

# Leader Decision

26 March 2020

## Council Investment Funds – Criteria for the Allocation of Resources

### Recommendations

The Leader is asked to:

- 1) Agree the arrangements for the operation of the four new Investment Funds agreed as part of the 2020/21 Budget, as detailed in Section 2;
- 2) Agree to allow the transfer of Investment Fund allocations between financial years to align with the approval/delivery of projects over the period of the Medium Term Financial Strategy;
- 3) Note that the arrangements for the operation of the Children's Transformation Fund will form part of the report to the Leader in April 2020 on the proposed use of the Fund;
- 4) Agree the arrangements for the operation of the Council Change Fund, as detailed in Section 3; and
- 5) Agree the updated arrangements for the operation of the Capital Investment Fund as detailed in Section 4.

### 1. Background

- 1.1. The 2020/21 Revenue Budget Resolution approved by Council on 18 February 2020 included a £20m funding package for four new funds: Sustaining Prevention, Climate Change, Commercial and Place Shaping & Capital Feasibility. The Funds will be used to invest short-term resources to support the priorities of the Council Plan 2025 and to invest in Warwickshire's future. The budget resolution required that investment in individual projects would be supported by robust business cases, realise benefits and help address long-term issues such as climate change. The focus should be on evidence-based decision-making that looks to make step changes towards the delivery of our

service objectives whilst ensuring any allocations do not cause difficulties with sustainability over the medium term. It further required a rigorous prioritisation and evaluation processes before funding allocations are confirmed.

- 1.2. The purpose and indicative level of funding available over the period of the Medium Term Financial Strategy (MTFS) is set out in Table 1 below.

| <b>Table 1: Purpose and Indicative Funding of the Investment Funds</b> |  |                          |
|--|--|--------------------------|
| <b>Fund</b>  | <b>Purpose</b>   | <b>Allocation<br/>£m</b> |
| Sustaining Prevention  | To pump-prime up-front investment in demand management and early intervention initiatives prior to financial benefits accruing.  | 7                        |
| Climate Change   | To invest in coordinating and pump-priming work across the revenue and capital budget to implement the priorities flowing from the Climate Change Task and Finish Groups and Council Plan 2025 that protect our residents and the County's environment for future generations. | 4                        |
| Commercial   | To deliver commercial investment in outcomes for Warwickshire arising from the commercial strategy.  | 4                        |
| Place Shaping & Capital Feasibility                                    | To support strategic investment in Warwickshire's economy and improving quality of life for residents and communities.   | 5                        |
| <b>Total Allocation</b>  |  | <b>20</b>                |

- 1.3. An additional allocation of £3.8m was made to the Children's Transformation Fund for one-off investment in initiatives to reduce demand for children's social care over the medium term and improve the school readiness of children across Warwickshire. A report on the intended benefits of the programme across the three themes of early help, children in care and care leavers and cultural change aligned to the outcomes and objectives of the Council Plan 2025 is to be brought to Cabinet in April.
- 1.4. As well as identifying where the Council will invest in services for the residents and communities of Warwickshire, the budget resolution also focussed on identifying where services to residents can be broadly maintained albeit delivered in a more cost-effective way in the future. The existing Transformation Fund was re-designated as a Council Change Fund (Invest-to Save) with an increased focus on investments that deliver financial returns, pay-back periods and deliver budget reductions in future years.
- 1.5. Lastly, in addition, a new capital strategy was also approved by Council in February 2020 that included an updated high-level approach to the allocation of the Capital Investment Fund.
- 1.6. This report sets out, for the Leader's approval, the proposed approach to the allocation of the approved funding to individual projects/programmes for the

Investment Funds, the Council Change Fund and the Capital Investment Fund. Arrangements for the governance of the Children's Transformation Fund will be reported to the Leader in April 2020 and will be consistent with the proposals in this report.

## **2. Arrangements for the Operation of the Investment Funds**

### Availability of Funding

- 2.1. As part of the 2020/21 Budget £20m was allocated to the Investment Funds. The indicative allocations across the four Funds are shown in Table 1. These indicative allocations are deliberately flexible and may be varied as bids emerge and are prioritised, subject to consideration and approval.
- 2.2. Although funding has provisionally been profiled evenly across the 5 years of the MTFs, the phasing between years is intended to be flexible depending on the strength of investment proposals coming forward for consideration. This means future years funding may be brought forward, as well as any unused funding each year being put back into the earmarked reserve for use in future years.

### Governance

- 2.3. Approval of bids for funding from the Investment Funds will follow a gateway process to bring a consistency of approach for all investment proposals across the organisation.

The proposed governance process is as follows:

- Stage 1: Project managers, with the approval of their Assistant Director, will submit a project proposal document to a Gateway. The Gateway Group will consider its fit with the organisation's strategic objectives and the Council Plan and the general financial viability of bids. The outcome will be a 'Yes/No' decision on whether a full business case should be commissioned. This decision will be based not only on the potential benefits of the scheme, but also the wider strategic context that considers whether the proposal also supports a balanced change portfolio for the organisation.
- Stage 2: If given approval to proceed, a full business case will be produced. A 'technical panel' will assess and score the business cases against the prioritisation criteria set out in diagram 1 below. Based on the score the panel will recommend whether funding should be agreed from one or more of the relevant Investment Fund. The recommendations and

feedback will be provided to the Gateway Group for onward reporting to Corporate Board.

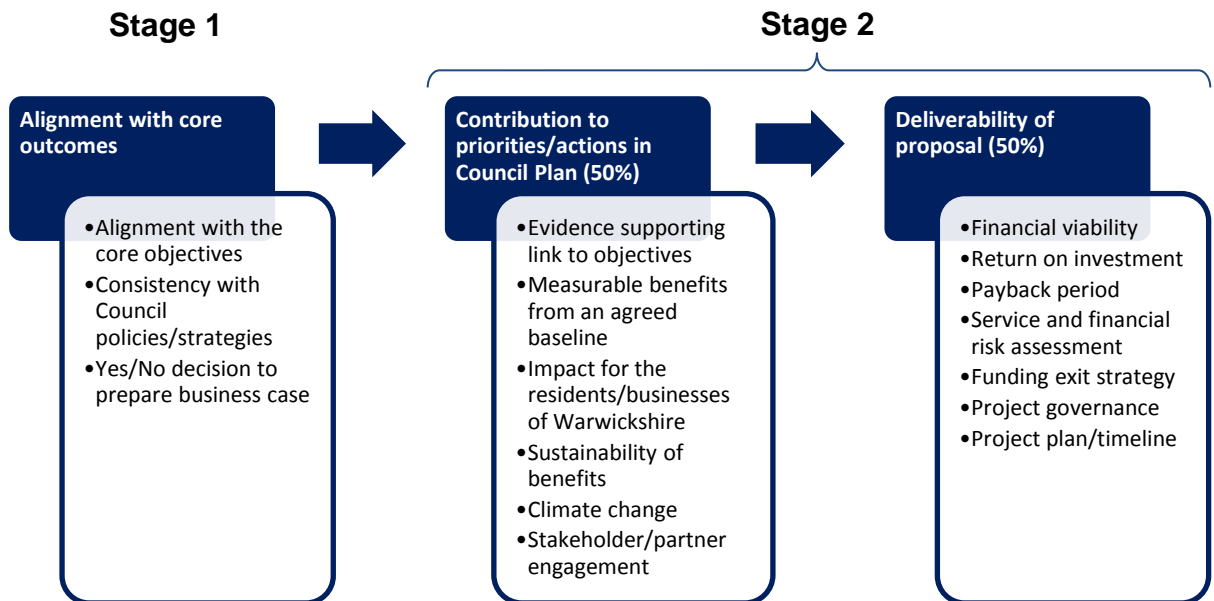
- Stage 3: If Corporate Board support the allocation of funds and the business case, a report is taken to Cabinet to ask Members to approve the allocation. If the total cost of a project is under £100,000 it is recommended that authority to approve projects is delegated to the Chief Executive.

- 2.4. The Investment Panel will cover the four investments funds. A separate Capital Panel will remain for the Capital Investment Fund due to the differing technical knowledge required by the panel for this fund. For the six months the Investment Panel will meet monthly to ensure pace is maintained then move to bi-monthly as bidding activity settles.
- 2.5. It is proposed that membership of the Investment Panel includes one subject matter expert for each of Climate Change, Commercialism, Prevention and Place Shaping alongside representatives from Policy, Legal, Strategic Finance and the Commissioning Support Unit. The subject matter experts will act as independent reviewers for bids to funds outside of their expertise.
- 2.6. Bids from community groups, partners and charities are welcomed, but will require sponsorship from a service lead to ensure internal processes are followed and that any such bids are given equal access to support in the development of business cases.

#### Evaluation Criteria

- 2.7. The evaluation criteria against which submitted business cases will be assessed will be standard across all the Funds. Following the initial decision to commission a business case based on the alignment of the project proposal with the core outcomes, the business case itself will be evaluated against two equally weighted criteria:
  - The contribution to the priorities/actions in the Council Plan; and
  - The deliverability of the project.
- 2.8. This approach and the key elements of the evaluation against each of these criteria is shown in the diagram below. This will ensure proposals are evaluated in a consistent way, are subject to the same degree of scrutiny and that benefits, and success of projects are clear.

**Diagram 1: High Level Project Assessment Criteria for Funding**



2.9. The Leader is asked to approve the proposed approach to the allocation of the Investment Funds and to agree that approval of projects with a total cost of under £100,000 is delegated to the Chief Executive, subject to the projects going through the standard evaluation process. All projects approved as part of this delegation will be reported to Cabinet as part of the next report seeking approval of allocations from the Investment Funds.

2.10. These proposed arrangements will be reviewed every 6 months to ensure they deliver an effective and timely approach for the approval and delivery of projects.

### **3. Arrangements for the Operation of the Council Change Fund**

#### Purpose

3.1. The Council Change Fund uses one-off funding to invest in projects that will enable services to residents to be broadly maintained but delivered in a more cost-effective way in the future. Projects given investment will be expected to deliver measurable benefits and, where appropriate, have targets for financial returns, specified pay-back periods and will need to deliver budget reductions in future years.

3.2. A proportion of the financial returns generated will be recycled to provide capacity to invest in future projects to deliver a continuous flow of future

budget reductions. A pipeline of projects and future expected budget savings will be developed and will feed into the annual review cycle of the 5-year MTFs. This will then help off-set future spending pressures and provide potential funding for Members' future priorities.

#### Availability of Funding

- 3.3. At the end of 2019/20 there is forecast to be £14.6m remaining in the Council Change Fund. £9.1m of this is already committed to complete existing approved projects, leaving £5.5m for the new pipeline of projects.

#### Governance

- 3.4. It is proposed the governance arrangements for the Council Change Fund take the same form as for the previous transformation funds. Services will submit business cases that identify how the investment will positively impact on the management of demand (cost avoidance) and/or will deliver budget reductions in future years. The business cases will be considered by the Gateway Group who will then make a recommendation to Corporate Board, with the formal delegated decision-making with the Chief Executive.

#### Prioritisation Criteria

- 3.5. It is proposed all business cases are prioritised in a standardised way that assesses whether the impact of the investment would have a high, medium or low impact across a range of criteria and then on balance whether the investment should therefore be supported.

The prioritisation criteria assess:

- The strategic alignment with the Council Plan;
- The impact on the Council's reputation;
- The impact on customers, partners and businesses;
- The organisational impact;
- The level of resource requirement and the availability of alternative sources of funding;
- The return on invest, budget reduction delivered, the payback period and the level of future costs avoided; and
- The level of risk to, and timeframe for, the delivery of the expected benefits.

- 3.6. The Leader is asked to approve the proposed approach to the allocation of the Council Change Fund.

## 4. Updated arrangements for the Operation of the Capital Investment Fund

### Purpose

- 4.1. In February 2020, Council approved a new Capital Strategy for aligned to the Council Plan 2025 and the 2020-25 MTFS. This included a reshaping of the Capital Investment Fund's (CIF's) evaluation criteria to ensure focus on delivering core outcomes via a structured evaluation process that assesses:
- What we are trying to achieve for Warwickshire residents, businesses and visitors by investing in particular assets;
  - The contribution of the new assets to the delivery of the corporate outcomes;
  - The financial costs and benefits over the short, medium and long term; and
  - The risks inherent in the delivery of the scheme itself and the expected benefits, with a focus on better up-front planning and timetabling.

### Availability of Funding

- 4.2. At the end of 2019/20 the CIF is expected to have £7.0m remaining to be rolled forward into 2020-25 MTFS. In addition to this rolled forward balance Council agreed a further allocation to the CIF of £24.9m per annum for the period of the 2020-25 MTFS. This means a commitment to borrow then invest £131.5m over the next five years.

### Governance

- 4.3. From 1 April 2020 it is proposed the existing CIF process is aligned to the newly created Gateway process. This will mean CIF bids will follow the same process that will be used for the Investment Funds, to bring consistency across all project funding.

The proposed overall approach for CIF applications will be:

- Stage 1: Project managers, with the approval of their Assistant Director, will submit a project proposal document to the Gateway Group. The Gateway Group will consider general financial viability of the bid and its fit with the organisation's strategic objectives, including the fit with the investment priority outcomes in the 2020-30 capital strategy. The outcome of this will be a 'Yes/No' decision on whether a full business case should be commissioned. This initial approval stage will ensure the overall capital investment programme uses the capacity available effectively across the broad spectrum of ambitions in the Council Plan.

- Stage 2: If given approval to proceed, a full business case will be produced. A CIF 'technical panel' will assess business cases against the prioritisation criteria set out below. Recommendations and feedback will be provided to the Gateway Group for onward reporting to Corporate Board.
- Stage 3: If Corporate Board support the allocation of funds, a report is taken to Cabinet (and where necessary to Council) to ask Members to approve the allocation.

4.4. The technical panel will meet bi-monthly to consider business cases submitted and give a score for the business case to be included in the submission to Gateway Group. Recommended membership includes one subject matter expert for each of Finance, Legal and Property, a Programme Management Officer and an independent Tier 3 Manager from a delivery service.

#### Evaluation Criteria

4.5. The evaluation criteria for the CIF will build on previous year's detailed evaluation questions, updated for changes approved as part of the 2020-30 Capital Strategy.

4.6. The main changes are:

- The inclusion of three new questions to assess the 'Alignment with the investment criteria of the Capital Strategy' criteria, these are:
  - *To what extent does the capital investment meet the investment criteria in the 2020-30 Capital Strategy?*
  - *To what extent does the capital investment meet the Capital Investment Priority Outcomes included in Annex B to the 2020-30 Capital Strategy?*
  - *To what extent does the capital investment fit with the other corporate strategies? (Risk Management, Commercial, Reserves, Treasury Management)*
- Inclusion of a new question to assess the 'Sustainability, climate change and environmental impact' criteria;
- An increased focus on the robustness of project planning and expected timelines to increase assurance on when any new assets created/enhanced will be available for use; and
- A more rigorous approach to evaluating the expected benefits of a project to assess the positive impact on the residents and communities of Warwickshire.

4.7. The weighting applied to the evaluation criteria are:



| <b>Evaluation Criteria</b>   | <b>Weighting</b> |
|--|------------------|
| Alignment with the organisation's other strategic objectives   | 10%              |
| Alignment with investment criteria of the capital strategy and the positive impact on the residents and communities of Warwickshire                  | 40%              |
| Achievability, quality of evidence base, duration of required investment, rational evaluation and challenge of options, financial viability and risk | 40%              |
| Sustainability, climate change and environmental impact  | 10%              |

- 4.8. The Leader is asked to approve the proposed approach to the allocation of the Capital Investment Fund.

## **5. Timescales and Next Steps**

- 5.1. Subject to the Leader's approval of the recommendations, detailed guidance will be provided to service managers across the organisation, so they are clear about both the purpose of the various Funds and the process/prioritisation criteria for a scheme's approval.
- 5.2. April 2020 will see the proposals for use of the Children's Transformation Fund come forward for approval. Following this, the first proposals, across all Funds are expected to come forward to Cabinet for approval by June 2020.
- 5.3. Monitoring of the delivery of the approved projects and the remaining amounts available in the funds will be provided to Cabinet as part of the quarterly financial monitoring reports to Cabinet.

## **6. Environmental Implications**

- 6.1. There are no environmental implications from the operation or monitoring of the funds. Although the projects for which some of the investment funds will be allocated will be designed to have a positive impact on the environment.

## **7. Financial Implications**

- 7.1. The process of allocating the various funds agreed through the 2020-25 MTFS will consume the specified level of financial reserves over the period of the MTFS.

7.2. There are no other financial implications from the operation or monitoring of the funds beyond the capacity already built in to Finance Service and the Commissioning Support Unit as part of the organisational restructuring.

## 8. Background Papers

8.1. None.

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No Elected Members have been consulted on this report prior to its publication.