

# **KNOWSLEY METROPOLITAN BOROUGH COUNCIL**

## **CAPITAL STRATEGY**

### **1. INTRODUCTION**

- 1.1 Effective capital investment is essential to the delivery of the Council's priorities and capital assets are a key resource contributing to the prosperity and well-being of the Borough. For over 10 years, the Council has operated a rolling Medium-Term Financial Plan, supported by a Capital Strategy. This integrated planning strategy incorporates the use of capital and revenue resources, and has allowed Knowsley to redistribute and recycle funds to ensure that service priorities are met. Wherever possible, the Council also operates on 'invest to save' principles, which allows capital investment to be directed towards modernisation and efficiency projects, thereby improving the Council's capacity to manage future spending.
- 1.2 The Capital Strategy sets out the approach to capital investment by providing a framework for the allocation and management of capital resources within the Council. This ensures that the effectiveness of capital resources is maximised by allocating funding to those programmes and schemes that will contribute most to the achievement of the Knowsley Partnership's strategic objectives and goals within the Sustainable Communities Strategy and the Council's Corporate Plan. The key drivers of the Capital Strategy are set out in Section 2 below.
- 1.3 As well as being an integral part of the planning process aimed to deliver high quality services and value for money, the Capital Strategy is also intrinsically linked with the Property and Asset Management Plans, and is designed to support the priorities emerging from this wider view of facilities and assets across the Borough.
- 1.4 One of the main challenges to be met when managing capital investment is the achievement of maximum value for money from scarce capital resources whilst ensuring the most effective and efficient improvement on performance is obtained and that the Council's and its partners priorities are met.
- 1.5 As part of the Council's Budget Strategy, the Service Review Programme is also challenging the way services are delivered, and how those services can be made more accessible. In addition, the further development of an approach to sharing facilities will be pursued with a view to achieving more efficient service delivery. It is anticipated that, via the Service Review Programme, revenue savings may be accrued through use of fewer sites and that surplus assets could be released to provide capital resources for future investment. An effective Capital Strategy will underpin the implementation of the service review implications and other components of the Budget Strategy.

## 2. KEY DRIVERS OF THE CAPITAL STRATEGY

### 2.1 The Capital Strategy is designed to:-

- Provide a process for evaluating and prioritising capital investment on the basis of its contribution towards the achievement of the council's key priorities;
- Maximise resources available for capital investment;
- Facilitate joint and cross-cutting working;
- Establish a clear framework for managing and monitoring the capital programme; and,
- Optimise the existing asset base.

### 2.2 Evaluation Process

#### 2.2.1 In order to establish a set of parameters for evaluating a capital scheme for funding approval, it is necessary to set out the key principles for capital investment:-

- Capital investment should be consistent with the Council's vision of "improving people's lives";
- All capital investment should support the key outcomes of the Council and, where appropriate, be interlinked with the Council's Property Plan;
- Capital investment should preserve, maintain or create an asset that is fundamental to the Knowsley Council and its partners' outcome delivery; and,
- All capital investment plans should be affordable and demonstrate value for money.

#### 2.2.2 Capital Investment Outline

- (i) It is important capital investment is made based on a robust evaluation process which ensures that investment is directed to schemes, projects and programmes which contribute to the Council's and its partners priorities, provide value for money, and are subject to a rigorous risk assessment. To achieve this, all capital schemes are subject to evaluation using the **Capital Investment Outline**. This document is used to capture the information required to assess a capital investment proposal against the required criteria and is approved by either a Director in consultation with a Portfolio Holder or the Cabinet (depending on the value of the scheme). The full completion of this document for proposed schemes is mandatory, as it allows for the evaluation of the scheme in line with corporate aims and objectives and Council priorities.

- (ii) A copy of the Capital Investment Outline can be obtained from the Director of Finance and Information Technology. A table is presented at Annex A to this Strategy which provides guidance for the completion of each section within the document. Should service managers have any queries or need support with the process or reporting requirements, officers in Financial Management Services will be able to assist.

### **2.2.3 Post Evaluation Process**

A detailed evaluation should be undertaken of all major capital schemes completed during the financial year to assess the impact of the capital investment. This evaluation should highlight lessons learnt, assess whether the capital scheme met its objectives, and consider whether value for money was achieved. This is an area for further improvement and a user-friendly evaluation process is currently in development. This will combine the best practice currently in place across the Council with national best practice.

## **2.3 Knowsley Partnership Priorities**

2.3.1 The Sustainable Community Strategy provides a 15-year vision for residents, businesses and agencies working in Knowsley. The Strategy is about agreeing common issues and priorities for Knowsley and identifying where a difference can be made to people's lives by working differently and together. The Strategy identifies the priorities for action and where resources and effort should be targeted to bring about the vision of "Knowsley - the Borough of Choice".

2.3.2 This Strategy provides the strategic framework for Knowsley Council to deliver real improvements on the ground for local people and in local neighbourhoods. The Council aims to optimise resources and achievement of these objectives by seeking out and allocating capital funding in accordance its priorities. In order to be considered for funding, individual projects must demonstrate contribution to the objectives of the Sustainable Community Strategy.

## **2.4 Maximising Resources for Capital Investment**

2.4.1 The Council's capital programme is resourced from a number of different sources. These include resources from Central Government, external funding providers and those resources generated locally. As current capital resources are limited, a greater emphasis will need to be placed on proactively seeking additional funding and working in partnership to lever in additional resources in order to fully support the Council's and the Knowsley Partnership's priorities. The main current sources of capital funding are outlined below.

### Government Grants

2.4.4 The Government gives capital support in the form of grants. These tend to be for specific purposes and therefore are used to support spending programmes for which they are approved. These are the Council's preferred form of Government support for capital and should be sought where possible.

### Prudential Borrowing

- 2.4.5 In the absence of specific external funding, prudential borrowing provides a potential source of finance for capital projects. The Council will positively investigate opportunities provided by the freedom to procure capital investment financed by prudential borrowing where plans are sustainable, prudent and affordable. This will be particularly the case in the current economic downturn as funding is scarce. Any prudential borrowing will be in line with the requirements of the Council's Treasury Management Strategy.
- 2.4.6 Previously, the Council has had a policy of using prudential borrowing only for capital schemes classed as 'invest to save', whereby the investment not only generate savings to pay for itself over time, but will also generate future resources to be reinvested in priority services. Due to the economic climate, this policy is now widened so that any schemes are considered which meet the requirement of affordability and have an identified revenue stream to repay the borrowing costs over the life of the asset. A full appraisal will take place to ensure that sufficient revenue exists to repay the cost of borrowing.
- 2.4.7 As part of the future Capital Strategy wherever possible, the Council will consider the use of prudential borrowing to finance longer life assets which will minimise the charge to revenue in respect of Minimum Revenue Provision. If this approach is approved then other sources of funding, such as use of capital receipts may be considered.

### Capital Receipts

- 2.4.7 Capital receipts arise from the disposal of a Council owned asset, e.g. land or buildings. The re-investment of capital receipts is not restricted other than receipts from the sale of school playing fields. The main challenges for Knowsley in relation to capital receipts are the availability of assets to dispose of and optimising the sales values achieved. Capital receipts should be viewed as a last resort for funding given the low levels of resource available and should only be used where opportunities for external support do not exist. Consideration should be given to using such funds with a short-term pay-back period
- 2.4.8 The Council assumes that all receipts are a corporate resource other than those mentioned above in relation to school playing fields and will be allocated to areas of need and priority in accordance with this Strategy. Wherever possible, the Council will also consider using capital receipts to finance short term assets, leaving borrowing to finance the longer term assets. This will therefore assist in matching loan duration with estimated asset life.

### Other Grants and Contributions

- 2.4.9 This includes funding such as Lottery, European and partner or developer contributions. The Council actively seeks external funding in these forms and has a good track record in attracting such funding.

## Revenue Contributions

2.4.10 This is another source of funding within the programme and comes from within Council Portfolios' revenue budgets. However, given the increasing pressure on the Council's revenue budget, this area of funding will continue to be limited.

## **2.5 Working in Partnership and Cross-cutting Service Delivery**

2.5.1 Knowsley recognises the need to work in a more joined-up manner, not only internally, but also in conjunction with external organisations and the wider community. The Council works alongside a number of external bodies in order to secure capital funding to further its objectives. The Council also sees itself as a catalyst for change, using its own resources to encourage other funders to contribute to the public facilities that meet the needs of its residents.

2.5.2 The Council places emphasis on the need to take a more cross-cutting approach towards thematic issues, which focus on breaking down any existing barriers between service providers. The Council will seek to use its existing partnership base to build upon relationships with organisations to maximise the use of resources. Knowsley's key partners include:-

- The Knowsley Partnership;
- The Health and Social Care sector
- Merseyside Police;
- Merseyside Fire and Rescue Service;
- The local business community, including the Knowsley Chamber of Industry and Commerce;
- Voluntary sector and community organisations;
- Merseytravel;
- The Education sector (including Knowsley Community College, Diocesan Authorities, Connexions, the Skills Funding Agency and Further and Higher Institutions);
- Registered Social Landlords; and,
- Other local authorities.

## **2.6 Rules for Capital Expenditure**

- 2.6.1 The Council's Constitution sets out the procedures to be followed in respect of capital expenditure. Expenditure on a capital scheme is subject to the procurement rules contained within Contract Procedural Rules as is any other Council expenditure. Parts 4 and 7 of the Financial Procedure Rules deal specifically with the management of capital expenditure.
- 2.6.2 The Financial Procedure Rules can be viewed in detail by looking in the Council's Constitution which is available on the Intranet. A link is attached at the end of this document.

## **2.7 Monitoring and Managing the Capital Programme**

- 2.7.1 The Council's Capital Programme is underpinned by a robust and transparent audit trail from approval to spending and reporting. Depending upon the estimated costs of a project, there are various ways in which approval can be given (please refer to the section entitled Financial Procedure Rules for guidance). Once projects have been approved, they are closely monitored by project officers and finance officers to ensure that outputs/outcomes are being delivered and that expenditure is being committed appropriately in line with the Council's Constitution. Investment appraisal is a continuous process from the decision to invest to an ongoing evaluation of the value added from the investment.
- 2.7.2 Capital programmes and projects are monitored in the first instance within each Directorate. The Capital Programme allocated to each Directorate is the responsibility of the relevant Executive Director. Individual schemes will be allocated to a senior officer whose responsibility it is to ensure that the project is managed in accordance with the Council's "Right Track" methodology and delivered on time and within budget and that any variances are reported to Members in accordance with Financial Procedure Rules.
- 2.7.3 The overall Capital Programme is reported to the Cabinet at key stages throughout the year. The reports comprise of a summary of spending to date, commitments to date, updated available resources position and any slippage. The report forms the basis for decision-making with regard to allocation of future resources on a three-year rolling programme.

2.7.4 The table below shows the key reporting dates in the life cycle of a capital scheme:-

<b>Month</b>	<b>Activity</b>
September - December	The potential capital scheme is identified as part of the budget setting process. A Capital Investment Outline is produced to ensure that the investment meets the priorities of the Council.
March	The scheme is approved as a “new start” as part of the Council’s Capital Programme (contained within the budget proposals considered by the Council).
Quarterly	Up to date spending positions and any rephasing requirements are reported on a quarterly basis as part of the budget monitoring reports to the Portfolio Holder.
July, October and January	Up to date spending positions and any rephasing requirements are included within the quarterly consolidated Capital Programme Monitoring Reports.
April – June	Capital spending on the scheme for the financial year ended 31 March is reported as part of the Final Accounts and Statement of Accounts process.

## **2.8 Existing Asset Base**

2.8.1 The efficient use of assets is a necessary component of effective service delivery and therefore a strategy must exist for ensuring appropriate resources are in place to meet optimum expenditure requirements. In addition to the capital monies for large-scale new build within the Borough, sufficient provision should be made for the upkeep and maintenance of the Council’s existing asset portfolio, within the framework of the Directorate Asset Management Plans.

2.8.2 The Capital Strategy and asset management planning between them set out the requirements for capital investment for the Council. The former links capital investment to service priorities and the latter identifies the cost of asset maintenance, among other things.

2.8.3 The Council has recently transferred the function of operational asset management into the Corporate Resources Directorate. This provides the opportunity for existing assets to be managed as part of the overall Council’s resources. Developments and improvements will be made to ensure that the existing asset base is optimised in pursuit of the Council’s objectives and also that the investment required to maintain existing assets is provided for.

### **Links to further documents:-**

Financial Procedure Rules link:- [Knowsley.gov.uk/Your\\_Council/About\\_your\\_council/Constitution/Part4\\_section\\_7](https://www.knowsley.gov.uk/Your_Council/About_your_council/Constitution/Part4_section_7)

## ANNEX A - Guidance for Completion of the Capital Investment Outline

Section	Guidance
1. Project Title	The name by which the project will be known and a clear description of what will be provided.
2. Responsible Officer(s) and Contact Details	The officer(s) who will lead the project and ensure that all necessary consultation and monitoring is undertaken, plus contact telephone number(s) and email address(es).
3. Description of Project, Purpose of Investment, and Estimated Useful Life of Resultant Asset(s)	A description of the project and an explanation of what the investment will be used for and why it is required. Also required is an estimate of the useful life of the asset(s), or each of their significant component parts, following the investment.
4. Proposed Outputs/ Outcomes/ Impact on Service Delivery (including details of how this will be measured)	Details of planned outputs/outcomes and impact on service areas. Impact on key priority performance indicators should also be included.
5. Links to Strategies and Plans	How does the scheme fit with the Asset Management Plan? What is the relationship to other Strategies, Plans and the Council's priorities.
6. Savings and Efficiencies	Will the scheme lead to any savings or efficiencies? Include details (and figures should be added to section 11)
7. Timetable for Completion of Works	Proposed timetable, setting out timescales and any specific deadlines for both works and cash flows, including receipt of any resources.
8. Capital Cost Analysis and Scheduled Payments	Estimate of total capital costs, including land acquisition, construction costs, any plant, equipment or other fitting costs, any fees, legal charges or compensation that can be capitalised.
9. Capital Funding Sources and Scheduled Receipts	Estimate of all funding streams for the project must be identified and budgets uploaded on Oracle in accordance with Financial Procedure Rules. No prudential borrowing will be considered without first consulting Financial Management Services to approve the business case. No capital receipts can be used without prior Cabinet approval.
10. Contingency Levels	Detail the amount and percentage of Contingency that has been <b>included within the Capital Cost (section 8)</b> and the reasons for the levels. Minimum contingencies are required of 12.5% for refurbishment work and 10% for all other projects. These figures are minimum levels and individual circumstances should be assessed to ensure adequate contingency levels are included (only in exceptional circumstances can contingencies not be included and specific agreement from the Director of Finance and Information Technologies is required).
11. Annual Revenue Costs and Implications	Estimate of all ongoing revenue costs, including revenue implications for other Portfolios (include part year effect).
12. Environmental Assessment	Provide details of the outcome of the environmental impact assessment.
13. Exit Strategy	Provide details of exit strategy if revenue costs are funded by time-limited funding.
14. Risk Management	Identification of all potential risks and action to be taken to mitigate them.
15. Communication Issues	Who needs to be informed of the schemes and will any consultation be undertaken? The timescales for this communication should also be added.
16. Linkage to Priorities	Reference should be made to the relevance of the scheme to Council and Partner strategic priorities.

17. Importance to Government and Partners	What is the nature and what are the sources of the drivers of the scheme – are there any legislative or demographic drivers?
18. Member and Community Expectations	Are there specific stakeholder expectations in place?
19. Outcome of Consultation with Other Directorates	<p>The lead officer(s) should liaise with other officers across the Authority to ascertain whether any other issues should be raised or investigated – as a minimum, comments <b>must</b> be sought and reported on the following areas:</p> <p>Financial Issues</p> <ul style="list-style-type: none"> <li>- VAT – what impact does the planned project have on the Council’s current and future VAT liability?(e.g., a newly constructed building that, once operational, will be generating future income streams which are exempt for VAT purposes could actually cost the Council money).</li> <li>- Treasury Management – are there significant levels of expenditure and income connected with the project which impact on the Council's current and future cash flows?</li> <li>- Insurance – are specific levels of insurance required to cover the project?</li> </ul> <p>Human Resources</p> <ul style="list-style-type: none"> <li>- Staffing – will the project need to involve any recruitment or redeployment?</li> <li>- Training – will the project give rise to any training requirements?</li> </ul> <p>Asset Management</p> <ul style="list-style-type: none"> <li>- Ownership – who will own the asset and at what stage (if any) will it need to be recorded in the Council’s asset register?</li> <li>- Maintenance – who will be responsible for maintaining the asset once the capital construction phase is complete and where will this be funded from i.e. Grounds Maintenance?</li> </ul> <p>Legal Conveyancing, Contracts and Legal powers</p> <p>Planning</p> <p>Information Society Technologies</p>