CAPITAL INVESTMENT STRATEGY

JULY 2007

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Purpose and Aims of the Capital Investment Strategy

1. This document sets out the Council's Capital Investment Strategy, which covers all aspects of the Council's capital expenditure.

2. It explains the linkages with the Council's aims and priorities as set out in the Corporate Plan as well as with other related strategies and plans, e.g. Property Strategy, Asset Management Plan, ICT Strategy and People Strategy. It outlines the procedures for prioritising and agreeing the Capital Investment Programme, monitoring and management as well as other governance arrangements.

3. The strategy aims to ensure that all investments represent value for money, are in line with the Council's priorities, service delivery strategies and financial constraints over the longer term.

4. The strategy is reviewed on an annual basis to ensure that it is aligned with corporate processes and to respond to changing priorities.

The Objectives for Capital Investment

5. The main objectives for the Capital Investment Strategy are to:

- Support the Council's vision, values and priorities;
- Optimise capital resources and investment opportunities;
- Ensure investments are affordable and sustainable;
- Supports specific service plans and strategies;
- Maximise "Invest to Save" and "Invest to Spend Less" opportunities;
- Ensure schemes are in line with the Council's Asset Management Plan (AMP);
- Make the most cost effective use of existing assets;
- Ensure the long term impact of investment decisions are fully assessed;
- Encourage working in partnership with other organisations to maximise outputs, resources and value for money;
- Ensure the health and safety of the public and staff.

County Council Aims and Values

6. The Council's aims and priorities and Value for Money Strategy drive the Council's Medium Term Financial Plan (MTFP) and Capital Investment Programme, ensuring that monies are targeted towards priority areas.

7. The Council produces many strategies and plans, all of which link back to the overarching strategic aims and vision within the Corporate Plan. Full details are set out as part of the Corporate Plan, which is available on the Internet http://www.buckscc.gov.uk/council_plan2005/. The aims are as follows:

a. Involve, represent and serve all who live or work in Buckinghamshire
b. Provide efficient and effective services
c. Give children and young people the best possible life chances
d. Improve the quality of life for adults
e. Provide support to help families cope with their responsibilities
f. Build with you safer, stronger and healthier communities
g. Maintain a vibrant economy whilst protecting the environment

8. Each of these aims has a range of supporting policies and targets, which provide the framework within which service priorities are developed. Whilst the MTFP supports all of the Council's aims, more explicitly it underpins:
    - "Provide efficient and effective services"

9. The Council seeks to provide efficient and effective services in a number of ways: by continually reviewing and improving the way it operates, applying technology, innovation and new sources of funding as appropriate, whilst at the same time minimising risk; and by working in partnership with others to develop new and more effective ways of delivering services within our local communities.

The Capital Investment Programme Process

10. The process of allocating resources to a capital scheme comprises of four stages:

i. The identification of need linked to achievement of the Council's aims within a service area
ii. An officer quality assurance and scrutiny process including the prioritisation of schemes
iii. A member challenge and review process
iv. An approval process

Stage One – Identification of Need

11. As part of the annual Service Planning and Medium Term Planning process, Services identify capital investment projects that are consistent with the Council's strategic aims and priorities and submit business cases as appropriate to the Council's Capital Accountant.

12. The endorsement of the relevant Portfolio Cabinet Member should be sought before business cases are submitted.

13. The Council's business case guidance and template can be found at http://intranet/svc_finance/mtp/BusinessCaseTemplate2008guidancev21.doc

14. As with revenue expenditure, the drivers for the scheme can come from a number of sources including legislative requirement, growth in demand, consultation with users, partnership initiatives, or service reviews.

Stage Two – Officer Quality Assurance and Scrutiny

15. As part of the MTP process all bids for resources, both capital and revenue, are subject to a process of appraisal and evaluation to ensure that the taxpayer is receiving value for money.

16. All business cases are logged and initially appraised by the Council's Capital Accountant for value for money (according to the VFM strategy), deliverability, revenue consequences, consistency with the Council's objectives, robustness of the appraisal and associated risks. Depending on the nature of the business case it may then be referred to either or both of the Property Group and IT Strategy Group for consideration against respective strategies, AMP etc.

17. The process is represented in the flow chart at Appendix A. Terms of reference for the groups can be found at Appendix C.

18. If at any stage the business case is deemed at odds with any of the Council's strategies or is insufficiently robust, it will be referred back to the service contact, for further work where necessary, and resubmission at a later date.

19. The Business Investment Board will review all prioritised schemes and make proposals to Members for the allocation of available resources over the period of the MTP.

Stage Three – Member Challenge and Review

20. A Member scrutiny process will review the proposals prior to a recommendation being made to Cabinet/Council.

Stage Four - Approval

21. Approval of projects by Cabinet/Council, effectively earmarks resources within the MTP/Capital Investment Programme.

22. Schemes that are not approved by Cabinet/Council will be held, in a proposed preparation pool, for consideration when additional resources become available.

23. The Strategy applies to the whole Council, with the exception of School self help schemes, which are 100% funded by the school, with a gross cost of less than £200,000. The self help project procedure is available on line (guidance template http://www.buckscc.gov.uk/schools/documents/premises/dfcg_application_form.doc)

Resourcing Investment

24. Following the review of the Formula Grant allocation mechanism in 2005, the County Council became a floor authority. This means that the Council receives the minimum increase in Formula Grant year on year and that the revenue support attached to 'supported borrowing approvals' is eroded by the 'floor' mechanism. Effectively therefore, the County Council is

always prudentially borrowing and needs to make sure of the robustness of any business case for investment, as the trade off between capital and revenue investment is brought sharply into focus.

25. The Northern part of the County falls within the Milton Keynes and South Midlands growth area and has been earmarked to accommodate an additional 15,000 homes plus associated infrastructure by 2021. To facilitate this it is vital that the Council works with Partners to maximize Planning Gain and s106 contributions.

26. In making proposals for the allocation of resources the Business Investment Board will be made aware of all available funding sources through officer briefings. These may include:

- Prudential Borrowing
- Capital Receipts through the disposal of assets
- Grants from various organisations
- Contributions e.g. S106 agreements
- Private Public Partnership (PPP) including Private Finance Initiative (PFI)
- Leasing
- Revenue Contributions
- Earmarked Reserves (including Repairs and Renewals fund)

For further explanation of these funding sources see the glossary attached. It should be noted that there is no automatic agreement of schemes which are 100% funded, due to potential revenue implications.

Capital Investment Programme Timetable

27. The Capital Investment Programme timetable is as follows:

Ongoing	Services identify schemes for inclusion in the Capital Investment Programme
Nov/Dec	All service bids are reviewed and prioritised
January	Cabinet review recommendations
February	Council approves the Capital Programme & Medium Term Financial Plan

28. The Capital timetable is an integral part of the Medium Term Planning process and service planning process that is available on the internet (http://www.buckscc.gov.uk/best_value/best_value_guides/service_planning_2006_09.pdf)

29. In recognition that additional funding (grant income etc.) and Invest to Save opportunities may present themselves during the course of the year, the Cabinet Member for Resources has delegated authority to approve additional schemes where a) they do not have a net cost on the agreed Programme or a negative impact on the revenue budget; b) they have been approved by the relevant portfolio Cabinet Member; and c) they have been signed off by the Business Investment Board and followed the normal approvals process to that point.

These schemes will be reported to Cabinet as part of the corporate quarterly budget monitoring arrangements.

Management and Monitoring

30. Heads of Service and Project Managers have delegated responsibility for the effective management of capital schemes once approved. This includes delivering schemes to budget, time and specification. Capital monitoring is incorporated within the monthly budget monitoring process. Capital budgets are loaded onto the financial system and tailored reports are available on line to Heads of Service and project managers for monitoring purposes.

31. The Capital Accountant in conjunction with the Head of Property Services carries out the monitoring of capital receipts from disposals on a quarterly basis.

32. Additionally the Capital Accountant in conjunction with the s106 officer and Financial Services Managers is responsible for monitoring all other external funding, which is incorporated into the monitoring process.

33. Financial monitoring of revenue and capital are reported together in the Council's monthly budget monitoring report and quarterly report to Cabinet.

34. A capital project is monitored throughout its whole life.

35. Major projects (see 37 below) are evaluated on completion as well as at key stages during the project with the objective of improving the approach for the future. Lessons learnt from each project must be documented by the project manager and best practice spread throughout the council. This process is led by the Capital Accountant.

Governance Arrangements

36. Major Projects and Boards: A project manager is always assigned responsibility for the delivery of a project. In the case of major corporate projects however, a board will oversee the delivery of the project and the project manager will be responsible to the board for day-to-day delivery. Monitoring arrangements for those projects will follow the normal Council procedures.

37. A major scheme is either:
    - a project with either a capital cost or lifetime revenue cost to the Council in excess of £0.5m; or
    - a project below £0.5m but considered "novel and/or contentious" in either the expected solution or funding arrangement.

38. Procurement: The Council recognises that an integral part of the Capital Investment Strategy is to work within an appropriate procurement framework. The Council's Procurement Strategy establishes a clear framework for procurement. This reflects the Council's aims and organisational values as well as complying with the Council's VFM Strategy.

39. The Contracts and Procurement teams will be involved in the tender of capital contracts working with officers from the service areas.

40. Risk register/management: Risks arising from capital projects are managed according to the Council's Risk Management Strategy available on the intranet at http://intranet/svc_finance/risk_management/rm_strategy_bcc4.doc

    A risk register should be completed and maintained for all major capital schemes http://intranet/svc_finance/risk_management/risk_register.xls

Partnership working and Innovation

41. The Council actively promotes working with partners in the development of services for the benefit of the community. The Council will be working particularly closely with its District Councils as part of the Pathfinder bid, which could have a significant impact on the County Council's property strategy. External partners play a major role in the development of many of the large capital projects and business cases should make reference to any partnership working or joint financing arrangements.

42. Innovative ways of working are also encouraged with the Council tenet of "think the unthinkable". Where innovative projects are proposed, the business case must include robust financial analysis and an understanding of the risks involved.

GLOSSARY

Capital Receipts. The sale of surplus assets used to finance long-terms investments in services. All capital receipts are held in a single pot and not ring-fenced for any particular project, except by approval from Cabinet.

Contributions: are sought towards the Council's capital projects from a variety of sources e.g. lottery money.

Section 106 agreements are a legally binding agreement with a land developer over a related issue e.g. the developer will transfer ownership of an area of woodland to a local authority with a suitable fee to cover its future maintenance. S106 agreements place restrictions on the developers to minimise the impact on local communities.

Earmarked Reserves – Services can set aside funds for a specific purpose in one financial year to carry forward to meet large expenditure items in future years, subject to necessary approval by the Head of Finance.

Grants: There are two types of grants, those can be used only used for specific purposes e.g. devolved formula capital grant capital and grants that can be used for any capital project.

Leasing. The Council has no presumption over whether to lease or acquire assets. The final decision is based on value for money considerations.

Private Public Partnerships (PPP) / Private Finance Initiative (PFI): Potential capital projects are also examined to see if they could be acquired through the PFI route. PFI is a form of PPP in which local authorities can gain access to new or improved capital assets. Unlike traditional procurement the public sector does not buy the assets, but rather pays for their use, together with associated services. The capital investment, made by the private sector, is recovered over a long contract period.

Proposed Preparation Pool: Those schemes that are accepted by the Business Investment Board as viable schemes, but are unable to be included in the Capital Programme because of limited resources schemes. These schemes are available for inclusion in the programme if sufficient additional capital resources become available.

Prudential Borrowing: the Government no longer prescribes the amount of borrowing an authority can undertake, they can determine for themselves the amount they wish to borrow. Debt financing costs are borne by the Council thus it should be affordable, prudent and sustainable.

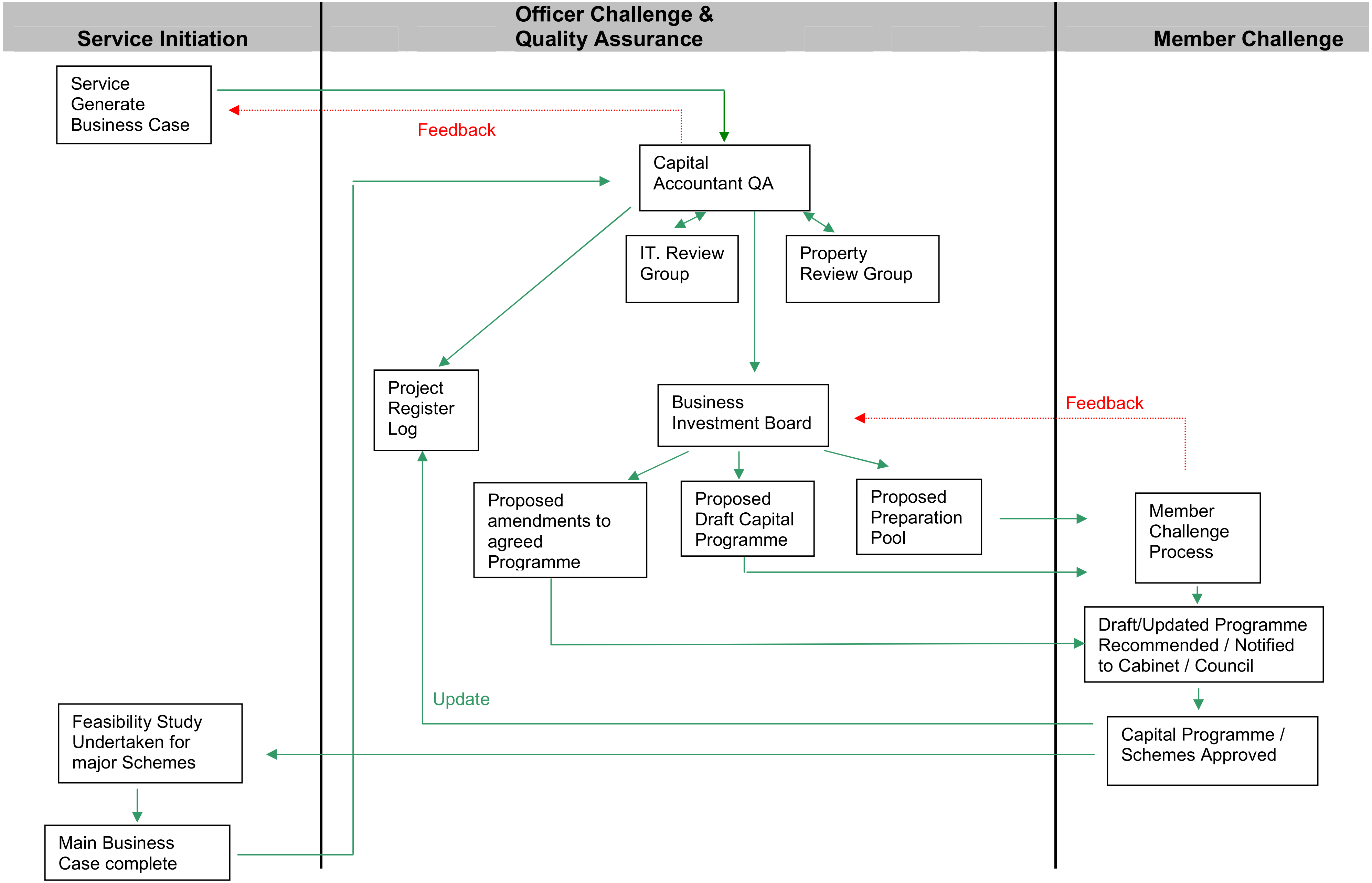
Prudential borrowing is particularly appropriate for "invest to save" projects where the project reduces the overall burden on the revenue budget.

Revenue Contributions – Services can use their revenue budgets to finance capital expenditure

Supported Borrowing: the Government provides financial support through revenue grant to finance borrowing up to a specified limit. Borrowing up to this level is referred to as supported borrowing.

Buckinghamshire County Council is a “floor” authority which means that we receive no increase in revenue grant if we undertake supported borrowing i.e. it becomes the same as prudential borrowing.

APPENDIX A
CAPITAL PROCESS



APPENDIX B
CAPITAL PROJECT PRIORITISATION MODEL

The prioritisation framework is based on the following stages:

- Criteria for prioritisation are agreed
- Weighting agreed for each of the criteria according to their relative importance
- Allocating a points score to each criterion for each scheme.
- Calculating a total points score for scheme proposal.
- Ranking all the schemes in order of total points scored.

Criteria no	**Maximum Score Available**	**Criteria**	**Scoring**		**Weighting**
QUALITATIVE CRITERIA					
1	20	Meet objectives of the Council (Corporate plan vision, priorities, aims)	Not met Minimally met Partially met Substantially met Fully met	0 1 2 3 4	5
2	12	Improve Service delivery (E.g. after inspection, facilitate partnership working)	Not met Minimally met Partially met Substantially met Fully met	0 1 2 3 4	3
3	12	The project provides VFM	Not met Fully met	0 4	3
4	4	Risks associated to the delivery of the project can be borne by the authority.	Not met Minimally met Partially met Substantially met Fully met	0 1 2 3 4	1
TOTAL	48				
QUANTITATIVE CRITERIA					
1	20	The project is totally or partially funded either from grants or other external resources. (Note -% based on the gross cost of the project)	Not met (unfunded) Minimally met (1- 49%) Partially met (50 –80 %) Substantially met (80-99%) Fully met (100%)	0 1 2 3 4	5
2	12	Capital project generates efficiencies -Yields revenue savings -Avoidance of revenue costs	Not met Minimally met Partially met Substantially met Fully met	0 1 2 3 4	3
3	12	Invest to save projects	Not met Fully met	0 4	3
4	4	Quantifiable risks measured as a % of the gross cost of the capital project	Not met (21-100%) Minimally met (16- 20% Partially met (11 –15%) Substantially met (6-10%) Fully met (0-5%)	0 1 2 3 4	1
TOTAL	48				
TOTAL	**96**				

APPENDIX C
PROPERTY GROUP

The group consists of the Cabinet Member for Resources (chair), Strategic Director Planning and Transportation, Strategic Director Resources, Corporate Property & FM Manager, Head of Property Services, Capital Accountant and other representatives as appropriate.

The group meets as a minimum four times a year but can be convened more frequently if required to address urgent or one-off schemes.

The role of the group in relation to the Capital Investment Strategy is to:

Identify any property issues arising from the review of business cases referred to it by the Capital Accountant

Ensure that property values and estimates presented in the business case are adequate and appropriately phased.

Ensure information and proposals contained in the business case comply with the Asset Management Plan, Property Strategy and other regulations as required

Identify alternative improved solutions as appropriate.

Provide timely feedback to the Business Investment Board via the Capital Accountant.

IT STRATEGY GROUP

The IT Strategy Group consists of the Head of ICT, Capital Accountant, IT service representatives and representatives of service users.

The Group will meet as a minimum four times a year but can be convened more frequently if required to address urgent or one-off schemes.

The role of the IT Strategy Group with regards to the Capital Investment Strategy is to:

Identify any IT issues arising from the review of business cases referred to it by the Capital Accountant and to find appropriate solutions that comply with the Council's regulations

Ensure that the information contained in the business case complies with the ICT strategy and other IT policies and procedures

Ensure that systems are compatible with the Council's IT platforms

Ensure that systems are secure and will not endanger data already held in systems

Provide timely feedback to the Business Investment Board via the Capital Accountant.

THE BUSINESS INVESTMENT BOARD

The Business Investment Board comprises the Head of Finance (chair), Capital Accountant, Strategic Director of Resources, Cabinet Member for Resources, Strategic Director for Planning and Transportation and other Head of Service representatives as required.

The Business Investment Board reports through the Head of Finance to COMT and Cabinet. It meets as a minimum twice a year, but can be convened more frequently if required to address urgent or one-off schemes.

The role of the Business Investment Board is to:

Advise Cabinet/Council on the relative priority of schemes and their scheduling in light of the provisional scoring list.

Consider the capital resource position and make recommendations to Cabinet/Council for incorporating capital schemes into the Council's Capital Investment Programme.

Ensure that no Council money is committed to any capital investment project prior to all the necessary approvals being obtained.

Approve schemes that have no net cost to the agreed Capital Programme or revenue budget and have been endorsed by the relevant portfolio Cabinet Member, through the delegated authority of the Cabinet Member for Resources. Such schemes to be reported to Cabinet as part of the quarterly budget monitoring arrangements.