Appendix 10

Capital Strategy

2013/14 – 2016/17

Contents

Southend Borough Council

Capital Strategy

1 Introduction

The Capital Strategy is a key document for the Council. It sets out the processes and policies relating to capital expenditure and includes reference to other key documents of the authority which influence capital investment.

2 Council Objectives

The Council has agreed a number of corporate aims, priorities and objectives which guide its work. These are set out in the Corporate Plan. Capital Investment Projects must be in line with these overall objectives as well as individual Service aims and objectives. The following processes are designed to ensure this happens.

3 Developing Service Priorities

3.1 Analysis of need

The need for a capital scheme may be identified by a Service through one or more of the following processes. They can also arise from the need to respond to government initiatives.

- Services annually prepare Service Plans for the improvement of their areas; these must identify any capital investment needed to meet future service demands. This should be the main method of identifying and planning for service's capital requirements.

- The Corporate Asset Management Plan (completed by Property Services alongside Service Departments) and the Education and Schools Asset Management Plans highlight deficiencies in the condition, suitability and sufficiency of the Council's existing building stock and identify future areas of need.

- The Local Transport Plan is a comprehensive strategy looking at the roads and infrastructure needs of the Council.

- The Performance Management System may identify problem areas where capital investment is needed in order to improve service delivery and meet key performance targets.

- Reviews and External Inspections may also identify areas that need capital investment.

These plans and review outcomes must be considered by Portfolio Holders and their Chief Officers. Service delivery requirements will need to be identified, and analysed in terms of future revenue budget needs and also capital funding.

From this analysis of need, Portfolio Holders must identify their key capital priorities for the next 3 – 5 years by the end of August each year. Once Services have identified their list of key capital priorities, possible sources of funding can then be considered for each of the capital schemes. Each project will be considered in terms of revenue funding to cover the operational running costs of the asset and any borrowing repayment costs, and also how the asset will be funded in terms of capital expenditure.

3.2 Current Process

In August/September, Managers should present the agreed list of key capital projects for their Service to the Capital Strategy and Asset Management Group and then to Capital Board. At this point in time, Members are presented with a description of the scheme and the service delivery demands that the project will meet. At this stage funding details are often unavailable, as Government funding allocations are announced later in the year. The presentations inform Members of the key projects to be completed over the next three to five years.

Payments for capital schemes often occur over many years, depending on the size and complexity of the project. Therefore, estimated payment patterns are calculated for each project so that the expected capital expenditure per year is known. This is called a cash flow prediction or budget profiling.

The approval of a rolling five year capital programme assists the council in a number of ways. It assists Service Managers, allowing them to develop longer term capital plans for service delivery.

It allows greater flexibility in planning work loads and more certainty for preparation work for future schemes. It will also allow greater integration of the revenue budget and capital programme. It also matches the time requirement for scheme planning and implementation since capital schemes have a considerable initial development phase.

These overall capital programme totals are then reported to Cabinet Members as part of the annual budget process, who then make recommendations on the overall capital programme.

The Cabinet receive the draft Capital Programme in January each year and in turn make their recommendations to full Council.

Once the Council has approved the capital programme, then expenditure can be committed against these approved schemes subject to the terms and conditions of funding. However, the constitution states that

> *'Following approval by Council of the capital programme and the financing of the programme, a Corporate Director / Head of Service may then incur expenditure on schemes within the approved programme. However, no work may be undertaken on any scheme until Cabinet has agreed that there are adequate resources available to finance the expenditure and a detailed scheme, including project plan, progress targets and associated revenue expenditure has been prepared for each capital project.'*

Whether capital projects are funded from grant, capital allocations, contributions or borrowing, the revenue costs must be able to be met from existing revenue budgets or identified (and underwritten) savings or income streams.

Following approval by Council the capital programme is then monitored on a monthly basis.

4 Capital Scheme Bidding Process

Service Managers should produce a list of potential schemes for the capital programme. As part of this process option appraisals should be completed by the service, to determine the most cost effective and best service delivery options.

By submitting the project the Service manager is agreeing to fund all operational and running costs of the scheme and to find any necessary capital resources to fund the scheme or make the Cabinet aware of the full requirement of the use of corporate resources.

As part of the feasibility study an assessment of the maintenance costs per annum averaged over the whole life of the asset should be calculated. As a minimum this will be based on the RICS (Royal Institute of Chartered Surveyors) recommended benchmark figure prevailing at the time.

4.1 Annual Process

A formalised corporate system for prioritising capital projects has been adopted by the council.

All bids are produced in line with the annual budget timetable with consideration for the financial information contained within the bid. Portfolio Holders must be briefed and understand the service need and the budget consequences, both revenue and capital, of completing the scheme.

The Head of Finance and Resources will then take an overall view on the prudence and affordability of the overall borrowing level if all bids are accepted.

Once the Head of Finance and Resources has taken a view of the prudence of the overall borrowing level, the Corporate Management Team will then consider the bids from a corporate priority perspective.

Members approve the overall borrowing levels at the budget meeting in February each year as part of the Treasury Management Report. The taking of loans then becomes an operational decision for the Financial Planning and Control team, delegated by the Chief Finance Officer who will decide on the basis of the level of reserves and money market position whether borrowing should be met internally from the Capital Reserve/Capital Receipts or whether to enter into external borrowing.

4.2 In year Opportunities

It is recognised that the Council needs to retain an element of flexibility within its capital planning processes and that projects may arise outside of the annual timetable and process.

Any Schemes which arise during the year outside the normal budget process will **only** be considered for borrowing or funding from central resources if they meet a key service need and one or more of the following criteria:-

- The location of the property to be purchased will bring added value to the estate
- The requirement for the asset is an extraordinary service demand which could not be anticipated in the normal planning processes
- There is a limited time span when the opportunity is available

If any such schemes arise within a financial year they will be considered by Capital Board and Cabinet respectively for inclusion in the approved programme.

5 Funding Strategy and Capital Policies

This section sets out the policies of the Council in relation to funding Capital Investment.

5.1 Forward Planning

During the forward budget process members must consider the Council's overall priorities for the next three years and how these link to the Council Plan. These priorities will then be put into the context of revenue and capital budgets, at service level, linking them to service objectives and performance targets.

5.2 Supported borrowing awards for services

As part of the Spending Review (SR) the Government made the decision that no new supported borrowing allocations would be made in the Spending Review period.

5.3 External Funding

Services must seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government. However, Services must underwrite any cost overruns on externally funded schemes. If services bid for external funding for schemes and say at tender or during construction or procurement, costs exceed the available funding, then Services must fund any shortfall from their existing resources (either revenue or capital).

Prior to submitting bids for grant funding, an assessment of the risk of a contract price increase, associated with market conditions or abnormal building plan demands attached to some grants, must be completed to estimate the likelihood of additional funding being needed.

In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from within existing service budgets. If this is not possible then the appropriate service must raise this for consideration with the Capital Board prior to submitting any bid for funding.

5.4 Capital Receipts

The Head of Finance and Resources will review all of the Council's property annually against a number of categories as laid out in the Asset Management Plan. The general policy is that these capital receipts are then pooled and used to finance future investment according to priorities.

A capital receipt is an amount of money exceeding £10,000 which is received from the sale of an asset.

5.5 Prudential Borrowing

Capital projects that cannot be funded from any other source can be funded from 'Prudential Borrowing'

Services must be able to afford the borrowing repayment and interest charges on the loan from existing revenue budgets or the Council must see this as their key priority for the budget process and to be factored into the medium term financial strategy accordingly.

The Head of Finance and Resources will make an assessment on the overall prudence and affordability of the total borrowing requested. The impact of this borrowing on the Council Tax will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code of Practice for Capital.

The view of the Head of Finance and Resources will be fed into the corporate bidding process so that should the borrowing levels be unaffordable or not prudent, then the schemes will be prioritised against the available funding from borrowing using the corporate prioritisation system.

The Head of Finance and Resources will also determine whether the borrowing should be from internal resources such as the Capital Reserve or whether to enter into external borrowing.

5.6 Revenue Funding

Services may also use their revenue budgets to fund capital expenditure.

The Head of Service and the Head of Finance and Resources will need to take an overview of their service and which is the most appropriate way of funding their service areas

5.7 Pump Priming and Invest to Save Schemes

Occasionally projects arise for which Services require assistance with meeting the set up costs of projects which may bring long term service delivery improvements and/or cost savings. The initial set up costs may be of a revenue or capital nature. Assistance for these schemes must be considered on an individual basis by the Corporate Management Team and then the Cabinet with consideration to the Council's overall priorities and resources.

For 'invest to save' schemes assistance may be given for initial set up costs, but it is expected that in the longer term these schemes will produce savings and/or additional income that will as a minimum fund any additional operational or borrowing costs. If the additional savings/income does not cover the additional costs incurred, then the Service will be required to fund the gap from their existing budgets (i.e. they will underwrite the savings/income).

5.8 Leasing

Services may enter into finance leasing agreements to fund capital expenditure.

However, a full option appraisal and comparison of other funding sources must be made and the Head of Finance and Resources must be certain that leasing provides the best value for money method of funding the scheme.

Under the Prudential Code for capital it is now easier for Council's to enter into finance leasing agreements and these are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

5.9 PFI and PPP

PFI and PPP arrangements are considered standard options for the council in providing step changes in service provision by delivering major accommodation and/or infrastructure needs.

Option Appraisals for significant projects must always consider whether PFI/PPP would be an available/appropriate source of funding.

The large scale nature of some PFI/PPP projects may impact upon apparent capital priorities for the service. However, this does not exempt such schemes from the normal capital programme processes and policies.

6 Procurement

The Council has a Procurement team who ensures they provide value for money and to see where efficiency savings can be achieved. This also covers capital procurement.

It is essential that all procurement activities comply with EU procurement directives and adhere to the relevant requirements stipulated in directives. Guidance on this can be sought from the Procurement team. Procurement must also comply with the Councils policies and regulations such as Contract Procedural Rules and Financial Regulations.

The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality.

7 Efficiency

Councils may achieve efficiency gains on capital expenditure through:

- Better procurement processes
- More efficient investment programmes
- Invest to save projects
- Asset Optimisation
- Leasing/Borrowing Strategies
- Sale of Surplus assets

8 Partnerships and Relationships with other Organisations

Wherever possible and subject to the usual risk assessments services should look to expand the number of capital schemes which are completed on a partnership basis and continually look for areas where joint projects can be implemented.

9 Management Framework

The governance structure of the Council has a Capital Board who takes a corporate view on the capital programme and investment.

The Capital Board is also in operation to ensure a corporate perspective to the use and allocation of the Council's capital assets, and in planning capital investment.
The group receives reports on proposed capital projects and recommends to the Cabinet proposals for the development of the capital programme.

This member group is supported by a cross service officer group, the Capital Strategy and Asset Management Group.

10 Managing and Monitoring the Programme

10.1 Framework for management and monitoring of the Capital Programme

Once detailed capital programmes have been approved by members, the financial spend is monitored on a monthly basis. There is a distinct lifecycle for monitoring which is summarised in the diagram on the next page.


Stage 1
Report produced in Accountancy based on Template
• When the financial period closes Capital Budget Monitoring reports are produced
• The previous months reports and all the information gathered is the starting point for the new reports
Stage 2
The updated report is reviewed directorate budget managers
• Budget Managers from each directorate review spend and project progress of each line of the Capital Programme
• The report is updated.
Stage 3
Report sent to Directorate Management Teams for review
• The reports are distributed to each Directorate for review
• Each Directorate must review spend to date v budget and also project progress (using the 6 key milestones identified by Capital Board)
Stage 4
The fully updated document is reviewed by CS & AM Group and Capital Board and is used as the template for the next report
• The Capital Strategy & Asset Management Group review the information to ensure 'Strategic' Schemes are on target
• The Capital Board review overal delivery of the Capital Programme

10.2 Programme Management Approach

The ‘Programme Management Approach’ currently being used focuses on the ‘Strategic Projects’ and is based around the Office of Government Commerce (OGC) ‘Managing Successful Projects (MSP)’ methodology.

Progress of the Capital Programme schemes is reported to the Corporate Delivery and Capital Boards. The focus on monitoring under these arrangements is to consider progress against project milestones, achievement of objectives that match those identified at the start of the project and their alignment to the Council’s corporate goals. This is a change of emphasis from focussing solely on financial outcomes.

11 Post Scheme Evaluation Reviews

Post scheme evaluation reviews should be completed by Directorates for all schemes over £0.5 million and for Strategic Capital projects.

Reviews should look at the effectiveness of the whole project in terms of service delivery outcomes, design and construction, financing etc, and identify good practice and lessons to be learnt in delivering future projects.

12 Performance Management

All capital schemes should be completed in order to improve service delivery. Clear measurable outcomes should be developed for each scheme. After the scheme has been completed, Services should check if outcomes have been achieved.

13 Risk Management

Risk is the threat that an event or action will adversely affect Southend Borough Council’s ability to achieve its objectives and to execute its strategies successfully.

Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.

To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

An assessment of risk should therefore be built into every capital project and major risks recorded in a Risk Register.

14 Other Considerations

Capital Schemes must comply with legislation, such as the Disability Discrimination Act, and also Council policies, contract procedure rules and financial regulations. Reference should also be made to other strategies and plans of the Council.

Important Linking Documents for reference are:

- Corporate Plan
- Asset Management Plan
- Education Asset Management Plan
- Local Transport Plan
- Individual Service Plans
- Procurement Strategy
- Financial Regulations
- Contract Procedure Rules

Glossary

Asset Management Plans (AMPs)
A plan maintained by the authority of the condition and suitability of its buildings, updated regularly and utilised to prioritise future capital programmes.

Benchmarking
The comparison of selected activities, costs and processes, between organisations in order to achieve improvements.

Best Value
The duty which local authorities owe to their stakeholders to provide relevant, cost effective services.

Capital Expenditure
Expenditure on the acquisition of fixed assets, or expenditure that enhances or adds to the life or value of an existing fixed asset, e.g. land and buildings.

Capital Programme
The authority's plan of capital works for future years, including details on the funding of the programme. Included are the purchase of land and buildings, the erection of new buildings, design fees and the acquisition of vehicles and major items of equipment.

Capital Receipts
Income over £10,000 from the sale of a fixed asset. They can only be used to finance other capital expenditure or repay outstanding debt on assets financed from loan. They can not be spent on revenue items.

Capital Reserve
An internal fund set up to finance capital expenditure as an alternative to external borrowing.

Capital Strategy
To assist with long-term planning for capital investment the government has encouraged Local Authorities to produce capital strategies. The strategy should provide clear strategic guidance about the Council's capital investment processes and policies.

Cross Cutting
Some issues of local concern cut across all demographic groups and geographic localities. These issues require co-ordination across departments and with other statutory and non-statutory partners to ensure the issues are addressed appropriately.

Fixed Assets
Tangible assets that yield benefits to the Council for a period of more than one year, e.g. land, buildings, roads, vehicles.

Local Transport Plan (LTP)
A rolling five year plan of local transport strategies for achieving an integrated transport system to tackle the problems of congestion and pollution.

Performance Measures
The process of taking aspects of performance for measurement and comparison.

Performance Indicators
Any numerical data or ratios collected and used for the purpose of making initial comparisons of the performance of groups of similar bodies.

Private Finance Initiative (PFI)
Long term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.

Procurement
The purchase of goods and services, with a strategy being developed to assist with the definition of quality standards and securing provision of the best possible services for local people for a given price.

Pump Priming
The process of assisting with the set up costs of projects which may bring long term service delivery improvements and cost savings.

Service Plans
Part of the business planning processes for service departments, ensuring that their objectives meet the overall aims and objectives of the Council, and targets are set for improvements in service delivery.

Spending Review (SR)

The public expenditure planning process introduced by the government in 1997 to replace the system of annual public expenditure surveys with a Spending Review covering a set number of years.

Unsupported Borrowing
Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing cots are not supported by the Government so services need to ensure they can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing.

Useful Life
The period over which the council will derive benefits from the use of a fixed asset.

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