

Harrow Council

Capital Strategy FY12/13

1.0 Introduction

A Capital Strategy is essential to allow the Council's Capital funds to be allocated in a way which most benefits the people of Harrow in line with the priorities of the Council. There are many factors which will contribute to establish the way in which Capital is best spent, and there are many reports and views which need to be considered in the allocation of Capital.

This strategy will set out the considerations and the methodology by which the allocation of funding will be established. It will consider the difficult issue of the sizing of Council Capital funds with the conflicting interests of reducing borrowing whilst maintaining assets and services. It will also clarify how the capital strategy aligns with the Asset Management Plan and Place Shaping Strategies specifically along with how the wider strategies and objectives are brought into the process.

The results of the Capital Strategy will be a prioritised list of projects which will form a three year Capital Programme. The first year of this programme will go into effect immediately, with the second and third years subject to change in the yearly 'capital bid' process in line with changes in priorities, or funding levels. This strategy and associated Capital Programme will then be updated each year to ensure a rolling three year programme which is in line with contemporaneous and current council priorities.

2.0 Aims and Objectives

The aims and objectives of the Capital Strategy are to:

- Ensure the responsible allocation of funding in line with Council priorities and legislative requirements such as health and safety and equalities.
- Draw together recommendations from the Asset Management Plan, Place Shaping Strategy and other relevant strategies
- Establish a fair and objective approach to capital prioritisation
- Establish a clear and auditable methodology for allocation of capital funding

- Inform the decision for establishing the level of Capital funds within affordable limits, and clarifying the consequences of limiting available funding
- Ensure proper approval of the Capital Programme with an appropriate audit trail for Capital Project selection

3.0 Objective Prioritisation of Projects

Project based funding is the key to this Capital Strategy, and ensuring that a system is in place which effectively and objectively prioritises the most important projects in line with current council priorities is therefore essential.

There is a high demand for Council Capital funding and a wide range of disparate projects that require Council Capital Funding. The key element of the Capital Strategy is to ensure that the correct choice of projects to go forward to the Capital programme is made. This means necessarily comparing a broad spectrum of cross-directorate contrasting projects on a level plain, requiring an objective and equitable process to allow comparison.

A Capital Strategy scoring system has been developed to establish these objective comparisons. It is based on four key criteria, all with sub-criteria described in detail below:

- 1) Physical Criteria – these include four sub-criteria. The first is the type of asset which the project is centred on which recognises that some of our assets are more important in the provision of services and criticality to the council. The second is classification for which a higher score is established if the asset is publicly accessible compared to accessible by staff only, residents only or not accessible at all. The third physical criteria is condition which attempts to prioritise projects which deal with a serious maintenance backlog and particularly poor condition assets. The final criteria considers the usage of the asset by calculating a cost of the project per user such that projects which are more cost effective with a higher number of people benefiting per £ are prioritised.
- 2) Risk Criteria – these criteria consider what risk the council will be put under if the project is not carried out. They are also split into four individual areas of risk. The first area is health and safety risk where a project scores highly if there is a high risk of accident or damage to public or staff should the project not be carried out. The second risk area is political and reputation risk which considers what the council is publicly committed to completing, or where the Council's reputation would be at risk should the project not go ahead. The third risk factor

is service risk which considers to what degree service failure will occur if the project is not completed. Finally liability risk is considered which deals with the likelihood and severity of financial/legal liability which the council may be open to if the project does not happen.

- 3) Council Objectives – The current Council Strategic Objectives are aligned with the project and the project scores a pre-set amount for each objective that it satisfies.
- 4) Impact Criteria – The impact of completing the project is split into four key areas. Environment impact is the first area which considers how the project will impact upon the environment in line with our environmental strategy questioning carbon output, waste etc. Similarly, the second criteria is sustainability which considers the local employment and other factors generated by the project. The third impact factor is based on the Harrow Equalities Impact Assessment process recognising that it is key that equality is considered at this early stage to ensure that any negatively impacting projects are scored down accordingly. The final impact factor is regarding funding in recognition that some external funding is dependent on Harrow Council injecting its own funds in a matched funding scenario. Where this occurs a score is given where the level of funding potentially lost if the project does not go ahead is high.

These criteria are not taken equally. Each sub-criteria has a score out of ten, and weightings are then applied in line with the significance and importance of each criteria to the council priorities. This is an important exercise to ensure that the criteria are properly considered to the correct degree, therefore it is key that the proposed weightings are considered and approved by the key decision makers (Capital Forum, CSB and Cabinet).

4.0 Process Methodology

Project bids can be put forward by any individual from any service area which requires Capital funding to complete its' objectives. It is envisaged that service areas which rely upon and utilise Council assets will be the ones with most bids, but all bids will be considered. A project may consist of a single project or a single programme of small similar projects, but the project bid must be adequately detailed to allow it to be properly scored.

A standard pro-forma used for the bids to establish a minimum and consistent level of information from which projects can be assessed for prioritisation. The bid pro-forma is filled in by the individual bidder, and the bid is self scored in accordance with the guidance. Full explanations for each score are demanded on the bid form justifying the selected score. The bids are then validated by a Capital Bid Validation Panel taken from a cross section of Directorates and led by the Finance Directorate. This establishes a consistent approach and balanced scoring across all project bids put forward, and leads to the desired objective and auditable result.

As well as validation of the scoring, the bid panel scrutinises the basic details and facts on the project including capital and revenue financial implications. Further information will be sought where essential facts are missing and cannot be answered by the bidder. Through consideration of these facts, the bid validation panel categorises the project into one of four categories:

- 1) Spend to save – these are deemed to be projects where revenue savings outstrip the capital cost within five years of the project being completed. Whilst completion of these projects effectively leads to savings, and should be done almost regardless of score, they must be scrutinised to ensure that the savings are real and assured, and the affordability within the overall programme considering the other categories must be assessed.
- 2) Contractually committed – these are project where we have already commenced, or have contractually committed to completing the projects. Once again, it stands to reason that these projects should go forward, however, this is not a forgone conclusion, and each project will be considered on its' individual merits.
- 3) Statutory – these are projects which are related to our statutory duties and are necessary for Harrow to fully comply with those duties such as health and safety and equalities duties. The level and implications of failure should be considered for these projects, although this will largely be covered by the 'risk' section of the scoring.
- 4) Non-statutory – these projects may not be essential, but many may have a very positive effect on our communities and where possible this category should not be neglected for high scoring projects. Some may also have a spend to save aspect which falls outside the five year return period but are nonetheless attractive prospects.

It is considered important that projects in these categories are considered together and the cut off line for funding in each category is drawn at the appropriate point. For Statutory projects, the funding will always be sufficient to at least meet legislative requirements.

Following validation panels it is possible to list the projects in each category in order of their score. The bid validation panel can then consider each project and the level of funding for rationalisation of which projects are put through to the capital programme and at what level of funding (which may be more or less than originally bid for). The cut off points for each category will be agreed by the panel in line with the available funding for that year, and in consideration of the implications of not completing the projects which fall below the cut off point, and in particular the risk factors detailed in the individual project bids associated with not completing the projects.

The resulting Capital Programme requires approval from CSB and Cabinet. The bid validation panel should be reconvened in order to consider requests for changes made by CSB and Cabinet, if any.

5.0 Externally Funded Capital Projects

Many projects are completed each year by Harrow Council which are funded from non-Council funds. These include Capital funds provided by DfE for schools, TfL for roads and DoH for adult needs.

There is generally specific guidance as to the allocation of these funds and the forums/committees involved in the approval processes relating to project selection. It is envisaged that a process similar to that detailed above for Council funded project will be utilised for project selection within each of these areas of funding, and budget holders should ensure that such a process is put in place where it isn't otherwise demanded by the fund provider.

In addition, in order that the projects are selected in line with Council priorities as far as is possible, each budget holder responsible for the allocation of non Council Capital funds should use the Capital Strategy scoring system as part of their assessment of the competing projects for the particular element of external funding.

To ensure that this takes place, and that an adequately challenging process is adhered to similar to the methodology detailed in section 4, the budget holder should present the process and resulting externally funded Capital Programme to Capital Forum. This will not only provide the relevant level of challenge and ensure Council priorities are considered in the allocation of external funding as far as possible, but will also serve to assist the members of Capital Forum in understanding the funding available to each service provider and how it is allocated as a backdrop to any further bids that that service may make for the Council Capital funds.

6.0 Project Approval and Monitoring

Once in the Capital Programme, there is still a secondary layer of approval via a formal Business Case for the projects which are heard by Capital Forum. It is intended that the current business case will be revised in FY12/13 to align with the Capital Strategy bid process to avoid repetition. This is an opportunity to ensure that any details not available at the earlier stage of Capital Bids can be added, or any changes since the Capital Bid can be adjusted and fully scrutinised before Council or other public funding is spent.

Project budget monitoring is completed by the Project Managers and should be in line with the Mandatory Project Management system run by the Council (contact the Project Management Office for further information on this), and monitoring is assessed on a monthly basis by Capital Forum.

7.0 How the Capital Strategy Fits

As defined above, the Capital Strategy considers many elements of the Councils Priorities and Strategies within the scoring system (eg, Environmental and Sustainability Strategies, Equalities Impact Assessments, Corporate Priorities). However, it is essential that the bids put forward align with two key documents relating to the Council assets which we are spending capital on. These are:

The Asset Management Plan (AMP) – the AMP provides the factual information on our assets including condition, current use of the asset and any anticipated changes to that use, fitness for purpose based on user assessments and other facts. This will inform certain aspects of the score sheets for individual projects, as well as informing bidders dealing with capital maintenance which assets should be the focus of funding.

The Property Strategy – this document considers the strategic plan for our assets, considering where we should be expanding or reducing our portfolio of property in line with Council priorities and funding, and consideration of the future shape of the Harrow asset portfolio considering wider macro economical factors.



8.0 Further information on the Capital Strategy

The Capital Strategy is led by the Finance Directorate, and the Capital Project Manager should be contacted in the first instance for any queries relating to this strategy.