



# **CAPITAL STRATEGY**

## **2016/17 to 2019/20**

## INTRODUCTION

The Capital Strategy is an overarching document that sets out the Council's approach to Capital Investment and how it seeks to deliver value for money against the following underlying key principal, which is subject to review by the Council's External Auditor each year:

***In all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people***

**Against this backdrop, The Capital Strategy is divided into two sections:**

**Section A** provides an introduction and sets out the context for the Capital Strategy. It sets out how the plan links to corporate priorities and shows how they link to other key resource strategies and the related roles and responsibilities of members and officers.

**Section B** covers the framework within which capital financing decisions are considered and provides background to the funding sources available to meet the costs of capital projects.

## **SECTION A - ACHIEVING OUTCOMES / DELIVERING AGAINST PRIORITIES**

### **CORPORATE PRIORITIES**

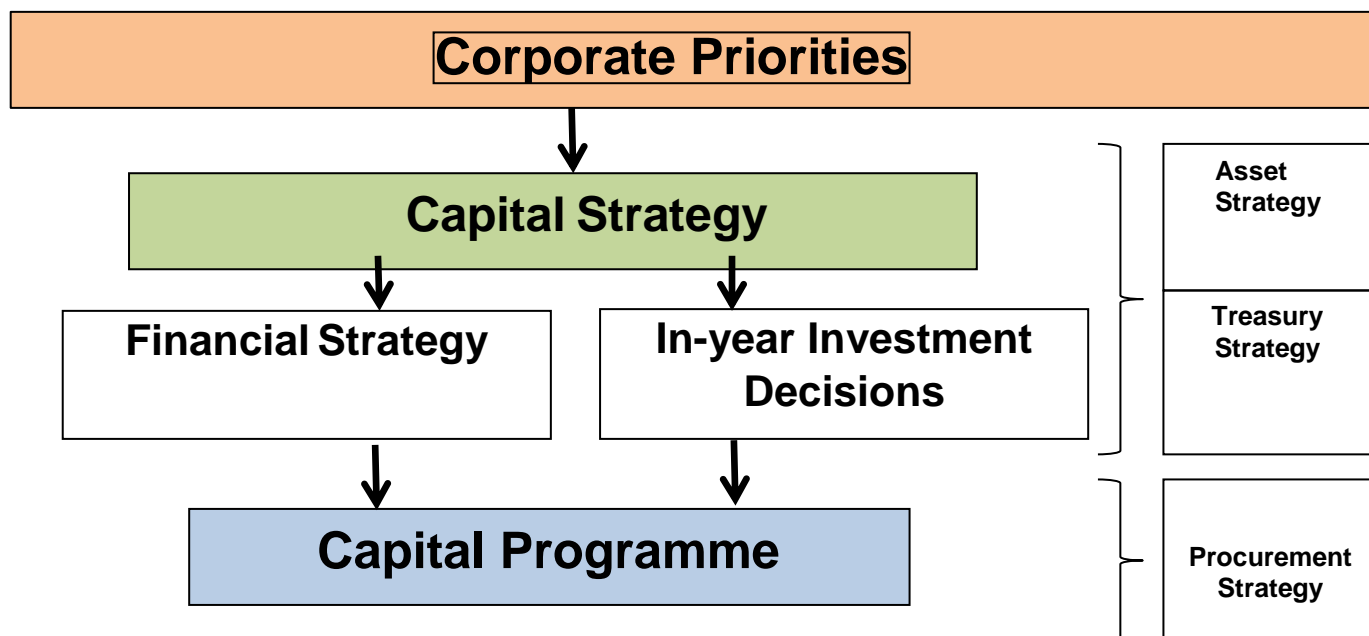
The Capital Strategy is subject to on-going review and has a key role in supporting the delivery of the Council's Corporate Priorities.

The Capital Strategy aims to set out the arrangements and processes in place to manage capital resources, the relationship with the Council's other key resource strategies and the practical / sustainable outcomes of those arrangements and processes by:

- 1) Setting out how schemes are evaluated and prioritised within the resources available.
- 2) Ensuring that any investment decision is prudent, sustainable and affordable in accordance with the prudential code and therefore represents value for money.
- 3) Setting out the performance processes in place to ensure that projects are delivered on time and within budget
- 4) Ensuring that expected outcomes are delivered and lessons learnt from previous investment decisions.

## LINKS TO OTHER KEY STRATEGIES

The ability of the Council to undertake capital investment to deliver its corporate objectives will be influenced or have direct links to a number of strategies, with the key 'links' out below:



The above sets out the strategies / processes that are more closely aligned to the capital investment decision but are by no means exhaustive. Although subject to changes over the life of this Strategy, other key strategies and policies may also need to be reflected in the investment decision such as those associated with workforce / staff capacity and ICT delivery. Decision making must therefore reflect these requirements where relevant / necessary.

**In respect of ICT within the Council, associated strategies or requirements set out how the Council** intends to use technology to support service delivery and transforming the way it delivers its services. ICT is therefore recognised as a key enabler in supporting capital investment and delivering sustainable outcomes.

The **Financial Strategy** plays a pivotal role in developing and delivering capital investment. The Financial Strategy not only determines the financial resources available to fund capital investment, both in terms of the initial investment and any revenue consequences of the capital investment itself, it also provides a framework for the consideration and prioritisation of capital projects. It is however recognised that to remain flexible to take advantage of investment opportunities that may arise outside of the annual Financial Strategy process, decisions may be required during the year in line with the Council's Financial Procedure Rules. To ensure consistency, such decisions should also follow the same requirements set out within the Capital Strategy.

The Treasury Strategy is also highlighted above as a key influence as it sets out the Council's overall approach to debt and borrowing. This approach along with affordability form part of the investment decisions that are brought together via the Financial Strategy process or as part of separate investment decisions during the year.

Other significant influences include the Local Development framework (LDF) which sets out the Council's vision for change and new growth in the Tendring District in the long term which could present the Council with investment opportunities for consideration alongside other investment options.

## **ROLES AND RESPONSIBILITIES IN RESPECT OF THE CAPITAL STRATEGY AND THE FORMULATION AND MONITORING OF THE CAPITAL PROGRAMME**

**Management Team** – As the most senior officer team of the Council the Management Team approves the Capital Strategy for submission to Cabinet and having regard to the Council's priorities, recommends projects for inclusion in the Capital Programme in consultation with Portfolio Holders / Cabinet (via the Financial Strategy Process). Management Team also considers all investment decisions prior to formal reporting to Members especially those associated with in-year investment decisions that it may not have been possible to include within the annual Financial Strategy process.

Departments support Management Team in the above process through the development and investigation of investments opportunities and submitting reports in support of the associated capital projects.

**Cabinet (including Portfolio Holders acting within approved delegations)** – The Cabinet recommends the 5 year capital programme to Council. The Cabinet and the Finance, Revenues and Benefits Portfolio Holder can, within the limits set by the Council's Financial Procedure Rules, approve supplementary estimates or approve virements between schemes during the year as part of separate investment decisions. The Cabinet is required to approve the Capital Strategy as and when significant changes are necessary.

**Council** – Approves the 5 year Capital Programme as part of the Financial Strategy and budget setting process in February each year.

Subject to the limits set out in the Council's Financial Procedure rules, Council may be required to approve supplementary estimates to increase the costs of approved schemes or add new schemes over and above amounts that individually or on aggregation are over and above those amounts ordinarily agreed by Cabinet as part of in-year investment decisions.

## **CONSULTATION**

The views of the local community are an important element in developing the priorities for the Council. Although this can be achieved in a number of ways depending on the specific investment that is considered, the Council continues to undertake a budget consultation exercise each year as part of the Financial Strategy Process.

## **MONITORING OF THE CAPITAL INVESTMENT / CAPITAL PROGRAMME**

In terms of performance and monitoring the delivery of capital investment, this is primarily achieved through the existing and comprehensive financial processes such as the Financial Strategy and budget setting process, outturn review and the Corporate Budget Monitoring process. In respect of the Corporate Budget monitoring process, an update on the delivery of projects and the position against the budget is included. The Corporate Budget Monitoring Report is reported to both Cabinet and the Corporate Management Committee on a Quarterly basis during the year. Significant Capital Projects also form part of the Council's separate Performance Monitoring processes that are also reported to Members on a quarterly basis. The decision to include items in the performance report will be based on risk, materiality, scale and associated governance arrangements and will be determined as part of the annual performance plan process that involves Departments, Management Team and Members.

Where capital investment is material, the scheme or project may be subject to review by internal audit which would be at the discretion of the Internal Audit and Governance Manager as part of the annual Internal Audit Plan or if required by other key stakeholders.

## SECTION B - CAPITAL INVESTMENT AND SOURCES OF FUNDING.

### CAPITAL INVESTMENT CONSIDERATIONS

The Council's capital investments are made in accordance with the Prudential Code, which aims to ensure that the capital investment plans of local authorities are affordable, prudent, and sustainable, which should also include where necessary a prioritisation and appraisal process. Under the code the Council is free to determine the amount it borrows to finance capital investment.

All of the Council's capital investment is managed in accordance with the requirements of the Prudential Code. The prioritisation of capital investment is directly linked to the Financial Strategy and/or in-year budget amendment processes as previously explained which are undertaken in an open and transparent manner.

Schemes that are agreed but not funded as part of the Financial Strategy Process should where relevant / practical be considered a prioritised list which in effect becomes a 'live' schedule of investment opportunities against which further investment opportunities should be considered during the year.

The Council faces significant financial challenges over the period of this Capital Strategy due to the significant year on year reductions in Government Funding. Although the Council is taking the necessary steps in moving to a self-sufficient position from 2020/21 the financial forecast has identified that a significant level of savings is required over the next few years and in order to deliver the level of efficiencies and transformation that will support the identification of the required savings, the following key principles have been identified which should form the basis of capital investment decisions:

Design schemes /projects to limit as far as possible any negative impact on the Council's on-going revenue budget.
Promote capital investment which allows either invest to save outcomes or generates a revenue and/or capital return and/or generates additional external grant (e.g. new homes bonus) or core funding (e.g. Business Rates) whilst clearly setting out how it contributes to the Council's Corporate Priorities
Foster effective working relationships with potential funders / partners
Carefully consider value for money and efficiency of projects and associated outcomes
Project risk is fully explored and mitigating actions identified and taken as necessary
Ensure appropriate project management tools are used where necessary and the Council has the capacity to deliver the project
Responsibility for the delivery of the project is clearly defined and understood

Although not always necessarily subject to formal reporting, Departments are expected to evidence the outcome from any investment undertaken against the key criteria set out within this Capital Strategy to inform future investment decisions with high level information being available within the usual performance / budget monitoring reports.

To promote consistency, a quick reference guide for detailed information that is expected to form part of any investment decisions is set out as **Appendix A**.

### Impact Assessments

Impact assessments may be required depending on the specific capital investment decisions being considered. Therefore Departments are expected to consider whether it is necessary to complete an impact assessment based on the Council's usual processes and documentation at the time a decision is made.

## SOURCES OF FUNDING

Capital investment will have to be undertaken within the Council's limited resources and challenging financial environment.

In limited cases the cost of capital investment is supported by external grants / contributions. Any other capital investment the Council wishes to make has to be funded from its own resources or by borrowing (the revenue cost being met entirely by the Council). The Council's Financial Strategy includes consideration of a five-year forecast, taking into account the revenue implications of capital investment plans and the resources available to fund capital investment. The level of capital investment will be constrained by the available resources identified via the Financial Strategy process including revenue contributions or the ability to attract external funding and the generation of capital receipts. Any decision to invest in capital projects will need to match the available resources against criteria set out above including how it meets corporate priorities.

In planning any capital investment to contribute towards the achievement of the Council's priorities, the following resources are available:

- a) **Revenue Funding (Including Reserves)**– This continues to be limited each year given the challenging financial environment and on-going government grant reductions. This funding stream will need to be considered within the overall financial planning processes each year, including that for the HRA which operates under a self-financing environment where changes in Government Policy have limited revenue contributions to capital projects.
- b) **Capital grants/contributions** - These have contributed significantly to past and current capital projects and many aspects of the Council's and its partners' objectives can only be met if this funding source continues to be pursued. Recent community objectives have been met by successful grant applications. Section 106 money flowing from the planning process is also a significant source of external funding.
- c) **General Fund Capital Receipts** – It is acknowledged that the Council's current property / land holdings are not of significant high value or volume. Nevertheless the Council recognises this important funding source and continually reviews its assets as part of the separate Asset Management Strategy which provides the context to consider opportunities to dispose of any assets that are surplus to requirements and/or not contributing to the delivery of the Council's priorities or where they provide alternative investment opportunities.
- d) **Borrowing within the Prudential Framework (Prudential Borrowing)** - The Council has the freedom to borrow to finance its capital expenditure provided it can demonstrate the prudence of the investment and its affordability.

### CAPITAL STRATEGY CONCLUSIONS

The Capital Strategy sets out the high level arrangements and processes to ensure that capital investment is managed within the Council's overall financial framework. It aims to ensure that limited resources are applied consistently and effectively towards delivering the priorities of the Council. It links together the capital expenditure implications of various plans and strategies.

**QUICK REFERENCE GUIDE - Information Expected to be Included in Capital Investment Decisions Where Relevant**

<b>Formal Investment Considerations / Decisions / Business Cases</b>
Link to Priorities
Return on Investment / Net Present Value
Whole Life Costing / Revenue Consequences
Payback Periods
Risks
Alternative Options / Opportunity Costs
Sustainability
Financial Resources Available / Funding Options
Impact assessment where relevant
Capacity / Deliverability
<b>Other considerations / important information to discuss / share with relevant internal department(s) and / or for inclusion in the formal decision making process if significant</b>
Cash Flow Forecasts
VAT Arrangements / Implications
Insurance issues
Risk Management implications
Procurement processes