

# **CENTRAL BEDFORDSHIRE COUNCIL**

## **CAPITAL INVESTMENT STRATEGY**

**FEBRUARY 2009**

### **1. OVERALL OBJECTIVE**

- (a) The Capital Investment Strategy is one of the key resource management strategies of the Council. Under Government guidelines local authorities are expected to review the strategy annually to seek continuous improvement and take on board any necessary amendments.
- (b) This document is the first Capital Investment Strategy for the new authority. Consequently, it has different objectives, emphasis, and scope from the strategies of the three successor authorities. The Strategy seeks to consolidate the existing documents of Mid Bedfordshire, South Bedfordshire, and Bedfordshire, whilst recognising the particular circumstances and limitations of 2009/10, the Council's first year of operation.
- (c) The Strategy thus outlines the current position and presents proposed policies and processes for adoption, implementation, and subsequent refinement during 2009/10. A revised and reviewed Strategy will need to be produced for consideration and approval in September 2009.
- (d) The Capital Investment Strategy will have a direct influence on the authority's future spending plans. In the Council's overall financial and policy framework, the Capital Investment Strategy sits between the Medium Term Financial Strategy and the Revenue Budget and Capital Programme.
- (e) Two other strategy documents will sit underneath and complement the Capital Investment Strategy – the Treasury Management Strategy and the Asset Management Plan (AMP). The AMP will set out a programme of actions and investments to protect, improve, and optimise the effectiveness of the assets held by the Council. Work is currently being undertaken to progress the development of these documents for the new authority.

### **2. BACKGROUND/CONTEXT**

- (a) The Capital Investment Strategy is intended to support and deliver the Council's corporate objectives and priorities. As a

new unitary authority, the Council has recently developed these, and is in the process of undertaking the key task of a smooth and effective transition to the new arrangements. As a result, the Strategy will need to be developed during the course of 2009/10 to ensure that it is a truly effective document. At this stage, the Strategy is intended to act as a consolidation of current policies and an outline of processes and practice for next year, laying the foundations for development during 2009/10.

- (b) The implementation of the new authority will place serious limitations on the scope of the Capital Programme formulation and approval process for 2009/10. This Capital Investment Strategy does not specifically cover the capital costs and requirements directly associated with implementation. Section 3 summarises the key objectives and key drivers on Directorates in the new authority in so far as they relate to capital investment. The process for formulation and approval of the Capital Programme for 2009/10 is outlined in Section 4.

- (c) Scope

The Strategy spans all assets including land, buildings, roads, and IT. The net book value of the fixed assets as at 31 March 2008 to be inherited by the Council from its constituent authorities is likely to be over £800 million. The indicative Central Bedfordshire capital programme could entail investment in excess of £200 million over the period from 2009/10 to 2012/13.

### **3. CORPORATE OBJECTIVES AND PRIORITIES**

- (a) The Council has agreed its vision, values, and priorities, which form the basis for work on business planning and budget preparation for 2009/10. The Council's agreed Vision is:

"To improve the quality of life of all in Central Bedfordshire and enhance the unique character of our communities and our environment."

- (b) Within this overall vision, the five agreed council priorities for 2009-11 (the first two full years of the new Council) are:

- (i) Supporting and caring for an ageing population
- (ii) Educating, protecting and providing opportunities for children and young people
- (iii) Managing growth effectively
- (iv) Creating safer communities
- (v) Promoting healthier lifestyles

- (c) Strategic Plan

- (i) At its meeting in September 2008, the Shadow Executive approved the first Strategic Plan for the Council, which has been developed from the Council's Visions, Values, and Priorities.
- (ii) Central Bedfordshire, as well as having its own priorities, will work within a framework of national priorities determined by Government. Emerging legislation and guidance constantly impacts upon the duties and responsibilities of the council and the way in which services are delivered. Some key national influences include:
- The need to respond to national initiatives which impact upon specific services, especially those relating to education, social care and community safety;
  - The introduction of a new national performance management framework for local government, incorporating a set of around 200 national performance indicators, a revised Local Area Agreement regime and continuing external scrutiny of performance through Comprehensive Area Assessment;
  - An increasing desire on the part of Central Government to encourage community engagement at a local level. This gives rise to a host of new duties and responsibilities such as the Councillor Call for Action and new duties to increase the involvement of local people in decision making and local accountability in budget setting;
  - a continuing drive to improve efficiency in the public sector including local government, with an overall cash target of 3% annual efficiency gains across the sector and an expectation of future restrictions on public spending throughout the 2007-10 spending review period;
  - the identification of growth areas such as Central Bedfordshire for very significant housing growth and potential EcoTowns;
  - the emerging importance being placed upon tackling climate change and the likely emergence of a compulsory carbon trading scheme involving all major energy users, including local authorities.

- (d) All of the Directorates of the new Council will work to deliver the Vision and the Strategic Plan. Each Directorate has produced a Directorate Plan, supported by Business Plans for individual services, and these will identify a range of service issues and the capital investment priorities associated with responding to them.
- (e) Guiding Principles

The guiding principles by which the Council will manage its capital base are set out in the summary below.

- The Council will ensure that all retained capital resources support and facilitate the Council's corporate and service delivery plans and make a positive contribution to the improved delivery of local public services
- The Council will manage and procure capital assets in keeping with best value principles to ensure value for money
- The Council will manage and provide assets that are appropriate and fit for purpose in terms of suitability, sufficiency, condition, cost, and environmental impact
- The Council will identify and plan for the Council's future capital and related revenue requirements and make best use of the resources and opportunities available to meet future needs
- The Council will identify and pursue opportunities through the asset base for disposing of surplus and under performing assets to release latent value and service delivery benefits and to eliminate unnecessary asset related risk.

#### **4. CAPITAL FINANCING AND CAPITAL RESOURCES**

- (a) Capital financing is a complex area for the new authority. In very general terms, the position for Bedfordshire County Council has been that the balance of funding required for the Capital Programme after earmarked funding has been raised through borrowing, whilst the balance of funding required by MBDC and SBDC has been financed by usable capital receipts. In addition, one of the features of the Capital Programme for county level services is that earmarked funding, particularly from Government Capital Grants, is a more significant factor than in district level services.
- (b) The Central Bedfordshire Capital Programme will consequently be financed from a variety of sources, including: borrowing; capital receipts; government grants; external funds; contributions

from private developers; and the housing major repairs allowance. A particular issue to be developed for the Council will be determining the balance of funding of the programme between prudential borrowing and the use of unapplied capital receipts. Overall, the key test for the Capital Programme is that it must be affordable and deliverable within the Council's emerging Medium Term Financial Strategy (MTFS). The Government's Prudential Regime that came fully into effect from April 2004 sets out a framework within which capital investment decisions are made in terms of prudence, sustainability, and affordability.

- (c) The Council's MTFS will incorporate the additional net costs arising from the approved capital programme, which will include the cost of financing debt, the Minimum Revenue Provision (MRP), and revenue costs / savings arising from the proposed capital investment.
- (d) In approving the MTFS, the Council will also approve Prudential Indicators for a given period that provide the framework for control of capital investment on an ongoing basis in pursuance of the Council's overall strategic objectives. The longer term affordability of the proposed capital investment will therefore be considered against other pressures, longer term funding forecasts, and the impact on council tax and housing rents.
- (e) The Council will look, where possible, to the disposal of surplus and under performing assets to fund further capital investment programme, and will adopt a proactive approach to the identification of other sources of funding including grants and section 106 funding.
- (f) In this respect, the implementation of Central Bedfordshire and the formulation of its first Capital Programme is taking place against the background of a rapidly changing and uncertain financial climate, which is significantly affecting the interest rates relating to both local authority borrowing and investment, and which also has a major impact on the overall affordability and deliverability of the programme. The capital programmes of all three predecessor authorities are showing significant degrees of slippage and deferral of schemes during 2008/09. In the majority of cases, these relate to areas where the current economic climate is a significant factor, such as the realisation of Section 106 agreements, and where schemes are to be progressed in partnership with private sector development. There may consequently be areas where some pump priming is required from the Council's own resources to secure external funding and progression of schemes. As with the expenditure side of the Capital Programme, the economic climate will have a major impact on the resources available to support capital spend. In particular, the sudden fall off in interest rates and the low interest

rate outlook will heavily impact on our ability to use investment income to support spending.

- (g) The Revenue Support Grant settlement for BCC includes an element for Capital Financing and it has been agreed that this will be split between Central Bedfordshire and Bedford BC on the basis of tax base.
- (h) A separate exercise is currently being undertaken to disaggregate the actual BCC capital financing position, i.e. debt and investments, as at 31 March 2009. This split will also be based primarily on tax base, although there are some complications regarding some BCC market loans, which, unlike PWLB debt cannot be physically split between the two unitary authorities.
- (i) In addition to this exercise, specialist external advisors are also advising BCC, Bedford BC and Central Bedfordshire regarding capital financing, with the objective of producing options that put the two successor unitary authorities in the most advantageous financial position possible.

## **5. CAPITAL PROGRAMME PROCESS 2009/10**

- (a) As a starting point for formulating the Capital Programme for Central Bedfordshire for 2009/10, a number of actions have been undertaken:
  - (i) Updating the current Capital Programme monitoring position, reflecting the 2007/08 outturn position and current forecasts, for BCC, SBDC, and MBDC;
  - (ii) Updating and reviewing the current position regarding both earmarked and general capital funding;
  - (iii) Disaggregating the BCC Capital Programme to Bedford BC and Central Bedfordshire including disaggregation of funding, in order to provide an initial starting point;
  - (iv) Categorising current and proposed capital schemes attributable to Central Bedfordshire over Directorate headings, and undertaking some review of schemes;
  - (v) Identifying revisions to current schemes and new, urgent, capital requirements in the context of the new unitary authority.
- (b) An important area of work has been disaggregation of the current approved BCC programme. Current BCC schemes that

are location specific have been allocated relatively easily to the two unitary authorities, together with the relevant earmarked funding if applicable. In some areas, disaggregation and allocation has been less straightforward.

- (c) Overall, as a result of the financial pressures on the new authority, the situation is that Central Bedfordshire is extremely unlikely to be able to simply deliver a Capital Programme in the short term based on consolidating and disaggregating the existing programmes, and much less deliver on significant new schemes in addition to this.
- (d) Central Bedfordshire will initially need to focus on supporting ongoing capital programme commitments already entered into and base load programmes for core service areas as a minimum, subject to affordability. Whilst it is important for them to be identified and allocated a priority in the draft programme, enhanced programmes, new spend proposals, and existing plans which are not committed will have to be regarded as discretionary until affordability is finally established as a result of the ongoing revenue budget process.
- (e) To progress the formulation of a Capital Programme for Central Bedfordshire, an exercise was undertaken to categorise current and projected schemes, using the following criteria:

First Tier Schemes:

1. In progress
2. Fully Funded
3. Significant External Funding Available (especially where external funding could be lost)
4. Mandatory / Health and Safety Critical
5. Strategic / Policy Commitment (esp. to third parties)

6. Second Tier Schemes:

- (f) Further work may also be necessary to apply a prioritisation mechanism within capital rolling programmes, e.g. corporate property maintenance, as these tend to have elements of all of these criteria.
- (g) Any categorisation used during this transition will not be as refined or as developed as referred to in this strategy for Central Bedfordshire in the longer term.

## 6. CAPITAL PROGRAMME DEVELOPMENT 2009/10 ONWARDS

- (a) A high-level corporate group equivalent to the current Bedfordshire County Council Corporate Asset Management Group (CAMG) will be established to co-ordinate Capital Programme development and monitoring. Managing and monitoring of capital projects will take place on an on-going basis through the regular interaction of external consultants and Council officers. Monitoring information relating to both project progress and financial performance will be reported on a regular basis to the Corporate Asset Management Group (CAMG), Corporate Management Team (CMT) and Executive. This process will allow regular adjustments to the programme in order to ensure that budgets are not exceeded and to allow resources that become available, for example as a result of slippage, to be redirected to prioritised schemes. The five-year capital plan will be developed to enable planning, preparation and delivery of our capital investment within the medium term.
- (b) The preparation of the five-year programme will include an assessment of both capital financing costs and the impact on running costs of individual projects. The resultant data will be fed into the financial modelling process for the development of the MTFs. The affordability of the revenue implications of capital investment will be considered by the Council in the context of financial forecasts and competing demands for resources.
- (c) The Capital Investment Strategy, underlying service strategies, and Asset Management Plans will form the framework within which the five-year rolling programme will continue to develop, with year one schemes authorised to start and future years authorising planning activity. Resource forecasts will have regard to predicted levels of prudential borrowing capacity, grants, capital receipts, developer contributions and other funding. As referred to earlier, a particular issue to be developed for the Council will be determining the balance of funding of the programme between prudential borrowing and the use of unapplied capital receipts. Affordability of the revenue costs of the capital programme within the medium term planning for the revenue budget will become an increasingly important factor in the determination of the forward programme.
- (d) The levels of investment programmed for Services and for individual schemes will be informed by the Council's priorities. The programme will be reviewed annually in the light of any changes in need, variation in resource assumptions and implementation progress.



- (e) The prioritisation of capital investment is for decision by the Executive with CAMG acting in an advisory role. The Council's prioritisation process will be detailed in depth within the Council's Capital Handbook (to be adapted from the current BCC Capital Handbook) together with explanations for officers on all capital processes and monitoring.
- (f) Capital bid proposal models have been developed by all of the predecessor authorities to Central Bedfordshire, all of which give priority to those projects most closely aligned to the Council's Policies and Objectives. These models will be developed for Central Bedfordshire by consolidating existing models and implementing best practice. The criteria, weightings and scoring mechanism will be tested and refined together with a pro forma assessment for the bid to be included in the capital programme.
- (g) All capital schemes within the capital programme will have a nominated Project Manager who is responsible for the delivery of the scheme to specification and within resources.

## **7. LINKS TO PARTNERS AND THE COMMUNITY**

- (a) When considering a potential capital scheme, the Council will fully consider the avenues available for alternative methods of service delivery through partnership working. This is particularly important for 'traditional' capital schemes where the authority has limited flexibility for approving expenditure.
- (b) A number of key avenues for engaging the community are used by the Council and the implementation of Central Bedfordshire presents the opportunity for the creation of a new Partnership Framework.

### Local Strategic Partnership (LSP)

- (c) Local Strategic Partnerships (LSPs) are non-statutory, multi-agency partnerships, which match local authority boundaries. LSPs bring together at a local level the different parts of the public, private, community and voluntary sectors; allowing different initiatives and services to support one another so that they can work together more effectively.
- (d) The objectives of the Local Strategic Partnership are to:
  - Identify what is needed locally, now and in the future, through community consultation and involvement

- Develop and implement a Central Bedfordshire Sustainable Community Strategy, to improve the economic, social and environmental well-being for all in the area
  - Bring together and improve the planning and co-ordination of existing and future activities and services of all sectors that operate in Central Bedfordshire
  - Address cross-cutting themes of community engagement, sustainable development, diversity and partnership effectiveness
- (e) The Local Strategic Partnership is the whole structure not just one tier. In the framework for Central Bedfordshire four functional levels are proposed.

#### Central Bedfordshire LSP Board:

- (i) The role of the Board is to act as the strategic decision making body. Its core areas of work being Vision, Leadership and Strategy. Its primary function is to ensure that the Sustainable Community Strategy is delivered and that each partner makes an effective contribution to that delivery. The Local Area Agreement is the delivery framework for the strategy and therefore the Board will be responsible for driving the success of the LAA targets. As the Board will be a multi-agency group it will be in place to consider, comment and advise on emerging issues and agendas that impact on the Central Bedfordshire area.

#### Strategic Implementation Group:

- (ii) The Strategic Implementation Group (SIG) will be in place to co-ordinate the work of the theme and area groups (it is anticipated that the Chair of each theme and area group will form part of the core membership of this Group). The primary function of SIG is to ensure there is effective communication and co-ordination between the thematic groups and with the area groups. It will also be in place to consider crosscutting issues, share agendas and to develop / build joint working arrangements between partners.

#### Thematic Partnerships:

- (iii) The Theme Groups will bring together key service providers and service users for a particular theme. The primary function of each group is to develop and implement action plans for their thematic priority area, which will align to the identified priorities in the

Sustainable Community Strategy and key indicators and targets included in the Local Area Agreement. The thematic group will ultimately be a sub-group or strategic partnership in their own right e.g. Crime Partnership, Waste, Children and Young People Strategic Partnership etc.

Community Area Networks:

- (iv) Community Area Networks (CANs) are local multi-agency partnerships that bring together community representatives and service providers from the same geographical area. Their primary functions are to find out views and aspirations of the local community through consultation and involvement; collate the information in a local area plan and develop an action plan of priority projects that improve quality of life; monitor progress against delivery of projects and report back to the community; act as local community representation on the LSP by working with the appropriate theme groups to develop projects.