

CAPITAL STRATEGY

Report of the Finance Director

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1. Purpose of Report

To enable the Committee to scrutinise the Council's capital strategy.

2. Background

At its meeting of 22 January 2004, the Resources Scrutiny Committee requested that a report on the Council's capital strategy be presented to the November meeting.

The Capital Strategy approved by Cabinet in July 2004 is set out in this report. The strategy contains:-

- A statement of capital investment priorities that support Best Value Performance Plan promises
- A Statement of the underlying corporate capital objectives that incorporate property plan objectives and Information Technology Strategy objectives.
- A summary of the process for developing capital programme schemes
- A summary of the processes to be used for the monitoring and evaluation of capital schemes

For the last four years the Council has been developing and refining its approach to capital planning to ensure that capital investment decisions are driven by the agreed corporate and service policy priorities established in the Best Value Performance Plan and service strategy documents. As part of this process, the council's capital strategy is reviewed each year to ensure that the use of available capital resources continue to be directed towards meeting these priorities. Up until last year, the council's capital strategy had to be submitted to the Government Office for the Eastern Region in a tightly prescribed format for assessment and scoring as part of the Single Capital Pot process. Last year, because of the Council's excellent CPA rating this requirement was waived, and for future years this requirement is likely to cease for all councils. However, the underlying need to have clear links between council priorities and capital investment decisions, supported by robust processes for programme prioritisation and programme monitoring and evaluation remains.

New freedoms arising from the Local Government Act 2003, have removed the government controls on the amount of borrowing that the council can undertake each year, and replace them with the freedom to borrow monies judged by the Council to be "affordable, sustainable and prudent". These freedoms do enable the

Council to take a longer term view of investment priorities, and to consider the revenue and council tax impacts of capital plans alongside competing priorities for ongoing revenue spending. This means that the robustness of strategic decision making processes for capital planning are now more important than ever, as they provide the framework, alongside the council's agreed prudential indicators for borrowing and treasury management (agreed by County Council on 12 February 2004), within which the council will determine whether additional borrowing is affordable, sustainable and prudent.

3. Access to Service Implications

There are no direct access to service implications arising out of this report.

4. Conclusions

The Committee is invited to consider the strategy and whether to make any recommendations or to scrutinise any aspects in further detail.

**HERTFORDSHIRE COUNTY COUNCIL
CAPITAL STRATEGY 2004/05 ONWARDS**

1. Introduction

- 1.1 This strategy provides the overarching corporate framework within which the council manages its assets to deliver its cross-cutting and service specific objectives, working with its key partners in the public, private and charitable/voluntary sectors. The Council's capital investment priorities are driven by the promises made in the Best Value Performance Plan (BVPP).
- 1.2 The promises are informed and shaped by the views of Hertfordshire citizens and partners through regular consultation to identify overall concerns and priorities. Targeted consultation also takes place to inform each of our service strategies. Citizens' highest priorities are better maintenance of roads, improved health and care through working with the NHS, reducing crime and anti-social behaviour, the protection of the green field sites from development and school achievement. The countywide community planning partnership, Herts Together, provides the means by which shared community planning priorities are developed and strategies for delivering them agreed.

2. Capital Investment priorities for 2004/05 onwards

- 2.1 Over the next three years the Council's capital investment is directed to the achievement of the council's key promises as follows:

Promise: To make Hertfordshire a better place to live and work we will:-

A1	Work with local communities and partners to improve the environment:-
	<ul style="list-style-type: none"> • No significant capital requirements
A2	Fight the loss of green fields and avoid, wherever possible, development on green areas in our towns by encouraging the building of high quality and affordable housing for local people on previously developed land by:-
	<ul style="list-style-type: none"> • Continuing to bear the requirements for affordable housing in mind, particularly in relation to key workers when negotiating property disposals. • Invest at least £500,000 per year in supporting new key worker housing schemes to assist in achieving our PSA target to deliver affordable housing units for key workers in schools, social care and the fire service

	Improve the efficiency of the highway network and encourage alternatives to the car by:-
	<ul style="list-style-type: none"> • Spending £44m of Local Transport Plan (LTP) resources to build the Baldock By-Pass. • Continuing to lobby the DfT for approval of LTP resources to contribute to the development of the Croxley Rail link • Spending £23m of LTP resources to improve the maintenance of the county's roads in the next 2 years and bid for funding to allow this level of investment to continue in future years. • Spending £19m of council resources over the next three years to improve the maintenance of the county's roads. • Spending £18.6m of LTP resources over the next two years on a range of other integrated transport projects to improve the safety, quality and reliability of journeys for all highway users. • Bidding for £7.9m of LTP funding for essential maintenance and improvement of the recently detrunked A405/A414, • Spending £1.7m of LTP resources over the next two years in the County Cycling Programme. • Spending £3.42m of LTP resources over the next two years on bus and passenger facilities.

A4	Work with the police, district councils and other organisations to reduce crime, drug/alcohol misuse and anti-social behaviour :-
	<ul style="list-style-type: none"> • No significant capital requirements
A5	Work with other organisations to make Hertfordshire a safer place to live, work and travel by:-
	<ul style="list-style-type: none"> • Complete the relocation of Watford, St Albans and Bovington fire stations to ensure we provide the best levels of fire cover to our communities. • Investing £1.95m over the next three years to refurbish street lighting and road marking. • Investing £3.245m of LTP resources over the next two years in road safety engineering works
A6	Develop an economic and social environment that is business friendly and improves standards of living in a sustainable manner :-
	<ul style="list-style-type: none"> • No significant capital requirements
A7	Introduce more sustainable management of household waste without the use of incineration in Hertfordshire by:-
	<ul style="list-style-type: none"> • Completing the new waste recycling centre at Waterdale. Expanding the Household Waste recycling centres at Harpenden, Royston and Rickmansworth to assist in meeting our medium term target for the level of recycling in the county.

Promise: To offer children a better future we will:-

B8	Strive to improve educational achievement throughout the county by:-
	<ul style="list-style-type: none"> • Ensuring school property is appropriate in terms of suitability, condition, sufficiency and cost and that teaching spaces are suitable for delivery of the curriculum. This will involve investing at least £97m in the schools' stock over the next three years. • Securing sufficient accommodation to meet the anticipated demand for secondary school places in South West Herts, Harpenden, Bishop's Stortford and Cheshunt. • Better matching primary school places needed with actual places provided in Watford, Hatfield, South Oxhey and Stevenage. • Developing robust bids for Government support from the Building Schools for the Future programme for modernisation of provision in major settlements within the county.
B9	Ensure that children are protected from harm and improve their life chances and support vulnerable families by
	<ul style="list-style-type: none"> • Working with partners to secure a viable PFI scheme for the replacement and expansion of children's home and family support centre provision within the county.
B10	Promote the learning of all children by tackling behavioural problems and truancy
	<ul style="list-style-type: none"> • Investing £720,000 in enhancing facilities for young people with behavioural difficulties in special schools and in alternative forms of provision.
B11	Assist under performing schools to improve their standards substantially by
	<ul style="list-style-type: none"> • No significant capital requirements.
B12	Ensure that Hertfordshire has a range of specialist schools by:-
	<ul style="list-style-type: none"> • Working with schools to ensure an appropriate distribution of specialist schools across the county and to maximise the chances of achieving specialist status and accessing related capital grants.

Promise: To help people to help themselves we will:-

C13	Help people to continue learning throughout their lives by:-
	<ul style="list-style-type: none"> Continuing the rolling programme of ICT investment in our libraries to ensure that libraries have appropriate accommodation and information technology (ICT) facilities to provide lifelong learning opportunities.
C14	Work with NHS hospitals, Primary Care trusts, District Councils and Voluntary Organisations to improve health and social care services by:
	<ul style="list-style-type: none"> Continuing to work with the Primary Care Trusts and Hertfordshire Partnership NHS Trust to plan the use of our assets and investment to develop mental health services.
C15	Fight for the interests of elderly and disabled people and their carers and help them lead independent lives by:-
	<ul style="list-style-type: none"> Reproviding improved day centre facilities in St Albans and Ware over the next three years through county council investment of £3.9m and developing schemes for further improvements in day care facilities in Berkhamsted, Watford Hemel Hempstead and elsewhere. Continuing to work with health partners, district councils and the independent sector to provide extra care sheltered housing places to enable people to stay in a supported home environment. It is planned to provide a further 40 places per year across the county in the next three years. Continuing to work with housing providers and care providers to replace 8 learning disability hostels with imaginative new housing schemes to promote independent living, and provide 40 new places per year. Work with the independent sector to provide additional capacity in residential and nursing care and consider investment in new and upgraded facilities.
C16	Promote the right of everyone to equal treatment when they use our services, our buildings or apply for a job with us by:-
	<ul style="list-style-type: none"> Spending £3.7m over the next two years on projects funded from the Schools Access Initiative. Spending £1.6m to improve disabled access to fire stations, family centres, youth centres, libraries and council offices around the county. Spending £943,000 of primarily direct government grant support to refurbish existing gypsy sites. Spending £600,000 over the next three years bringing disabled road crossing facilities up to new standards. Securing the replacement of Hertford Library with a modern and more accessible alternative.
C17	Make it easier for people to get the information and advice they need from us by:-
	<ul style="list-style-type: none"> Working with partners to conclude the Local Government On Line project to provide easier access to information and public services. Investing over £1m to safeguard the county's historic archives and ensure they remain accessible to the public.

Promise: To continue to be a top performing council we will:-

D19	<i>Give the public value for money by becoming more cost efficient every year by:-</i>
	<ul style="list-style-type: none"><i>Investing £1.9m in more efficient Human Resource and finance systems and improving IT infrastructure within the Adult Care Services and Children, Schools and Families Department to deliver long term efficiency savings.</i>
	<ul style="list-style-type: none"><i>Rationalising our office stock, producing efficiencies and improving working conditions for staff.</i>

3. Corporate capital objectives supporting the delivery of promises

3.1 To underpin these promises the council has established corporate objectives for the efficient and effective management of its assets and capital investment, which in conjunction with service specific objectives drive the development of the Property Plan and capital programme. Together with BVPP promises outlined above these objectives are used in the corporate prioritisation of capital proposals.

- To ensure the assets used by the council and its service partners meet service delivery needs in terms of their condition, suitability, sufficiency, cost, location and their environmental impact.
- To ensure co-ordinated investment in information systems and communications infrastructure, to increase efficiency, to increase public access to information and provide joined up services to meet public expectations for access and service delivery, plus to achieve compliance with the requirements of Implementing Electronic Government (IEG) by 2005.
- To protect the financial and environmental value of the assets used and to seek best value by striving for lower lifetime repair and running costs.
- To release assets that do not meet service delivery needs and reinvest the proceeds in the maintenance and modernisation of services.
- To reduce office space in order to release under-used assets for reinvestment in services and to support customer focused, flexible working practices, in accordance with the council's Lifewise policy.
- To maximise the benefits to Hertfordshire of the deployment of the council's and its partners' assets, through working in partnership with other agencies, to develop community focused solutions.
- To ensure compliance with relevant legislation and regulations affecting assets.

4. The corporate framework for prioritising capital investment

4.1 All major capital investment proposals with a value of £100,000 or above, including self-financing, grant funded and joint funded schemes are considered within the following corporate framework.

- 4.2 Business cases are required, which must address the following issues to inform the assessment of the priority, deliverability and affordability of the project.
- **Statement of need** – how the proposal contributes to achievement of BVPP promises, corporate capital objectives and service strategies.
 - **User/ community consultation** – how stakeholders have been involved in the identification of need and preferred solution. Increasingly this will include demonstration of how the proposal advances local community strategies.
 - **Option appraisal** – summary of options considered (including the “do-nothing” option and alternative forms of procurement) and rationale for the preferred solution - including supporting financial appraisal.
 - **Financial summary** – costs and savings, funding sources, tax implications.
 - **Outcomes** – explanation and quantification of outcomes to be achieved.
 - **Project plan** - including project management arrangements.
 - **Risk analysis** – assessment of potential delays and funding or cost variations.
- 4.3 Business cases are then prioritised by services with relevant Executive Members and considered by the Corporate Priorities Officer Group (CPOG) led by the County Property Officer and including senior representatives from major services, finance and information services, who conduct an initial review of cases for their fit with county objectives, their practical deliverability and their affordability. This stage of the process is intended to filter out those proposals that are not yet sufficiently developed to be considered for capital programme support and to ensure opportunities for cross-cutting approaches to resolving capital investment needs are fully explored
- 4.4 The corporate Information Board, consisting of Assistant Directors with responsibility for resources and IS/ICT strategy from all services, review all major IS/ICT proposals, prior to submission to the CPOG, to ensure proposals fit with Corporate Information Systems Strategy and ICT policy re compatibility and standards.
- 4.5 Once service priority lists and business cases have been amended to reflect the advice and comment of the CPOG, they will be considered by the Executive Member (Resources), who, with officer assistance, develops the prioritised draft capital programme based on how proposals fit with BVPP promises and corporate capital objectives, for presentation to cabinet. The proposed programme is then considered by the Resources Scrutiny Committee before final approval by the Council.
- 4.6 The possibility of introducing a prioritisation mechanism will be explored. This would be based on scoring each proposed scheme against the BVPP promises and the relevant corporate capital objectives to establish relative priorities. The aim is to explore whether the use of such a system would improve the transparency of decision making.
- 4.7 Where opportunities to bid for additional resources to progress our key priorities arise outside of the annual planning cycle, the same business case requirements have to be satisfied before consideration by CPOG and subsequent cabinet consideration. Proposals may only proceed where they are proved to meet corporate and service objectives and represent a value for money solution.
- 4.8 In developing business cases, services are required to determine whether a revenue based solution to the identified need is more appropriate. The capital programme review process takes place alongside the development of the revenue budget and the revenue implications of proposals are incorporated into medium term financial strategy development. To ensure that revenue and capital choices are considered alongside each other and that capital is not seen as a free good by services, the council operates a simple capital payback system. Services that receive capital resources are required to

payback this investment to a corporate pool over a specified period of years. The capital payback reserve created by this mechanism is recycled to support further capital investment in future years.

5. The corporate framework for monitoring/ evaluation and performance measurement

- 5.1 To monitor high level delivery of project outcomes, the Capital Priorities Officer Group will, in future, meet twice a year to review all major schemes implemented in the previous six months. The review will consider the extent to which they achieved the stated outcomes in terms of meeting BVPP promises and capital objectives, taking account of stakeholder and partner organisations' feedback on outcomes. These reviews will also consider key aspects of time, cost and quality relating to project delivery, the results of benchmarking activity and lessons learned will be fed into the capital programme review process. For property projects a summary of these review sessions will be presented to the Property Panel on a half yearly basis.
- 5.2 The council's framework for monitoring capital schemes requires the responsible project sponsor to monitor progress on a monthly basis and report any issues arising to the relevant Chief Officer and the County Property Officer. Summarised monthly monitoring reports are made available to all members and where decisions are required during the year, regarding slippage in projects, bringing forward the start of planned projects or the emergence of new priority projects, these are considered by the cabinet, with decisions being considered by scrutiny committee spokesmen. On a quarterly basis, the cabinet receives overall capital monitoring reports and considers any actions required as a result of project over/ under spends or slippage.
- 5.3 All property projects above £25,000 are implemented through the council's gateway project process, which is based on the Office for Government Commerce's advice on procurement. At the final gateway in this process, the results and performance of each project will be evaluated and reported in writing to the user (e.g. school governing body), the client sponsor department, the consultant, the contractor, the County Property Officer, the relevant cabinet portfolio holder and the Executive Member (Resources).
- 5.4 The measurement of property performance, in terms of the property portfolio, property processes and services, is reported in the annual Property Performance Report. The learning from this exercise informs the Property Plan and the Business Improvement Programme which targets the actions the council will take to improve its property processes and services.
- 5.5 Property performance management has been overhauled to provide data linked to the achievement of corporate property objectives. Performance indicators in use include ODPM national indicators, relevant Construction Best Practice indicators and local indicators. Benchmarking is underway at a national level using the CBPP indicators, and benchmarking with other southeast counties is being developed, using the ODPM indicators.
- 5.6 A dedicated member panel monitors the development and achievement of the delivery of e-government targets, with the targets to be extended to include measures of customer satisfaction and the take-up of services. Joint member panels with districts monitor the performance of highways projects and services and then feed into decision making on the allocation of resources.
- 5.7 In the fields of ICT, property and roads maintenance, service contracts are now designed to reward the achievement of business benefits, with the development and monitoring of key performance measures being a key part of the contractual arrangements.