



Capital Strategy

2019/20 – 2022/23

January 2019

Simon Davey (CFO/S151)

Strategic Lead Finance

sdavey@eastdevon.gov.uk

Contents

1. Purpose
2. Capital Expenditure
3. Treasury Management Investments
4. Links to other corporate strategies, plans & financial governance documents
5. Capital Programme Setting Process
6. Monitoring of the Capital Programme
7. Property/Commercial Investment
8. Funding Strategy and Capital Policies
 - 8.1 External Funding
 - 8.2 Capital Receipts
 - 8.3 Revenue Funding
 - 8.4 Prudential/Unsupported Borrowing
 - 8.5 Leasing
9. Procurement and Value for Money
10. Partnerships and Relationships with other Organisations
11. Management Framework
12. Performance Management
13. Risk Management
 - 13.1 Credit Risk
 - 13.2 Liquidity Risk
 - 13.3 Interest Rate Risk
 - 13.4 Exchange Rate Risk
 - 13.5 Inflation Risk
 - 13.6 Legal and Regulatory Risk
 - 13.7 Fraud, Error and Corruption
14. Other Consideration

1 Purpose

- 1.1 This document draws together various adopted strategies and agreed process of the Council that govern how the Council manages capital expenditure and investment decisions. The Capital Strategy brings these areas together in one overarching document.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code has introduced a new requirement for local authorities to produce a capital 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. This Council's practices meet these outcomes and its useful to set these out in one place to demonstrate this.
- 1.3 The Capital Strategy is a key document, 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 Capital Expenditure

- 2.1 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, vehicles. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs, premise running costs and supplies and services.
- 2.2 The capital 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, major maintenance that enhance assets, design and project management fees related to projects and the acquisition of vehicles and other items of equipment. Also included could be service and commercial investments if they relate to a purchase of an asset. The Council has an adopted de minimis level of £20,000 for expenditure to be classified as capital.

3 Treasury Management Investments

- 3.1 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.

- 3.2 Treasury Management investments need to ensure that the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Council's Treasury Management Strategy.
- 3.3 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 Council's Commercial Investment Framework.

4 Links to other corporate strategies, plans and financial governance documents

- 4.1 The Council Plan sets out the Council's ambitions and priorities with agreed outcomes which guide its work. These aims, priorities and objectives are in turn reflected in Service Plans.
- 4.2 To support the delivery of the Council Plan and Service Plans a number of key strategies/policies are in place; Financial Plan, Transformation Strategy, Capital Strategy, Digital Strategy and Asset Management Plan.
- 4.3 There are adopted documents which govern and put in place financial controls to ensure proper financial management, these are linked to this Capital Strategy, namely:
 - Treasury Management Strategy – This Strategy is approved annually and follows the Treasury Management Code published by CIPFA to govern treasury activities defined as: *The management of the organisations borrowing, investments and cash flows, its banking, money market and capital market transactions.*
 - The Prudential Code – The adoption of the Code is approved annually and follows the latest best practice as published by CIPFA to help ensure that the capital expenditure plans of the Council are affordable, prudent and sustainable.
 - Commercial Investment Framework – The adoption of this links to the Treasury Management Strategy but specially governs the element of invest that covers the purchase of commercial assets as an investment rather than investments related to cash flow decisions.
 - Project Management Guidelines – These govern the way the Council will appraise and monitor the delivery of key projects which in the main are those within the capital programme.

- 4.3 The Council also has adopted Financial Regulations and Contract Standing Orders which govern the financial management of the Council.

5 Capital Programme Setting Process

- 5.1 The preparation of the draft Capital Budget is directed by the Capital Strategy & Allocation Group (CSAG) who meet specifically in December each year to consider scheme proposals. The Group considers funding resources available, the capital appraisal process and each scheme proposal. Recommendations are made from this Group to Cabinet who consider all aspects of the annual Revenue and Capital Budget to make recommendations to Council. Draft proposals are also presented to both Overview and Scrutiny Committees for their consideration and recommendations.

- 5.2 The capital appraisal process is used to build a capital programme aimed at delivering the Council's stated priorities and ensuring schemes meet set gateways:

- Gateway 1 fully financed – external grants pay fully for the project, or revenue savings pay back capital investment inside 5 years.
- Gateway 2 statutory obligation – we have to do it by law
- Gateway 3 contractual obligation – we have to abide by our contractual agreements
- Gateway 4 critical business interruption – a major part of the Council's services would not be able to function.

Each scheme is given a score against a set criteria such as how the project meets the Council Plan, the risk involved, any part funding, invest to save and service provision. If gateways are passed then the project is approved subject to there being sufficient funds, scoring is considered to give priority against limited resources.

For each scheme proposed an Initial Project Proposal Form is completed as governed in the adopted Council's "Guide to Project Management".

- 5.3 This process governs for the formation of the Council's Capital Programme and how capital expenditure is approved. Two area of capital expenditure differ to this process:

- ICT Projects proposed by Strata (Jointly owned IT company who provided ICT support to the Council) this falls to the Strata Scrutiny and Cabinet Committees to consider and make recommendations to Cabinet.
- Community Infrastructure Levy supported schemes are considered and governed and recommended to Council by the Strategic Planning Committee.

It should also be stated in this document for completeness that the Council has formed a company “East Devon Homes” with the purpose of provide housing in the District outside of the Housing Revenue Account renting to private tenants. The Council has agreed the governance and financial controls of how this Company operates. A £2m lending facility to East Devon Homes has been approved, drawn down of this facility will be deemed as capital expenditure, the principle borrowed with interest will be recovered from the Company. The impact of this expenditure for the Council will be reflected in the Council’s Prudential Indicators calculations.

5.4 An extract for the Council’s Project Management Guidelines is reproduced below which clarifies roles and responsibilities.

Who	What
Council	<ul style="list-style-type: none"> • Approves the Council’s spending plans including service plans – Annual • Adopts Council Plan.
Cabinet	<ul style="list-style-type: none"> • Recommends Council spending plans and service plans – Annually • Considers and makes recommendations on business cases for large scale projects. Ad hoc reports to Cabinet with cut off September for inclusion in forthcoming budget considerations. • Considers minutes of Strata JEC (ICT Projects). • Considers minutes of Strategic Planning for CIL (Infrastructure/123 schedule list) • Considers minutes of CSAG (All other Capital Projects and overall financing implications).
Capital Strategy & Allocation Group	<ul style="list-style-type: none"> • Recommendations to Cabinet projects to be included in the Annual Capital programme. Overview of Programme and funding. Receives Capital Appraisal Forms and Initial Project Proposal Document. • Monitors delivery of large projects and report to Cabinet through minutes any critical issues such as changes (realised or anticipated) to the business case, project plan, level of risk, or variation against the project budget. • Receive Post Project Evaluation reports for large projects.
Strata JEC	<ul style="list-style-type: none"> • Recommend to Cabinet IT projects for budget inclusion.

	<ul style="list-style-type: none"> • Monitor delivery of IT projects and report to Cabinet through minutes any critical issues such as changes (realised or anticipated) to the business case, project plan, level of risk, or variation against the project budget.
Strategic Planning - CIL	<ul style="list-style-type: none"> • Minutes to Cabinet identifying projects and any implications on the Council's Capital programme.
SMT	<ul style="list-style-type: none"> • Acts a Project Management Board. • Receives all project documentation and agrees next steps. • Monitors progress of projects, mainly by exception. • Receives requests for changes (realised or anticipated) to the business case, project plan, level of risk, or variation against the project budget and will refer as appropriate. • Supports Cabinet in the review of the Council Plan and Service Plans • The Strategic Lead for Finance has overall responsibility for the Project Management process including training.
Senior Responsible Owner	<ul style="list-style-type: none"> • Will normally be a Service or Strategic Lead but could be a senior manager for small projects. • Champions the project and has overall responsibility for its delivery. • Ensures that the business case is sound and manages the approval of the project. • Responsible for ensuring that an initial kick off meeting takes place with all the anticipated key players to discuss the vision of the project and likely issues (e.g. financial, legal, ICT) to allow for an early understanding of the level of support required internally. • Identifies the core Project Team at the kick off meeting including the Project Manager. • Provides support to the Project Manager. • Ensures the Project Manager has all the resources necessary to deliver the project at their disposal. • Resolves any issues at a level outside the scope of the Project Manager, for example resources/priorities. • Refers issues by exception to SMT. • Reports to the relevant Portfolio Holder, Cabinet, Overview, Scrutiny, or Audit & Governance Committees or Capital Strategy & Allocation Group.
Project Manager	<ul style="list-style-type: none"> • Will normally be a senior manager or an appropriately qualified/experienced officer. • The role should not be shared and is the single focus for day-to-day management of the project. • Responsible for producing project documentation including the PID and PPE. • Manages the project delivery including management of the project budget and Project Team (where appropriate).

	<ul style="list-style-type: none"> • Responsible for ensuring effective completion of the project as specified in the PID. • Keeps the Senior Responsible Owner regularly informed of progress and of any significant deviation from the project plan (realised and anticipated). • Responsible for producing monthly progress updates for relevant officer/team/group. • Ensures project team meetings are arranged as appropriate. • Provides reports as required by the Senior Responsible Owner.
Project Team	<p>Not all projects will require a team for delivery. For some it will mean a cross service officer team, whilst others will also have member representation. A Project Team:</p> <ul style="list-style-type: none"> • Should be made up of officers who have the required skills, experience and knowledge to deliver the project. • Project Team members must be identified in the PID and their participation must be agreed by SMT to ensure there is enough capacity to support the project. • Project Team members must fully understand their roles and responsibilities. • Is responsible for carrying out tasks allocated by the Project Manager in accordance with the PID and is collectively responsible for the delivery of the project. • Provides progress updates to the Project Manager (frequency to be defined by Project Manager) and raise issues as they occur. • The size of the Project Team can vary depending on the type and scope of project. • All large projects must also include a representative of Finance and Legal on the Project Team.

6 Monitoring of the Capital Programme

- 6.1 Once the detailed capital programmes has been approved by Members, the financial spend is monitored on a monthly basis. Monitoring is reported through to Cabinet in the Budget Monitoring Reports.
- 6.2 Additional governance is place for key project and these are monitored through the CSAG with minutes presented to Cabinet:

Requirement	Project Type		
	Small	Medium	Large
Monthly Monitoring Reports covering; budget, time, milestones, risk register.	Optional – presented Service/ Strategic Lead	Yes – presented to SMT Project Board (mthly)	Yes – presented to SMT project board (mthly) & CSAG (qtrly)
Post Project Evaluation Document.	No	Yes – presented to SMT Project Board	Yes – Presented to SMT Project Board & CSAG

7 Commercial Asset Investments

- 7.1 Capital expenditure on the purchase of assets for the purpose of investment are determined and governed under the Council's Commercial Investment Framework. This determines criteria for assessment and purchase and defines the governance and monitoring arrangements.
- 7.2 The Commercial Investment Framework determines the Council's risk appetite and controls on this type of capital expenditure and is consistent with the principles determined in this Capital Strategy.
- 7.3 The implications on Council borrowing linked to these investments has been factored into the Council's Prudential Indicator calculations.

8 Funding Strategy and Capital Policies

- 8.1 This section sets out the policies of the Council in relation to funding capital expenditure and investment.

External Funding

- 8.2 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. The capital appraisal processes significantly favours projects that attract external funding.
- 8.3 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.
- 8.4 In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from either within existing budgets or

schemes need to be submitted as part of the normal capital appraisal process if additional funding is being sought.

Capital Receipts

- 8.5 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.
- 8.6 Capital receipts are 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. The Council has deemed that Housing Revenue Account (HRA) generated capital receipts are used to support HRA capital expenditure only.

Revenue Funding

- 8.7 Services may use their revenue budgets to fund capital expenditure, this may be via earmarked reserves. The Council will consider any corporate funding of capital from revenue as outlined in the annual budget report, currently a significant proportion of the Council's New Homes Bonus Grant is used to finance capital and this is decided annually by Council.
- 8.8 The Strategic Lead for the Service and the Strategic Lead Finance will take an overview and decide the most appropriate way of funding the service areas. In doing that the Strategic Lead Finance will take account of the strategy regarding the levels of general and earmarked reserves.

Prudential/Unsupported Borrowing

- 8.9 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 costs are not supported by the Government so the Council needs to ensure it can fund the repayment costs. 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.
- 8.10 Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. The Council 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 Financial Plan and medium term financial plan calculations accordingly.
- 8.11 The Strategic Lead Finance will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of

this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

- 8.12 The view of the Strategic Lead Finance will be fed into the corporate bidding process and inform the CSAG 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.
- 8.13 The Strategic Lead Finance will also determine whether the borrowing should be from internal resources or whether to enter into external borrowing.

Leasing

- 8.14 Strategic Leads 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 Strategic Lead Finance is required to be consulted to ensure that leasing provides the best value for money method of funding the scheme.
- 8.15 Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

9 Procurement and Value for Money

- 9.1 The Council uses Devon Procurement Services, processes have been defined and guidance and training is available to officers through this Procurement Team which ensures officers can evidence they are seeking achieve value for money in procurement.
- 9.2 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 activities must comply with the Council's Contract Standing Orders and Financial Regulations.

10 Partnerships and Relationships with other Organisations

- 10.1 Capital planning will be undertaken within the context of the Council Plan and 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. This principle is taken into account in the capital appraisal process with higher priority given to such schemes.

11 Management Framework

- 11.1 The governance structure of the Council has the Strategic Management Team that takes a strategic and group view on the capital programme and investments. This Strategy does outline the key roles and responsibilities of member groups and committees in this process.

12 Performance Management

- 12.1 Clear measurable outcomes are developed for each capital scheme in the Project Initiation Document (PID). After the scheme has been completed, services should check if outcomes have been achieved. For medium and large projects these are required to be specially reported and reviewed under the Project Management Guidelines.

13 Risk Management

- 13.1 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.
- 13.2 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.
- 13.3 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. Project Managers for medium and large capital projects are required to maintain and report on their individual project risk register, highlighting any risks which are deemed after mitigation to be medium to high.²
- 13.4 It is important to identify the appetite for risk by each scheme and for the capital 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.
- 13.5 The Council accepts there will be a certain amount of risk inherent in delivering the desired outcomes of the Council Plan. 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 and all medium and large projects are identified in the Council Performance Management System (Spar) with a rag rating against current risk assessment.

Credit Risk

- 13.6 This is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot pay us our investment returns or complete the agreed contract. Accordingly, the Council will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

Liquidity Risk

- 13.7 This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Where possible appropriate interventions will occur as early as possible.

Interest Rate Risk

- 13.8 This is the risk that interest rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Interest rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

Exchange Rate Risk

- 13.9 This is the risk that exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Where relevant, exchange rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

Inflation Risk

- 13.10 This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

Legal and Regulatory Risk

- 13.11 This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, the Council will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

Fraud, Error and Corruption

- 13.12 This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the Council's policies and procedures. This is supported by the Employee Code of Conduct and detailed policies such as Anti-Fraud, Theft and Corruption, Anti Money Laundering, Whistle Blowing, Anti-bribery and Declaration of Interests.

14 Other Considerations

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