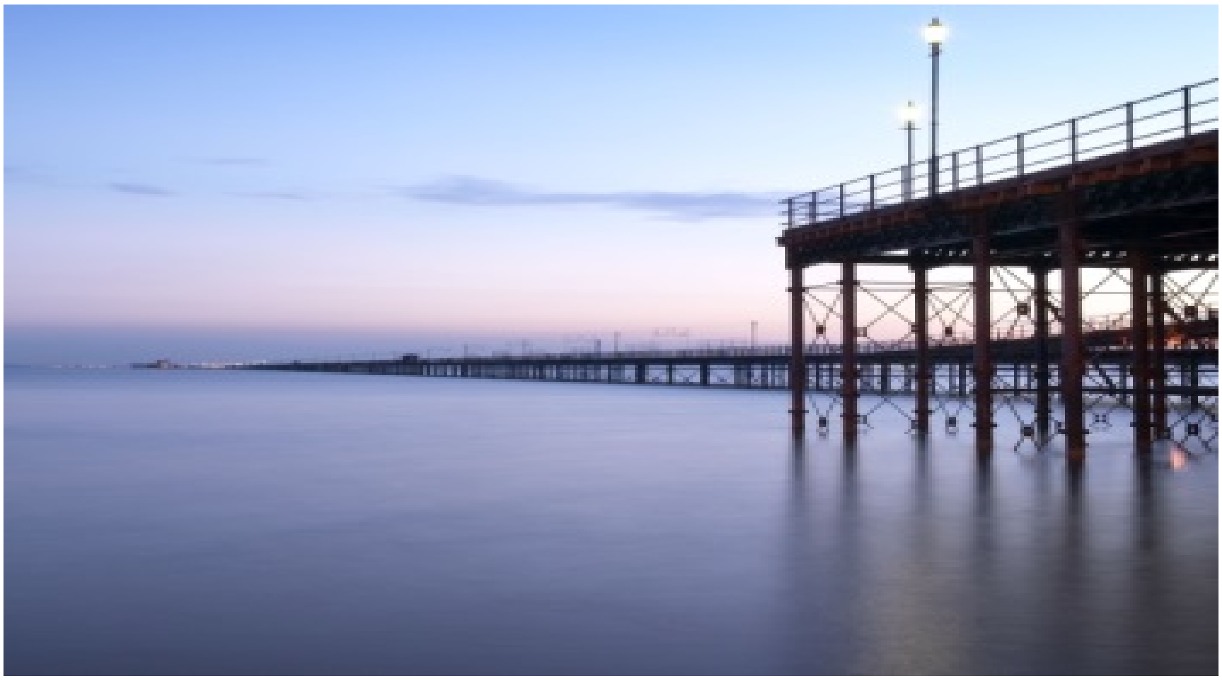
Appendix 2



# Southend-on-Sea Borough Council

# Capital Investment Strategy

## 2019/20 – 2023/24

**January 2019**

# Contents

**SOUTHEND-ON-SEA BOROUGH COUNCIL**

**CAPITAL INVESTMENT STRATEGY**

## 1 Introduction

Southend 2050 is a mind-set rather than one single publication or statement. It looks to translate the desires of local people and stakeholders into action that is needed, both now and in the medium term, and looks to the long term. It comprises the Council's ambition, associated outcomes by theme that set the context, a Five Year Road Map and a suite of other delivery plans, strategies and policies that fit the context of Southend 2050.

The ambition is an overarching view of the Council's future direction which aims to articulate the visible changes to the environment and the more fundamental effects on people's lives, essentially capturing how it could feel to live, work or visit Southend in the future. It was developed following extensive conversations with those who live, work, visit, do business and study in Southend. The ambition complements the Essex 2050 vision, The Future of Essex developed by Essex wide stakeholders and the emerging South Essex 'proposition', titled 'What sort of place are we making?' This is being developed by South Essex local authorities who are collectively looking to the future.

This ambition is supported by five themes:

- Theme 1: Pride and Joy – by 2050 Southenders are fiercely proud of, and go out of their way, to champion what our city has to offer;
- Theme 2: Safe and Well – by 2050 people in Southend-on-Sea feel safe in all aspects of their lives and are well enough to live fulfilling lives;
- Theme 3: Active and Involved – by 2050 we have a thriving, active and involved community that feel invested in our city;
- Theme 4: Opportunity and Prosperity – by 2050 Southend-on-Sea is a successful city and we share our prosperity amongst all of our people;
- Theme 5: Connected and Smart – by 2050 people can easily get in, out and around our borough and we have a world class digital infrastructure.

As steps towards that ambition the Council will agree five year roadmaps. The road map outlines the Council's role in achieving the ambition and provides a high level guide for Councillors, staff, partners and others in aligning their capacity and resources to priorities. It builds on our existing achievements and outlines what the Council wants to achieve in the coming five years. There will be five strategic delivery plans, one per theme reflecting the road map. These will be supported by delivery plans which reflect our ambition and which focus on achieving desired outcomes in five years' time:

**Pride and Joy**

- There is a tangible sense of pride in the place and local people are actively, and knowledgeably, talking up Southend-on-Sea;
- The variety and quality of our outstanding cultural and leisure offer has increased and we have become the first choice English coastal destination for visitors;
- We have invested in protecting and nurturing our coastline, which continues to be our much loved and best used asset;
- Our streets and public spaces are clean and inviting.

**Safe & Well**

- People in all parts of the borough feel safe and secure at all times;
- Southenders are remaining well enough to enjoy fulfilling lives, throughout their lives;
- We are well on our way to ensuring that everyone has a home that meets their needs;
- We are all effective at protecting and improving the quality of life for the most vulnerable in our community;
- We act as a Green City with outstanding examples of energy efficient and carbon neutral buildings, streets, transport and recycling.

**Active and Involved**

- Even more Southenders agree that people from different backgrounds are valued and get on well together;
- The benefits of community connection are evident as more people come together to help, support and spend time with each other;
- Public services are routinely designed - and sometimes delivered - with their users to best meet their needs;
- A range of initiatives help communities come together to enhance their neighbourhood and environment;
- More people have active lifestyles and there are significantly fewer people who do not engage in any physical activity.

**Opportunity and Prosperity**

- The Local Plan is setting an exciting planning framework for the Borough;
- We have a fast-evolving, re-imagined and thriving town centre, with an inviting mix of shops, homes, culture and leisure opportunities;

- Our children are school and life ready and our workforce is skilled and job ready;
- Key regeneration schemes, such as Queensway, seafront developments and the Airport Business Park are underway and bringing prosperity and job opportunities to the Borough;
- Southend is a place that is renowned for its creative industries, where new businesses thrive and where established employers and others invest for the long term.

**Connected and Smart**

- It is easier for residents, visitors and people who work here to get around the borough;
- People have a wide choice of transport options;
- We are leading the way in making public and private travel smart, clean and green;
- Southend is a leading digital city with world class infrastructure that enables the whole population.

The aims, priorities and objectives of delivery plans will align with the ambition and desired outcomes. Accordingly resources will be prioritised and reallocated to deliver the Five Year Road Map. All capital expenditure and capital investment will therefore be driven by the aim of contributing to the delivery of the ambition and the desired outcomes. This capital investment strategy has been written in this context.

## 2 Purpose

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital investment strategy to demonstrate that capital expenditure and investment decisions are taken in line with desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Investment Strategy is a key document for the Council and forms part of the authority's integrated revenue, capital and balance sheet planning. It provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of desired outcomes. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It includes an overview of the governance processes for approval and monitoring of capital expenditure.

## 3 Scope

This Capital Investment Strategy includes all capital expenditure and capital investment decisions, not only as an individual local authority but also those entered into under group arrangements. It sets out the long term context in which decisions are made with reference to the life of the projects/assets.

## 4 Capital Expenditure

Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset. Fixed assets are tangible or intangible assets that yield benefits to the Council generally for a period of more than one year, e.g. land, buildings, roads, vehicles. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services.

The capital investment programme is the authority's plan of capital works for future years, including details on the funding of the schemes. Included are the projects such as the purchase of land and buildings, the construction of new buildings, design fees and the acquisition of vehicles and major items of equipment. Also included could be service and commercial investments.

## 5 Capital vs. Treasury Management Investments

Treasury Management investment activity covers those investments which arise from the organisation's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Policy and the Annual Treasury Management Investment Strategy.

The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These may include service and commercial investments. The management of associated risk for these investments is set out in the Capital Investment Policy attached as Annex 1 to this strategy.

## 6 Links to other corporate strategies and plans

To support the outcomes set out in the introduction a number of key strategies have been agreed, for example the Core Strategy, Digital Strategy and the

Housing, Homelessness and Rough Sleeping Strategy. To support the delivery of these key strategies a number of other interrelated strategies and plans are in place, such as the Medium Term Financial Strategy, Capital Investment Strategy, Corporate Asset Management Strategy (and related asset management plans), Treasury Management Strategy and Annual Treasury Management Investment Strategy.

The operation of all these strategies and plans is underpinned by the Council's constitution, in particular the Contract Procedure Rules and the Financial Regulations.

Annex 2 shows how this Capital Investment Strategy links to the other corporate strategies and plans. This is all in the context of the activities of the Council's group portfolio, the South Essex 2050 plan and the wider national context.

Capital resources should be directed to those programmes and projects that optimise the achievement of these outcomes. The following processes are designed to ensure this happens.

## 7 Risk Management

Risk is the threat that an event or action will adversely affect the Council's ability to achieve its desired outcomes 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. The corporate risk register sets out the key risks to the successful delivery of the Council's corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities.

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

It is important to identify the appetite for risk by each scheme and for the capital investment programme as a whole, especially when investing in capital assets held primarily for financial returns. Under the CIPFA Prudential Code these are defined as investments and so the key principle applies of control of risk and optimising returns consistent with the level of risk.

Risk appetite:
The Council accepts there will be a certain amount of risk inherent in delivering the desired outcomes of the 2050 Ambition. The Council seeks to keep the risk of

capital projects to a low level whilst making the most of opportunities for improvement. Where greater risks are identified as necessary to achieve desired outcomes, the Council seeks to mitigate or manage those risks to a tolerable level. All key risks identified as part of the capital planning process are considered for inclusion in the corporate risk register.

The Strategic Director (Finance and Resources) will report explicitly on the deliverability, affordability and risk associated with the Capital Investment Strategy. Where appropriate he will have access to specialised advice to enable him to reach his conclusions.

Specific risks and their proposed mitigation are set out in Annex 3.

## 8 The Capital Budget Setting Process

### 8.1 Key Criteria Set by Members

For any particular budget setting year, the process starts in the spring of the preceding year with sessions held with Members of the Cabinet to help identify and discuss the key criteria by which proposals will be considered. These may include:

- Achievement of the Council's strategic outcomes for Southend 2050;
- Maintenance of the essential infrastructure of the organisation;
- Essential Health and Safety works;
- Essential rolling programmes;
- Whether wholly financed by external/internal funding;
- Match funded investment for regeneration projects;
- Commercial investment that generates a revenue stream and/or a strategic asset holding;
- Invest to save schemes.

### 8.2 Identifying the need for Capital Expenditure/Investment

The need for a capital scheme may be identified through one or more of the following processes.

- Service areas prepare plans for the delivery and improvement of their services which align with the overall desired outcomes of the Council; these must identify any capital investment needed to meet future service outcomes. This should be the main method of identifying and planning for outcome driven capital requirements;

- The Corporate Asset Management Strategy 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 Housing Asset Management Plan highlights deficiencies in the condition, suitability and sufficiency of the Council's existing housing stock and identifies future areas of need;
- The Transport Asset Management Plan is the Council's primary transport asset planning tool to ensure the highway infrastructure and public realm is managed sustainably and in a way that underpins the wider corporate outcomes;
- The Performance Management System may identify problem areas where capital investment is needed in order to improve service delivery and meet key performance measures;
- Reviews and external Inspections may also identify areas that need capital investment;
- The need to respond to Government initiatives and new laws and regulations;
- The need to generate a revenue income to contribute to the delivery of desired outcomes.

These plans and review outcomes must be considered by Cabinet Members and their Chief Officers. Cabinet Members must identify their key capital priorities for the relevant planning period by the end of summer each year.

### 8.3 Deciding which Schemes are to be put forward

Once the list of key capital priorities has been identified, in preparing capital project proposals consideration should been given to the key criteria identified earlier in the year.

Additionally, due consideration should been given to:

**Prudence:**

- Recognition of the ability to prioritise and refocus following transformation work;
- Recognition of the capacity in the organisation to deliver such a programme;
- Recognition of the knowledge and skills available and whether these are commensurate with the appetite for risk;

- Recognition of the future vision of the authority;
- The approach to commercial activities including ensuring effective due diligence, expert advice and scrutiny, defining the risk appetite and considerations of proportionality in respect of overall resources;
- The approach to treasury management and the management of risk as set out in the Treasury Management Strategy.

**Affordability:**

- Revenue impact of the proposals on the Medium Term Financial Plan;
- The borrowing position of the Council, projections of external debt and the use of internal borrowing to support capital expenditure;
- The authorised limit and operational boundary for the following year;
- Whether schemes are profiled to the appropriate financial year.

**Sustainability:**

- A long-term view of capital expenditure plans, where long term is defined by the financing strategy of and risks faced with reference to the life of the project/assets;
- Provision for the repayment of debt over the life of the underlying debt as set out in the Minimum Revenue Provision policy;
- An overview of asset management planning including maintenance requirements and planned disposals.

All bids are submitted using the agreed template and in line with the appropriate timetable. The template includes for each project or scheme:

- Title and description;
- High level aims and outcomes;
- The project sponsor;
- Outcomes expected from the scheme;
- Proposed capital cost and funding source in each relevant future year(s);
- Revenue implications in each relevant future year(s);
- Expected improvements to service delivery;
- Consultation;
- Risk assessment;
- Equalities Impact Assessment.

Cabinet Members must be briefed and understand the expected outcomes and the budget consequences, both revenue and capital, of completing the scheme.
Possible sources of funding can then be considered for each of the proposed 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.

The proportionality of the proposals as a whole will then be considered in respect of overall resources and longer term sustainability and risk. The Strategic Director (Finance and Resources) will take an overall view on the prudence, affordability and sustainability of the overall borrowing level if all bids are accepted.

Once the Strategic Director (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.

### 8.4 Prioritisation of Schemes put forward

Capital investment can be a means to contribute to the achievement of revenue sustainability and local or regional growth ambition. However, there will inevitably be a gap between the capital investment programme ambition and the available resources, which are finite and there is a limit on the number and value of schemes that are affordable and deliverable. A formalised corporate system for prioritising capital projects has been adopted by the Council. This has resulted in:

- Identifying the long term capital needs for investment to support the high level outcomes to achieve the Southend 2050 ambition;
- Utilising feasibility studies where needed;
- Adopting a Gateway Review approach for larger strategic schemes to enter the programme at the required time;
- Inclusion of schemes that are subject to external funding approval or the approval of a viable business case;
- The ability to enter items into the capital investment programme in a managed way through firstly the annual budget round and secondly when the programme is reviewed mid-year and consequently the November Cabinet cycle;
- Being mindful of the current level of the programme in relation to capacity to deliver, the relevant financing of schemes and any other running costs.

This will result in a list of capital project proposals to be considered as part of that year's budget approval process and a 'waiting list' of other capital project proposals that may be put forward for consideration later in the year or as part of the following year's budget approval process.

## 8.5 Member Approval Process

In autumn, managers will present the agreed list of key capital projects to the Corporate Management Team. Then the Administration is presented with a description of the scheme, the outcomes that the project is expected to achieve, the proposed funding and the revenue implications. At this stage funding details are sometimes 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 few years.

Where appropriate schemes will be reported to Members based on the schemes being subject to external funding or viable business case approval.

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

The Cabinet receive the capital investment programme in draft in January each year which is then subject to scrutiny via all the relevant scrutiny committees. Then the Cabinet receive the updated capital investment programme in February each year and in turn make their recommendations to full Council.
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 Strategic Director (Finance and Resources) 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.

Once the Council has approved the capital investment programme, then expenditure can be committed against these approved schemes subject to the normal contract procedure rules and the terms and conditions of funding.

Whether capital projects are funded from grant, contributions, capital allocations 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 investment programme expenditure is then monitored on a monthly basis.

## 9 The Place Capital Programme Board

A significant proportion of the capital investment programme relates to the Department for Place. The Place Capital Programme Board (PCPB) oversees and guides the delivery of the Place capital investment programme to ensure that it is managed in line with corporate requirements, is in compliance with corporate policies and is within the terms of any relevant grant funding agreement and/or Service Level Agreement.

The Board seeks to:

- Agree a pipeline of investment propositions and co-ordinate the preparation and approval of business cases and appropriate bid documents;
- Manage resources (financial and operational) to deliver the Place capital investment programme in an effective manner, to time and budget;
- Manage key programme risks and scope changes;
- Ensure that the conditions exist for desired benefits/outcomes to be realised;
- Promote a consistent, and successful approach to project governance across the department.

The Board meets monthly and comprises the Deputy Chief Executive (Place) and their Directors. It is also attended by a Finance Manager to provide financial updates on the programme and individual projects. It is also attended by the Place Capital Investment Programme Manager who provides Board members with monthly highlight reports on the status of projects throughout the lifecycle of the programme.

## 10 Monitoring of the Capital Investment Programme Expenditure

Once detailed capital investment 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 in Annex 4.

## 11 Multi-Year Schemes

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 projection or budget profiling.

The length of the planning period should be defined by the financing strategy and the risks faced with reference to the life of the project/assets. For example some schemes may span two or three years (e.g. building an extension to a school) whereas others may be over much longer timeframes (e.g. the 30 year business plan for the HRA decent homes programme).

The approval of a rolling multi-year capital investment 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 workloads and more certainty for preparation work for future schemes. It will also allow greater integration of the revenue budget and capital investment programme. It also matches the time requirement for scheme planning and implementation since capital schemes can have a considerable initial development phase.

## 12 Options Appraisals, Feasibility Studies and the Gateway Review Process

As part of the process of producing a list of potential schemes for the capital investment programme service managers should complete option appraisals to determine the most cost effective way to optimise the desired outcomes.

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.

Some projects may require a feasibility study. As part of any 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.

A Gateway Review process will operate as part of the setting and monitoring of the capital investment programme. The extent to which each stage is monitored will depend on the risk, complexity, cost and impact of the project. The process will operate in six stages as set out in Annex 5.

Further resources to progress any of these gateway schemes will need to be approved separately by Cabinet and/or as part of the annual review of the capital investment programme and would be subject to the relevant resources being available.

Annex 6 shows the key project stages.

## 13 In Year Opportunities

Given the ‘waiting list’ of other capital project proposals that resulted from the prioritisation process, these can be put forward for entry into the capital investment programme in a managed way when the programme is reviewed in the early summer as part of the June Cabinet cycle or mid-year as part of the

November Cabinet cycle. Outside of this timetable a separate Cabinet report would be needed to seek approval at any other meeting in the Cabinet cycle.

Any other schemes which arise during the year will only be considered for borrowing or funding from central resources if they meet a key criteria set out in section 8.1 or 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.

Requests for approval of revisions to the profiling of scheme expenditure across financial years and the movement of budget between schemes (known as a virement) will be considered by Cabinet at the appropriate points during the financial year. These will be at June Cabinet when the capital outturn report is considered, at November Cabinet when the mid-year review of the programme is considered and at the January/February Cabinet meetings when the new capital bids are considered.

## 14 Funding Strategy and Capital Policies

Annex 7 sets out the policies of the Council in relation to funding capital expenditure and investment.

## 15 Procurement and Value for Money

Procurement is 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.

The Council has a Procurement team that 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 prevailing regulations and best practice. 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.

## 16 Partnerships and Relationships with other Organisations

Capital planning will be undertaken within the context of the South Essex 2050 strategic plans.

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.

## 17 Management Framework

The governance structure of the Council has the Corporate Management Team that takes a strategic and group view on the capital investment programme.

The Corporate Management Team will also ensure a strategic and group portfolio perspective to the use and allocation of the Council's capital assets and those within its control in planning capital investment. The team receives reports on proposed capital projects and recommends to the Cabinet proposals for the development of the capital investment programme.

## 18 Performance Management

Clear measurable outcomes should be developed for each capital scheme. After the scheme has been completed, services should check if outcomes have been achieved.

Post scheme evaluation reviews should be completed by Departments 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.

## 19 Other Considerations

Capital Schemes must comply with legislation, such as the Disability Discrimination Act, the General Data Protection Regulations (GDPR), building regulations etc.

January 2019