

Working to make  
*lives better*  
www.southend.gov.uk



# Capital Investment Strategy

## 2022/23 – 2026/27

February 2022



## Contents

	<b>Section</b>	<b>Page</b>
1.	Purpose	3
2.	Scope	3
3.	Capital Expenditure	3
4.	Capital vs. Treasury Management Investments	4
5.	Links to other corporate strategies and plans	4
6.	Resources available to finance capital	5
	6.1 External Funding	5
	6.2 Capital Receipts	5
	6.3 Revenue Funding	5
	6.4 Prudential/Unsupported Borrowing	6
7.	Prioritisation of capital investment	6
8.	Building a pipeline of projects	8
	8.1 Identifying the need for Capital Expenditure/Investment	8
	8.2 The project approval process	8
	8.3 Proportionality	10
	8.4 Developing the business case	11
	8.5 Risk Management	12
9.	Governance processes	13
	9.1 Approval via the annual budget round	13
	9.2 Approval throughout the year	14
10.	Monitoring the progress of delivery	15
	10.1 Investment Board	15
	10.2 Capital challenge meetings	15
	10.3 Capital budget performance reports	15
11.	Multi-year schemes	16
12.	Other considerations	16

### Annexes:

Annex 1 – Capital Investment Policy

## **SOUTHEND-ON-SEA BOROUGH COUNCIL**

### **CAPITAL INVESTMENT STRATEGY**

#### **1 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 service objectives 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.

#### **2 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 capital expenditure, borrowing and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

#### **3 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. 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, housing, regeneration or transformation investments.

## **4 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 investments for service purposes (e.g. housing, regeneration and local infrastructure) or investments for commercial purposes (e.g. commercial property). The management of associated risk for these investments is set out in the Capital Investment Policy attached as Annex 1 to this strategy.

## **5 Links to other corporate strategies and plans**

To support the Council's desired outcomes 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 Sustainability Strategy, 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.

A diagram in the Medium Term Financial Strategy 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.

## **6 Resources available to finance capital**

The first step is to ascertain the total resources available to finance the capital investment programme. This is based on the level of borrowing the Council can support, notified capital grants, prudent assumptions over the level of other grants and the timing and valuation of capital receipts that will be realised. More information by each source of capital funding is set out below:

### **6.1 External Funding**

This can be in the form of grants and contributions from outside bodies including central government. Services must seek to maximise external funding wherever possible to support capital schemes. However, 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).

In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from within existing budgets. If this is not possible then the appropriate service must raise this for consideration with the members of the Corporate Management Team and the relevant Cabinet Member prior to submitting any bid for funding.

### **6.2 Capital Receipts**

A capital receipt is an amount of money exceeding £10,000 which is received from the sale of an asset. They cannot be spent on revenue items. The Director of Property and Commercial will review all the Council's property annually against the aims and objectives of the Corporate Asset Management Strategy. The general policy is that any capital receipts are then pooled and used to finance future capital expenditure and investment according to priorities, although they may be used to repay outstanding debt on assets financed from loans, as permitted by the regulations.

### **6.3 Revenue Funding**

Revenue resources may be used to fund capital expenditure. This may be via earmarked reserves such as the capital reserve which is an internal fund set up to finance capital expenditure as an alternative to external borrowing.

The Chief Finance Officer will take an overview and decide the most appropriate way of using such revenue resources, taking into account the strategy regarding the levels of general and earmarked reserves.

## **6.4 Prudential/Unsupported Borrowing**

Capital projects that cannot be funded from any other source can be funded from 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. This borrowing may also be referred to as Prudential Borrowing.

The Council's Minimum Revenue Provision Policy sets out a prudent approach to the amount set aside for the repayment of debt. The borrowing costs are not supported by the Government so the Council needs to ensure it can afford the interest and repayment costs from existing revenue budgets or must see this as a key priority for the budget process and be factored into the medium term financial strategy accordingly.

The Chief Finance Officer will make an assessment of the overall proportionality, prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing will be reported in the Treasury Management Strategy and in the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

Should the requested borrowing levels be unaffordable or not prudent, then the schemes will be prioritised against the available funding from borrowing as determined by the assumptions factored into the Medium Term Financial Forecast.

Members approve the overall borrowing levels at the budget Council meeting in February each year as part of the Treasury Management Report. The taking of loans then becomes an operational decision for 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 running down cash balances) or whether to enter into external borrowing.

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.

## **7 Prioritisation of capital investment**

Capital investment is key to the delivery of the Council's ambition and desired outcomes and 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 finite available resources and there is a limit on the number and value of schemes that are affordable and deliverable.

Not all the capital investment programme is deliverable directly by the Council and so the programme is split so that the schemes to be delivered by subsidiaries, partners and joint ventures are separately identified.

Capital investment must be focussed on priorities and priority projects must have viable delivery plans. An on-going MoSCoW review will be undertaken to re-assess and re-

prioritise the capital investment programme. This enables prioritisation by categorising capital projects as 'must have', 'should have', 'could have' or 'will not have' (at this time).

In order to aim for a deliverable level of programme each financial year there will need to be prioritisation and re-sequencing of projects to ensure that resources are being directed into projects that will best achieve our ambition and improve outcomes for local people. These priorities may include the following:

Achievement of the Council's strategic outcomes for Southend 2050:

- Homes which meet local needs;
- Key regeneration projects;
- Supporting growth in key sectors;
- Town centre vitality;
- Leisure and cultural projects;
- Streets and public spaces;
- Transport and accessibility;
- Sustainable and green city projects;
- Addressing coastal flood and erosion risk;
- Schools and skills;
- Health and active lifestyles;
- Social care;
- Smart use of technology;
- Financial Sustainability.

Enabling works:

- Maintenance of the essential infrastructure of the organisation;
- Essential Health and Safety works;
- Rolling programmes essential to the day to day operation of the Council;
- Service redesign and transformation – investment in technology;

Political priorities:

- 2050 roadmap;
- Economic Recovery and Regeneration;
- Environment, Planning, Tourism and Culture;
- Communities and Housing;
- Public Protection;
- Transport, Asset Management and Inward Investment;
- Adult Social Care and Health Integration;
- Children and Learning
- Corporate Services and Performance Delivery.

## **8 Building a pipeline of projects**

### **8.1 Identifying the need for Capital Expenditure/Investment**

The need for capital investment 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 or enable the 2050 outcomes;
- 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;
- Reviews and external Inspections may also identify areas that need capital investment;
- The need to respond to Government initiatives and new laws and regulations;

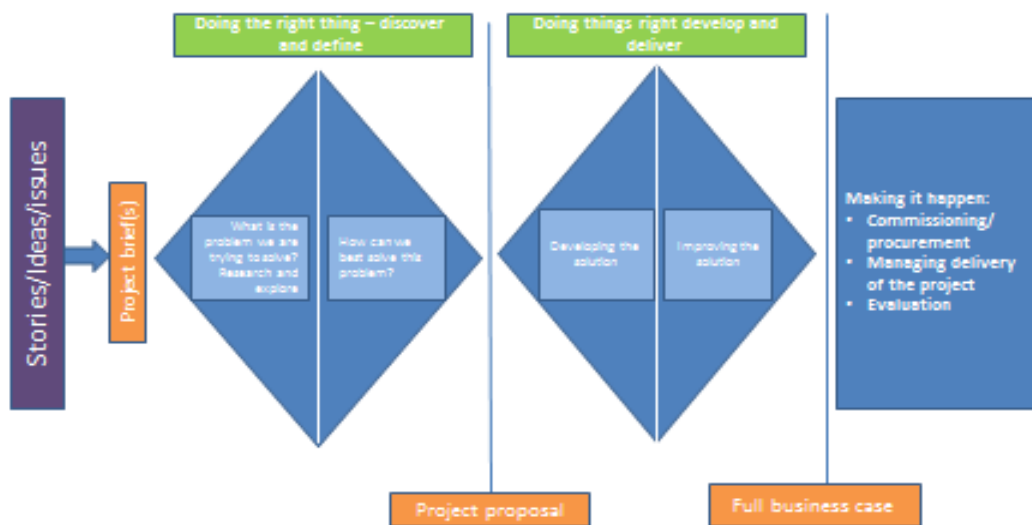
### **8.2 The Project Approval Process**

Within the Council we promote an agile approach to project management. As such we are happy that we apply different methodologies to make our projects work. Whatever approach we take all projects should follow a standard project development and approval process which embeds the principles of the Commissioning Framework.

Our design and approval process is based on the Double Diamond design model developed by the British Design Council. The process is divided into four phases: Discover, Define, Develop and Deliver. The main feature of the Double Diamond is the emphasis on "divergent" and "convergent thinking", where first many ideas are created, before refining and narrowing down to the best idea. This is happening twice in this model—once to confirm the problem definition and once to create the solution.

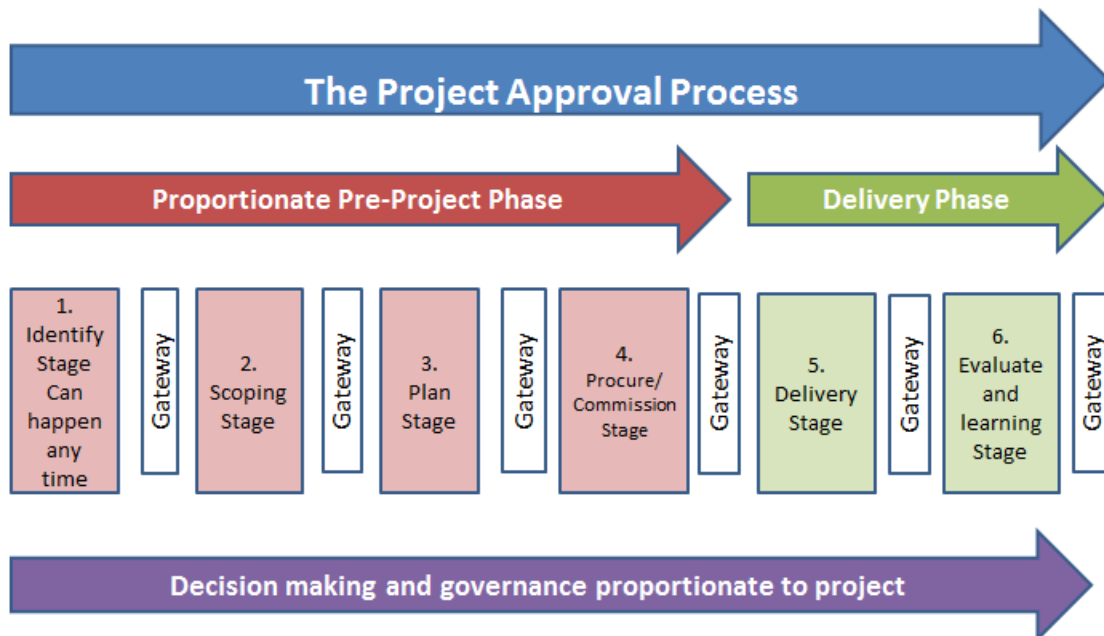


### Project development and approval process



The agreed process should include gateway review stages when the proposal can be reviewed and a decision made whether to proceed to the next stage. The decision making and governance process should be proportionate to the scale and impact of the project being put forward for approval.

The following diagram shows the project approval process used for capital investment proposals:



The project approval process divides the project's lifecycle into six stages. The first four involve gathering the business case information that gives the Council confidence that the project should be implemented. The final stages cover project implementation and post-project evaluation. A potential 'Decision Gateway' separates each stage.

This incremental approach provides regular opportunities for the Council to review progress and check that projects are still on track. It also avoids unnecessary resource being spent developing potential projects beyond the point at which a decision could be made that they are unlikely to be viable (potentially because needs or priorities have changed or available solutions are unlikely to offer value for money). Feasibility studies will be used where appropriate.

The capital investment programme is split into the main approved programme and the Subject to Viable Business Case section, for schemes that are subject to the completion of a process or event. This could be the agreement of a viable business case, the outcome of an application to a committee or board, agreement of external funding or property purchase due diligence and negotiations. This allows schemes to be brought into the programme at the appropriate time.

Whilst all projects consider the same basic questions as they pass through each stage, the level of information that must be gathered, and the number of formal approvals required for a project to progress, will vary significantly depending on the scale of the project.

### **8.3 Proportionality**

Projects will be categorised as major, mid or minor, depending on the assessment of the following criteria to determine the scale and impact of the proposal:

- Level of contribution to the 2050 outcomes;
- Impact on the organisation to deliver the project;
- Potential impact of project failure on the Council's reputation;
- Statutory or regulatory context;
- The scope of stakeholders or partnerships involved;
- Contract complexity;
- Project costs;
- The timescales involved;

This categorisation will determine the level of detail needed to progress through the gateway stages.

## 8.4 Developing the business case

The business case would be developed incrementally with the amount of detail dependent on the scale and impact of the project and with more detail added as the business case matures through the gateway stages. Each business case covers five areas:

- Strategic case – demonstrating the fit with investment priorities;
- Economic case – demonstrating that the project provides value for money;
- Financial case – demonstrating that the project is prudent, affordable and sustainable (including the revenue implications);
- Commercial case – demonstrating that the project is commercially viable;
- Management case – demonstrating that the project will be delivered effectively;

For the financial case due consideration should be 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;
- 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 Strategy;
- 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:**

- Recognition of the objectives of the Sustainability Strategy;
- 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.

### **Proportionality:**

- The risks associated with investments for service and commercial purposes are proportionate to the Council's financial capacity.

All project proposals are submitted using an agreed template that captures the information necessary to have a structured approach that provides:

- Proper definition to projects, making sure it is clear what will be delivered, by when, and with what resource and that appropriate approvals have been given;
- Clear roles and responsibilities, and clear delegation of responsibility;
- Controls to provide early warnings of deviation from the plan, as well as risks and issues, and a way of managing them;
- Good communication channels, making sure management and stakeholders are involved at the right time in the right way;
- Regular reviews of the project to make sure it is still viable, worthwhile and deliverable;
- A common language across the Council and a process that is repeatable;

Whilst this approach will not guarantee that every project will be successfully delivered, having a consistent approach to managing projects will mean that:

- All projects are prioritised using a consistent and coherent set of standards and based on a sound business case;
- Projects are more likely to provide an optimum contribution to Southend 2050 priorities and service improvement;
- Projects are more likely to be delivered on time and within budget;

## **8.5 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 that have an element of financial return. 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 and the recovery priorities. 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 Chief Finance Officer will report explicitly on the deliverability, affordability and risk associated with the Capital Investment Strategy. Where appropriate they will have access to specialised advice to enable them to reach their conclusions.

## **9 Governance processes**

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

Before any project can enter the procurement or delivery phase approval must be obtained from full Council to include it in the capital investment programme. This can be achieved by taking proposals through the Cabinet and Scrutiny process, either as part of the annual budget round or throughout the year so that schemes enter the programme at the required time.

### **9.1 Approval via the annual budget round**

Corporate Management Team will consider any proposals from a corporate priority perspective. As part of the budget process Executive Briefing (EB) meetings enable Cabinet Members to be briefed and understand the expected outcomes and the budget consequences, both revenue and capital, of completing the scheme. Where appropriate

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

The Chief Finance Officer will consider the proportionality of the proposals as a whole in respect of overall resources and longer term sustainability and risk. The Chief Finance Officer will also take an overall view on the prudence, affordability and sustainability of the overall borrowing level if all proposals are accepted.

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.

## **9.2 Approval throughout the year**

New schemes can be added throughout the year as appropriate, for urgent or service critical schemes or when gateway stages are successfully completed. Project proposals are submitted to the Investment Board, one of the three Governance Boards established as part of the organisations condition of simple and effective governance. Investment Board takes a strategic view of capital investment in line with the Southend 2050 ambition and acts as the advisory body to CMT and Cabinet for all capital investment projects.

Using the proportionate approach outlined earlier, the Investment Board will consider all business cases for project proposals. The Board will either:

- reject the proposal and give the reasons for this;
- recommend that the proposal is delayed to ensure business alignment;
- refer the proposal to another Governance Board for further consideration;
- ask for further clarification and assurances;
- agree that a feasibility study would be the most appropriate way forward;
- agree that the project can proceed to the next Gateway stage;
- agree whether bids for new capital grants/funding can be submitted;
- make recommendations to Cabinet for approval of the project or feasibility study in line with financial regulations.

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

## **10 Monitoring the progress of delivery**

It is important that the progress of the delivery of the capital investment programme can be properly monitored. This is approached in several ways:

### **10.1 Investment Board**

The Board will challenge the existing capital investment programme as part of the redirection and re-prioritisation of resources and will consider possibilities for disinvestment where appropriate. This will be particularly important where capital projects are not delivering to time and/or budget and where appropriate the Board will seek project evaluation updates or commission post completion reviews.

### **10.2 Capital Challenge meetings**

At appropriate times throughout the year capital challenge meetings will be undertaken, led by the Cabinet member with responsibility for the capital investment programme. The aim of these challenge meetings is to ascertain whether:

- Any projects are not aligned to the delivery of the Southend 2050 outcomes and can be removed from the programme;
- There are any opportunities for disinvestment;
- Any project budgets need to be re-profiled to better align them to the predicted spend across the years of the programme;
- Any projects currently funded by borrowing that can be alternatively financed;
- Any projects in the main programme need to be moved to the Subject to Viable Business Case section;
- The actual physical progress of each scheme (e.g. out to tender, site assembly, on site, etc.) and whether the current year's budget will be spent.

### **10.3 Capital budget performance reports**

Capital expenditure and its financing are monitored monthly, with the expenditure to date identified and projected to year end to forecast the outturn position based on project managers' realistic expectation.

The capital budget performance is reported to Cabinet four times a year (via CMT and EB) with a commentary on scheme progress. One of these reports is to inform members of the capital investment programme outturn. These reports include recommendations to approve the requested changes to the programme such as proposed re-profiles of scheme budgets across financial years, new schemes, deletions, virements of budget between schemes, additions where new external funding has been received or transfers between the main programme and the 'subject to' section. These changes are either as a

result of recommendations from Investment Board, the outcome of capital challenge meetings, the year end closure procedures or identified in the normal course of the monthly budget performance monitoring.

A summary of the capital budget performance is also reported to CMT for the months when it does not go to Cabinet.

## **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 Other Considerations**

The Council has a Procurement team that ensures that value for money is provided and to see where efficiency savings can be achieved. This also covers capital procurement. It is essential that all capital procurement activities comply with prevailing regulations and best practice and 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.

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

February 2022