

## MALVERN HILLS DISTRICT COUNCIL - CAPITAL STRATEGY 2003 TO 2007

### 1. Introduction

- 1.1 This Capital Strategy seeks to build on the previous strategies approved by the Council in 2001 and 2002. It sets out how the Council intends to maximise the use of the capital resources at its disposal in order to achieve its objectives. The strategy outlines the framework for management, planning and monitoring needed to ensure that any capital investment undertaken by the Council helps to achieve that vision.
- 1.2 The Council adopted a performance management framework in 2002. The framework seeks to ensure that all expenditure plans (both capital and revenue) will be in line with the priority and management plans of the Council. Those plans are influenced by the Community Strategy (Vision 21), the Council's purpose, vision, objectives and values, and other inputs such as national priorities, best value review outcomes, and partner consultation and input. The Council's Strategic Management Team (SMT) recently reviewed the framework and made no changes to it.
- 1.3 A substantial amount of work was undertaken in developing links and partnerships for the development of the Malvern Hills Community Strategy, which was approved on 26 November 2002. The outcomes of this work, and the relationships forged, are reflected in this Capital Strategy, which sets out:
- How the Council's Capital Strategy will serve the purpose, vision and main objectives as agreed by the Council (resources will follow priorities).
  - An overview of how capital investment is planned and controlled at present and proposed changes to that process.
  - The impact of best value and modernisation on the capital investment process.
  - How the capital investment process will be managed.
  - The new capital finance system
  - Review of the capital investment process.
- 1.4 A context sheet is attached at Appendix 1, a statement of the process for allocating the Capital Funding Pool resources is attached at Appendix 2, a summary of the Council's approach to asset management is set out at Appendix 3, and a draft capital programme for the four years from 2003 to 2007 is attached at Appendix 4.
- 1.5 A new Council was elected in May 2003, and this Strategy is set to cover the lifetime of the Council, through to the next elections in 2007.

### 2. The Capital Strategy

- 2.1 The Council's purpose is: "To improve the quality of life for everyone in the district", and the Council's vision is: "To make a difference for the good of the district".
- 2.2 The Council's main objectives for 2003/2004, which stem from that purpose and vision, are as follows:
1. To improve the economic, social and environmental quality of life of the local community in a way that is sustainable, inclusive and contributes to community safety and development.
  2. To improve the performance of and modernise all Council services and activities and ensure best value for the people of the District.
  3. To develop and promote effective community engagement and involvement.
  4. To maintain a committed, motivated, safe and healthy workforce with the necessary skills to achieve the Council's objectives.
- 2.3 Essentially, the Council's capital strategy is defined as:
- To maximise the use of the available capital resources, from whatever source, for the good of the district.*
- 2.4 In recent years the Council has followed a policy of re-investing in community assets the voluntary housing stock transfer in 1995. The value of capital receipts available for new investment has therefore reduced considerably since that time. Furthermore, in 2001 the Council decided to pay about £4.3 million into its pension fund as a strategic decision to reduce its ongoing revenue commitments. By March 2003 the amount of unallocated capital receipts had fallen to £6.1 million.

- 2.5 Thus, the potential for funding capital investment from within the Council's own resources is limited. The current capital programme (from 2003/04 to 2006/07) therefore only provides capital receipts funding for housing grants, matched funding for the Government's e-government grants, and a capital funding pool of £350,000 each year for other new projects.
- 2.6 The Council's ability to generate significant capital receipts has been limited in recent years, resulting in lower capital investment potential. The Council's Property Strategy and Asset Management Plan show that there is a desire to rationalise its property portfolio and ensure that all property assets make a beneficial financial or community return. It is therefore possible that within the period of this Strategy there will be some 'recycling' of capital receipts from property disposals to secure improvements to the property retained.
- 2.7 For the last few years, the Council has taken advantage of the availability of approximately £1m per annum of Local Authority Social Housing Grant to support social housing investment in the area. Because this scheme has now been closed by the Government, the Council will be working even more closely with registered social landlords to explore new opportunities for securing new housing investment in the Malvern Hills area and ensuring that the local needs for affordable housing are met.
- 2.8 The Council has not yet decided its approach to the opportunities that the new 'prudential regime' will bring once the Local Government Bill becomes law. It is assumed that this will be 1 April 2004, and during the latter part of 2003 the new Council will be debating whether or not it will use the renewed freedom to borrow funds to invest in capital assets. The Council's revenue budget is under continuing pressures, and it is therefore unlikely that the new freedoms will be used extensively in the period of this Strategy.
- 2.9 The overall objectives and parameters for capital expenditure are set by the Council on the advice and recommendations of the SMT and the Executive Committee.
- 2.10 The way that decisions are made for the allocation of the Capital Funding Pool to specific schemes is set out in Appendix 2.

### **3. Overview of the Planning and Control of Capital Investment**

- 3.1 Capital investment decisions during the coming year will be made in accordance with this Strategy. The Strategy will be reviewed every year to ensure that it reflects the current circumstances and, in particular, to reflect the following:
- Changes in the strategic objectives arising from the Community Strategy and the annual Council Plan.
  - Information arising from best value reviews, the Asset Management Plan, the Comprehensive Performance Assessment and operational demands and/or opportunities (as detailed in management plans).
  - Further capital investment to ensure the achievement of the Council's E-government Strategy.
- 3.2 In recent years, the Council's capital investment has been planned on the basis of a three-year rolling capital programme, which is updated each year as part of the annual budget process. The Council is now in the third and final year of the current budget strategy and has achieved a balanced revenue budget (i.e. ongoing net revenue spending is met from council tax income and Government grant).
- 3.3 The Council will be consulting the community on its priorities in the late summer/early autumn period. Once the results of that consultation have been analysed the Council will make the key decisions needed to align its revenue and capital spending decisions with its main policy objectives for 2004/05 onwards.
- 3.4 For 2003/04 the Community Strategy was used to determine the Council's priorities, and officers estimated the revenue and capital implications of pursuing those objectives. The financial implications were considered against the overall available finance (using both the Council's own resources and those that it can attract from external bodies). Those projects that were felt to be achievable were worked up in more detail following the approach described at Appendix 2.
- 3.5 The Council will seek funding for capital investment for itself and its partners from the following sources:
- Capital receipts from the disposal of assets
  - Section 106 receipts
  - Government grants
  - Housing Corporation grants

- Other external grants
  - National Lottery funds
  - Partnership and joint venture initiatives
  - Private sector sources – including PFI if appropriate
  - Leasing and contract hire
- 3.6 The Council's performance management framework requires senior managers to monitor and control all capital investment, both 'physically' and financially. It also asks managers to assess whether the objectives of each project (set at the outset) were achieved. In addition, the Corporate Asset Management Group (CAMG) monitors and reviews all property related investments.
- 3.7 A monitoring report on the capital programme is provided to the Executive Committee on a monthly basis.

#### **4. Best Value and Modernisation of the Capital Investment Process**

- 4.1 The Council has taken significant steps to improve the way it manages its capital assets and resources, demonstrated by the formation of the CAMG. In keeping with the Council's approach to best value the Capital Strategy will ensure that the capital investment process seeks to:
- Be corporate in nature and practice.
  - Continually improve the way assets are managed.
  - Make best use of limited resources.
  - Ensure that investment decisions serve the Council's targets as reflected in priority and management plans.
  - Reflect corporate visions and objectively address cross cutting and single service issues.
  - Promote partnership working wherever practicable.
- 4.2 This Capital Strategy was prepared by the Head of Financial Services with the involvement of the other senior managers across the Council, and submitted to the Strategic Management Team for discussion and agreement. It was approved by the Executive Committee on 15 July 2003 and the Council on 28 July 2003. This process helped to ensure that it is:
- Consistent with the Council Plan, the Community Strategy and operational management plans.
  - Clear and understood by all officers and members involved in the service and financial planning of capital projects and investment.
  - Capable of informing partners, peers, service users, customers, residents and other funding bodies about the Council's investment strategy.

#### **5. Managing the Capital Investment Process**

##### **Development of project proposals**

- 5.1 Capital projects will only be prepared on the basis that:
- The project meets at least one of the criteria for assessing investment need as reflected in this Strategy.
  - The project is of a high priority within the context of this Strategy and that of service and financial planning.
  - It has been developed following consultation (where appropriate) with residents, customers, councillors, partners and stakeholders.
  - It is approved by the appropriate senior manager and senior management group and the relevant portfolio holder.
  - It is within the parameters agreed by the Strategic Management Team and the Executive Committee.

##### **Bidding for resources**

- 5.2 This Strategy, the Council's objectives and policies, and the budget strategy will inform decisions on proposals for the use of capital resources.
- 5.3 In addition:
- Project officers will always consider the potential for obtaining external funds for any projects.

- Bids to external funding sources such as grant-aiding agencies and the National Lottery will only be considered for projects supporting existing policies or corporate strategies.
- 5.4 The revenue implications of a project will always be estimated. The majority of projects approved will seek to have a neutral effect on the revenue account and, wherever possible, result in revenue savings.

### **Option appraisal**

- 5.5 The process of option appraisal will be followed in accordance with the arrangements as published from time to time as part of the budget review process. The appraisal of capital projects should contain the elements as detailed in Appendix 2.

### **Assessing project priorities**

- 5.6 The assessment of projects will be undertaken along the following lines:
- How critical the project is in achieving the main objectives as set out in the Council Plan.
  - Resource implications – potential for income generation and/or cost savings, capital receipt generation, impact on external sources and partner funding.
  - Impact on other assets: land, buildings, existing employees' time.

### **Production of the Corporate Capital Programme**

- 5.7 The assessment and production of the capital programme will be undertaken as part of the Council's budget process and performance management framework, and will involve:
- The Director of Resources recommending the overall amount available for capital investment.
  - Consideration of proposals and option appraisals by the relevant senior management group(s).
  - Consideration by the Strategic Management Team and the appropriate portfolio holders.
  - Consideration by the Executive Committee of all spending proposals, resources and the overall level of capital investment.
  - Agreement by the Council of the overall level of capital resources, with delegated authority being given to the Executive Committee for the allocation of the funds approved.

### **Procurement Strategy for Capital Projects**

- 5.8 The procurement options available to project managers for individual projects must follow the Council's financial rules and procurement strategy. The following will be observed:
- The Council's Constitution, to include: financial rules regarding budgets and commitments, standing orders relating to contracts and tendering procedures.
  - External rules or regulations that govern procurement, including the EU procurement directives.
  - Corporate standards which seek to regulate quality, equal opportunity, competition, sustainability, and economic regeneration.
- 5.9 For all contracts over £10,000, before the contract is let an evaluation of the proposed contractor will be undertaken to ensure that he/she is financially viable and has a proven track record.

### **Monitoring and review of projects**

- 5.10 There will be an agreed project officer for all capital projects who will take responsibility for the day to day control of the project. He/she will be expected to apply the appropriate professional and project management skills.
- 5.11 The following monitoring process will also apply:
- Monthly meetings of the relevant senior management group to monitor the progress of each scheme where any key events and material changes can be identified and the actions taken.

- Progress on each scheme is discussed with the appropriate portfolio holder on a regular basis.
- Capital programme monitoring reports are made to the Executive Committee on a monthly basis setting out progress on each project against the plan and a clear explanation of changes and reasons for variations.

## **6. Working with partners and the community**

- 6.1 The Council has extensive experience in working with partner organisations, service users and neighbouring authorities on a collaborative and consultative basis. This includes social housing partners (following the stock transfer in 1995), leisure providers (SLM and Wychavon Leisure Trust), the Worcestershire Careline joint committee, the Malvern Hills Science Park Board, the Malvern Theatres Trust, the Worcestershire Hub partnership, and other partners. The Council will continue to seek both new partners and innovative ways of working, including working collaboratively with Worcestershire County Council and other public sector bodies in the area.
- 6.2 The Council is working with Worcestershire County Council and the other districts within Worcestershire on strategic procurement for the Worcestershire 'Hub' Programme, which has been recognised nationally as a 'Pathfinder' project - reflecting its potential as a blueprint for multi-agency working in two-tier areas. Part of this programme is the development of a customer service centre in Malvern, which will open on 28 July 2003. The County Council will be providing almost all of the capital investment for the project, with agreement on sharing ongoing revenue costs.
- 6.3 The Council is also working with a number of different partners from both the public, private and the voluntary sectors. Public sector partners include the police, health, other local authorities, the Housing Corporation and the primary care trust (PCT). Examples of the work being undertaken in partnership with other bodies, particularly through the Community Safety Partnership, are:
- Communities Against Drugs Fund projects
  - CCTV – extension of existing service provision
  - Worcestershire Public Service Agreement – in particular Safer Communities through Active Sports (on which MHDC are leading)
  - Vision 21 Community Strategy – the Malvern Hills Partnership
- 6.4 The Council is working closely with the County Council to establish a district-wide kerbside recycling service, which will be introduced early in the 2004/05 financial year. The County has contributed over £500,000 towards the cost of this service. This includes some funds to assist with the cost of replacement freighters as well as a contribution towards the ongoing revenue costs. The Council has also attracted over £500,000 of funding from DEFRA towards the costs of other initiatives for recycling.
- 6.5 The Council is also working with the PCT to develop a new combined surgery and health centre on land owned by the Council.

## **7. New 'prudential' capital finance system**

- 7.1 The Council is currently debt-free, and will not take on any unsupported borrowing until the legislation is in place for the new capital finance system.
- 7.2 The Council will be formulating a new medium-term financial plan during the latter part of 2003, and will give consideration as to whether it wants to take on unsupported borrowing at that time.

## **8. Review of the capital investment process**

- 8.1 The Council's limited resources, in terms of both revenue and capital funds, coupled with high demands for projects, present challenges to achieving the Council's overall objectives. The Council will seek to overcome these challenges (particularly in relation to capital investment) by continuing to explore new sources of funding. As part of this process the Council will seek to maximise the benefits of Section 106 monies for the community.
- 8.2 Although the Council has a fairly well developed process for the submission and consideration of business cases for capital expenditure, the process will be reviewed during 2003/04 to ensure that it is still the most appropriate mechanism.

- 8.3 Another area that the Council will look to improve is the provision of feedback to the broader stakeholder community on our capital performance. At present this is undertaken through reports to the Executive Committee, the annual Council Plan and council tax leaflet, and the annual consultation meetings with business ratepayers. An improved mechanism will be developed during 2003/04.
- 8.4 As stated earlier, the Council will formulate a new budget strategy over the coming months. As part of that review, the Council will assess whether the total amount set aside for capital investment is adequate, and whether the split of that sum between housing grants, e-Government and the capital funding pool is appropriate.
- 8.5 The Council will seek to ensure that the Asset Management Plan better informs its revenue and capital investment process, particularly with regard to the work arising from property condition surveys.

## **9. Risk management**

- 9.1 The Council has approved a risk management strategy, which sets out how risks will be managed across all aspects of the Council's work.
- 9.2 In the context of this Capital Strategy, the key risks are:
- Failure to secure adequate capital receipts in future years
  - Failure to ensure that capital projects are implemented as agreed and within budget
  - Failure to make best advantage of the opportunities to be provided by the new prudential capital regime
  - Failure to attract appropriate level of external funding to the District in order for the Council to fulfill its objectives
  - Failure to maximise the finance available for Housing schemes in the District following the demise of the LASHG regime
- 9.3 In both the development, consideration and implementation of capital projects the risk management strategy will be used to ensure that the above risks are both identified and managed appropriately.