capital overspends, and any actions proposed to mitigate their impact. The reprofiling in year of projects to better reflect in which year actual expenditure will be incurred will be considered as this may allow some works to be undertaken in year which otherwise would not be able to proceed until future



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years

Overall monitoring of the capital programme will be overseen at officer level by the Asset Management and Capital Strategy Board, including senior representatives of both Corporate Finance and Development & Renewal.

Risk Management

The Council has a responsibility to manage risk in a structured manner in order to better achieve corporate objectives. As such risk management is an integral part of the capital strategy of the Council. The Council recognises that risk is a necessary element of service provision. The risk management process seeks to identify, and then control risk, either by mitigation, avoidance or transferral.

Each capital project shall include an assessment of risk, together with a proposed programme for control as part of the project inception. As part of the capital monitoring process, the capital risk register will be reviewed. Primary responsibility for risk identification and monitoring rests with the relevant Directorate; however, significant risks should be reported to Corporate Finance so that necessary contingencies can be considered by Members at a Council-wide level.

The Council has an agreed methodology for the management of projects and programmes, incorporating Gateway reviews at appropriate stages. Options Appraisal and Whole Life costing templates have been incorporated into the methodology and comprise part of the gateway when setting the Outline Business Case – thus embedding this into the Council's processes.



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Section Five

Links to other Strategies

This Section highlights the links with the other important strategies which have significant capital implications that have not been specifically mentioned elsewhere



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Links with Other Strategies

The Capital Strategy does not exist in isolation. Primarily it is driven by the Council's overall Strategic Plan and the objectives of the Community Plan. In the same way, the medium term financial plans of the Council are both driven by and drive the capital strategy. The revenue budgeting process and capital spending plans must be harmonised for resources to be effectively administered. Listed below are a number of other strategies that are closely linked to the Capital Strategy.

Asset Strategy

The Council has an Asset Management Plan covering the period 2008-11.

In 2009 the Council adopted an overarching policy which can be simply stated as

“The Council holds property to sustain and support service delivery and to support the Council's corporate objectives”

The performance of property is measured against four key objectives; these can be summarised as supporting services/customer focus, meeting statutory obligations, value for money and sustainability.

- To support and enhance service delivery, ensure user satisfaction and meet broader Council objectives.
- To ensure the Council meets all its statutory obligations and that buildings are fit for purpose, in terms of location and condition.
- To ensure value for money in the management, maintenance and use of land and buildings.
- That the procurement of works for buildings ensures sustainable design and that buildings are maintained and managed in a way that maximises their energy efficiency.

The Council is further developing its work on Asset Management through the development of a pan-public sector Asset Strategy. A pilot is being undertaken in Local Area Partnerships 3 & 4 (covering approximately one quarter of the Borough). All current assets and their usage will be mapped and a forward looking view will then be taken to see what assets will be required for public services in the future. This will identify the “gap” between existing and future assets and will lead to options being developed about how this gap will be funded.



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This process has clear and strong links with the Capital Programme and the work between the two is coordinated via the Capital and Asset Management Board together with the close working between Finance and Asset Management teams.

Local Development Framework

This has been mentioned elsewhere in the document but is so influential in relation to Capital Investment in the Borough that it warrants further mention. It comprises a core strategy document and a number of other key documents, notably individual master plans for significant developments currently including Wapping, Bromley by Bow, Fish Island, Aspen Way, Marsh Wall, Whitechapel, Aldgate, Wood Wharf and the regeneration of Bishopsgate goods yard.

Channel Management Strategy

This Strategy addresses the challenge is to develop a clear and shared vision for how best to deliver the next step change in the customer experience while also delivering significant reductions in costs over the medium term for the council. The vision is to develop the Strategy and any subsequent investment programme upon an understanding of the drivers of customer satisfaction and the relationship between these drivers and the key business processes that determine cost.

The Channel Strategy will review the current Face to Face and telephone channel arrangements across all customer facing services and opportunities for alternative channel delivery will be further investigated to assess what constraints exist and where the best areas for further migration of services to cheaper channels like the internet lie.

The Channel Strategy presents a number of opportunities for efficiency gains which could determine the shape of investment and provide the means of funding it in the future

Information Management Strategy

The London Borough of Tower Hamlets (LBTH) has commenced work on devising and implementing the Information Management Strategy. This is work of strategic importance, complex and challenging to achieve, but must be undertaken to realise the efficiency savings that the organisation will need to make during the course of 2011/12 and 2012/13.

This work will focus on establishing the framework that will help us to deliver the core business processes identified by the organisation, in support of its corporate strategies and priorities. In doing so, we will review the existing and future requirements and use of ICT to gain more insight into how the organisation can make effective use of ICT in realising its strategy over the next 5



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years. In particular, it will look at whether we have the right systems in place, what the technical architecture should look like to support the business requirements and where the main investments in ICT should be directed. It will also review the cost of delivering ICT and whether this function is organised in an optimal way to meet the needs of the organisation.

Service Plans

The Directorate service plans are driven, at a strategic level, by the Community Plan priorities. However there are a number of more service specific strategies and plans which have a significant impact on the Directorates. These include

Other Key Plans

Health & Wellbeing Strategy

Children & Young Peoples

Housing Strategy

Public Realm Strategy

Regeneration Strategy

Waste Procurement Strategy

Procurement Strategy

IDEA stores Strategy

Leisure Strategy
