AGENDA ITEM: 12

SUMMARY

Report for:	**Finance & Resources Overview & Scrutiny Committee**
Date of meeting:	**31 January 2012**
PART:	1
If Part II, reason:	

Title of report:	**Capital Strategy 2011-2016**
Contact:	Cllr Nick Tiley, Portfolio Holder for Finance & Resources Shane Flynn, Assistant Director (Finance & Resources)
Purpose of report:	To provide an update on implementation of the revised Capital Strategy for 2011/12 to 2015/16
Recommendations	That the Committee receives the report.
Corporate objectives:	The strategy supports all five of Dacorum's key objectives but has particular reference to Dacorum Delivers and the efficiency, value for money and reputation aims.
Implications: 'Value For Money Implications'	<u>Financial</u> The Capital Strategy will provide the framework to enable future capital investment decisions to be made and the capital programme to be developed and approved. Financial analysis included in the report indicates that the balance of useable capital receipts will fall to £1.191m by the completion of the current programme in 2011/16. In these circumstances, where resources are diminishing, it is essential to ensure that all capital investment decisions are rigorously assessed and that they support clearly the Council's objectives. It is also necessary to ensure that proposals can be compared so that those that bring the greatest benefit are given higher priority. The changes proposed in the report will help to ensure that these criteria are applied. <u>Value for Money</u> Sponsors of all capital projects provide the Capital Strategy

	Steering Group with value for money assessment as part of the application process for capital funds. The changes proposed in the report will help to ensure that all capital expenditure support the Council's objectives and that approved projects provide the most efficient and effective means of achieving those aims.
Risk Implications	The Capital Strategy provides the framework for capital investment decisions and the management of the approved programme. This framework provides a mechanism to support the management of risk when making and delivering capital investment decisions. Each investment proposal requires a separate risk assessment to be undertaken before the proposal is approved by Capital Strategy Steering Group and Cabinet. The aggregate risks to the council of the failure to draft and implement the strategy are that: • Capital resources will not be properly deployed and will be committed to programmes that are not delivered effectively, thus reducing the capacity of the Council, damaging the reputation of the authority, and reducing funding available for investment. • Without an effective programme to manage expenditure and capital income streams, total capital resources will diminish to a point where the Council has insufficient resources to maintain its asset base. The Capital Strategy itself and the proposals in the report are designed to reduce these risks.
Equalities Implications	Equality Impact Assessments will be carried out by individual services in the preparation of their service planning and budget proposals.
Health And Safety Implications	The report contains a caveat that works that are required urgently to prevent structures becoming dangerous or to deal with other potential or real hazards will fall outside of the proposed process set out in the report.
Consultees:	Cabinet Corporate Management Team Group Managers Capital Strategy Steering Group members
Background papers:	Capital Strategy 2008/09- 2011/12

1. Background

1.1. The Capital Strategy is a key Financial Strategy which provides a framework for the Council's capital investment decisions. It also prescribes the mechanism for the management, review and delivery of the capital programme.

1.2. The Capital Strategy is a corporate strategy that is linked to the Council's corporate objectives and Medium Term Financial Plan (MTFP). It is also linked to the Asset Management Plan and is consistent with the Council's housing policies and programmes which are covered in the Housing Strategy and HRA business plan.

1.3. The Capital Strategy together with the MTFP will be key to the development and review of the Capital Programme as part of the Service and Budget Planning process.

1.4. The Council's previous Capital Strategy was adopted in 2008/09. On 24 May 2011Cabinet approved a revised strategy for the period 2011/12 to 2015/16, which is designed to:

- Align the strategy with the corporate objectives developed in October 2010

- Address the continuing decline in capital resources which are otherwise due to be fully expended by 2015/16

- Enable the council to make more effective decisions over which activities to support with capital funding

- Reduce slippage on the capital programme.

1.5. On 5 July 2011 the Finance and Resources Overview and Scrutiny Committee considered the revised strategy in detail and requested a progress report on implementation following the budget development process in autumn 2011. Since that date a number of actions have been taken which are set out in the remainder of the report.

2. Progress to date

2.1. Guidance was provided for all staff intending, or likely, to submit requests for capital proposals between September 2011 and September 2012 for the five year period commencing April 2012 on 27 July 2011. The revised proforma for submitting bids was introduced within the strategy itself and is available on the intranet. All bids now use this proforma which is designed to:

- Establish a clear link between the project and the Council's strategic objectives

- Define the rationale for the project and the risks that it is designed to address

- Ensure that it forms part of agreed project methodologies

- Ensure that all capital and revenue financial implications are taken into account.

2.2. Meetings of the Capital Strategy Steering Group were held on 10 and 17 November to review all bids submitted. The cumulative value of these bids was less than the available capital resources to fund the programme for 2012/13 – 2016/17. Therefore no ‘rationing’ was required and:

- all bids were acceptable subject to their meeting the relevant criteria.

- one bid was rejected on the grounds that it did not meet the relevant criteria

- CSSG required further information on all proposals, with one exception.

2.3. The existing programme was reviewed and all items that have been included in the programme for two financial years without been progressed were revisited to ensure their relevance and conformity to the revised strategy. This exercise resulted in minor deletions from the programme. All other proposals were rescheduled to ensure that the proposals will be brought forward in a timely manner.

2.4. The programme was summarised and recast to show subjective areas of spend. The latest draft is provided at Appendix A. This is subject to finalisation during the remaining stages of the budget-setting process for 2012/13. However, no new bids will be considered for inclusion in the programme until September 2012, unless they:

- address an emergency or health and safety issue

- generate more capital receipts than the expenditure required

- are funded by external sources that have an expenditure time limit.

2.5. A ‘Six-sigma’ review of the capital procurement process was completed. A summary of the findings is attached at Appendix B for information. In summary the review highlighted three key areas for further action.

- Project management approaches need to be strengthened and all projects to be included in the programme should be subject to the IDP process

- Arrangements for funding projects should be separated from programming for project management purposes

- The procurement aspects of capital projects need to be mapped and understood alongside the approval process

2.6. New protocols for reporting progress on capital spending have been agreed within Finance which will ensure that Group Accountants act as the first point of contact on both revenue and capital matters for each directorate. CSSG submission forms will be routed through Group Accountants, rather than being presented direct to CSSG, as at present.

3. Further actions

3.1. The issue of slippage on capital projects remains a problem that needs to be addressed as it has significant impact on delivery of Council business and on available resources for investment. A full report on the current programme will be reported to the Audit Committee, under delegated powers, as part of the 2011/12 final accounts progress. In the meantime, the following actions are required:

- Complete review of the capital programme to separate funding from project programming functions

- Complete mapping of procurement aspects of capital projects to identify areas for potential system improvements

- Advise all staff of the changes in protocol for submitting Capital Bids and provide further training and guidance on the submission process

- Bring all projects into the IDP process (or other project management processes that may be developed)

- Strengthen the focus of CSSG on capital programme monitoring.

3.2. Completion of these actions are designed to ensure that the capital programme meets the needs of the Council more effectively and that future capital resources are allocated in accordance with the revised capital strategy. The Committee’s comments will be taken into account in developing an action plan for implementing these remaining stages.

Appendix A

Draft Capital Programme 2012/13 to 2016/17

1 The attached summary of the draft capital programme indicates the level of capital resources that are expected to be available to the Authority over the five year planning period and itemises the planned areas of expenditure. The summary is designed to show the main areas of planned spending by type of activity and the sources of income.

2 A major review of capital spending was undertaken during 2011/12 which has resulted in a re-assessment of capital spending needs over the five year period and a re-phasing of significant elements of the programme. Therefore, the summary also reflects anticipated re-phasing of expenditure originally planned for 2011/12 into 2012/13.

3 The detailed programme is being finalised and will be presented as part of the completion of budget preparation papers.

APPENDIX A

	CAPITAL PROGRAMME - 2011/12 to 2016/17	TOTAL	2011/12	2011/12 Revised	2012/13	2013/14	2014/15	2015/16	2016/17
		£' 000	£' 000	£' 000	£' 000	£' 000	£' 000	£' 000	£'000
	Capital Resources :								
40	Capital Receipts Available	**26,617**	26,617	26,617	22,748	13,011	9,074	6,187	2,848
41	Capital Receipts received in year	**3,850**	800	1,350	500	500	500	500	500
30	MRR	**8,574**	8,200	8,574	0	0	0	0	0
31	HRA Self Financing	**41,000**	0	0	8,200	8,200	8,200	8,200	8,200
33	Growth Area Funding	**5,587**	5,355	688	4,899	0	0	0	0
34	Government Grants and other contributions	**4,693**	1,218	735	2,770	297	297	297	297
35	Revenue contribution to Capital	**3,420**	2,820	2,478	392	100	150	150	150
	Forecast resource availability	**93,740**	**45,011**	**40,441**	**39,509**	**22,108**	**18,221**	**15,334**	**11,995**
	Capital Spend :								
	Housing								
1	Major Works Programme	**50,731**	9,300	9,731	8,200	8,200	8,200	8,200	8,200
2	Affordable/Enabling Housing Schemes	**6,159**	4,535	1,635	4,524	0	0	0	0
	Housing Expenditure Total	**56,890**	**13,835**	**11,366**	**12,724**	**8,200**	**8,200**	**8,200**	**8,200**
	Other projects (GRF)								
3	ICT Projects (Inc Rolling Programme)	**2,234**	668	437	702	280	275	275	265
4	Transportation (Roads, Bridges & Parking)	**1,729**	570	349	450	120	120	120	570
5	Cemeteries	**1,273**	5	10	16	1,022	225	0	0

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6	Commercial Property	**1,360**	794	823	212	170	105	50	0
7	Public Conveniences	**200**	386	0	200	0	0	0	0
8	Civic Buildings	**924**	461	56	868	0	0	0	0
9	Sport & Recreation	**1,471**	1,040	202	920	181	38	50	80
18	Properties occupied by Sportspace	**1,934**	955	947	733	39	25	0	190
10	Community Buildings	**1,196**	90	46	327	135	65	520	103
11	Regeneration	**6,614**	2,590	153	2,960	210	848	2,443	0
12	Property Acquisition	**1,300**	1,000	800	500	0	0	0	0
13	Waste collection/ recycling	**231**	74	74	77	20	20	20	20
14	Vehicle & Plant Purchases	**6,810**	2,506	1,364	2,346	1,785	1,265	25	25
15	Other	**2,616**	223	203	2,245	100	70	0	0
	Other projects Expenditure Total	**29,892**	**11,362**	**5,463**	**12,556**	**4,062**	**3,056**	**3,503**	**1,253**
	Expenditure for capital purposes on grants								
16	Grants to Voluntary Sector	**318**	156	126	112	20	20	20	20
17	Regulatory Services (DFG, Home Improvement etc.)	**4,881**	1,091	738	1,106	753	758	763	763
	Expenditure for capital purposes on Grants Total	**5,199**	**1,247**	**864**	**1,218**	**773**	**778**	**783**	**783**
	Forecast capital spend (whole programme)	**91,981**	**26,444**	**17,693**	**26,498**	**13,035**	**12,034**	**12,486**	**10,236**
	Uncommitted Balance as at 31st March (General Fund)	**1,759**	**18,567**	**22,748**	**13,011**	**9,074**	**6,187**	**2,848**	**1,759**
	Uncommitted Balance as at 31st March (HRA)	**8,114**	**8,114**	**8,114**	**8,114**	**8,114**	**8,114**	**8,114**	**8,114**

APPENDIX B

Capital Programme – Lean Six Sigma Improvement Project

Project Background

For some time, the timescales for key projects specified within the Council's capital programme have slipped, meaning that the programme as a whole is not delivered on time. This has been recognised as a problem, as 30% of resources devoted to capital projects each year are not being spent. Delivery of the capital programme needs to be improved so that resources are not tied up in projects that are not going forward and which could otherwise be applied to alternative projects. Failure to deliver agreed programmes of work has a negative impact on delivery of the Council's objectives, damages its reputation and reduces its capacity to commission and deliver services.

In an attempt to improve delivery of the capital programme, a Lean Six Sigma project was initiated, which aimed to examine the processes in place to secure capital funds for projects, from the bidding stage, through approval and allocation of capital funds. The project also aimed to identify the reasons why many of the projects were failing to be delivered within the specified timescales, in an effort to inform recommendations for improvements.

Process

A project team was constructed to undertake the Lean Six Sigma review of the capital programme process. The project team met on a monthly basis to monitor progress of the project, and in addition to this, regular meetings were held with the project lead officer (the champion) and with other team members as required on an ad hoc basis.

As specified within Lean Six Sigma methodology, an initial step in the initiation of this project was the creation of an improvement charter, specifying the project problem statement, goal statement, scope of the project, the critical to quality requirements (CTQ's) of our customers and stakeholders, roles and responsibilities of team members and high level timescales. A high level process map (SIPOC diagram) was also developed.

To gain a greater understanding of the process, a series of meetings was held with the officer responsible for managing the capital programme, to develop a detailed process map of the process. A brain storming session was also held in order to identify potential root causes for non-delivery of the programme.

This process map was then analysed to identify areas of non-value or 'waste'. This exercise, along with consideration of the potential root causes, uncovered a number of questions, such as:

- How long ago had the projects received approval, i.e. and slipped year-on-year?
- How many of the projects within the programme received approval through the prescribed annual process, and how many were approved on an 'ad hoc' basis?
- How much of an issue is the procurement process in delivery of the programme?
- The process map described the process capital bids should go through to gain approval for the capital programme, but was this process always prescribed to?

In order to investigate these questions further, an exercise was undertaken to identify when projects within the capital programme were approved, and also whether this was obtained through the annual process or on an ad hoc basis. Interviews were also held with individual project managers of projects that had slipped, to gain an understanding of the reasons for the slippage, and also to determine whether the prescribed capital programme approval process was adhered to.

Findings

The exercise revealed a number of projects had been sitting within the programme for a number of years, some as early as 2006/07, and therefore have slipped year-on-year a number of times.

A sample of these projects were selected for further investigation, in order to identify the process each followed once a capital bid had been raised, and the reasons for the slippage. These included:

- Car park refurbishment programme
- Hemel Hempstead Station Gateway
- Implementation of a document management system
- Purchase of fleet vehicles

Interviews were held with the accountable officers of each of these projects, which aimed to establish the methods in which projects were planned, managed and resourced, and whether the Council's Capital Strategy was referred to in order to aid this.

The table below summarises the projects, the original dates the projects were due to be completed and the reasons, as reported by the accountable officers when interviewed, for the projects slipping:

Findings from Interviews with Project Accountable Officers

Project	**Original completion date**	**Reasons for slippage – interviewee responses**
Car Park Refurbishment Programme	2010/11	This programme slipped due to resource issues within the service, there are simply not enough building surveyors, and they are also affected by both internal and external reactive issues. Once approval has been achieved for a capital project, the work is added to the surveyors work programme – which is essentially a in the form of a list. Programme management to identify when the work is likely to take place, and therefore when the funds are actually likely to be required needs strengthening – the work is added to the next year in the capital programme. This could be improved with greater programme management of the surveyors' work programmes.
Hemel Station Gateway	2010/11	All Growth Area projects are funded in different ways, and the Gateway project was more complicated as there was revenue as well as capital funding. A lot of pre-work, including a 12 month feasibility study also had to be undertaken before the capital funds would be needed. However, this was not accounted for in capital programming – the bid was made and funds added to year one of the programme. The process for external/ section 106 money is also very complicated. Approval is needed at the bidding stage, then by Cabinet, and then when you want to actually spend the money you have to

		go back to CSSG for further approval. Delays in procurement are also a big issue.
Purchase of Fleet Vehicles	Rolling Programme	There was some slippage, but this has been a consequence of the transitional arrangements when moving from leased to purchasing vehicles.
Implementation of Document Management System	2007/08	This project has slipped every year for the past five years – it was originally initiated by a consultant who was commissioned to implement Anite, an electronic document and records management system (EDRMS). This followed a report by Socitim, in which implementation of EDRMS was recommended as part of a wider ICT improvement plan. However, project plans were not developed to give sufficient consideration to spend, resources, expectations, timescales or benefit realisation.

Conclusion

These findings suggest varying reasons, such as lack of resources for the car park refurbishment programme, the pre-work required for Hemel Station Gateway and the reliance on an external consultant for implementation of EDRMS, but all have a common factor in that each of the projects that slipped would have benefitted from stronger project or programme management. The purchase of fleet vehicles was slightly different in that it is a rolling programme, that requires revision following the decision to move from leased to purchased vehicles. However, this also highlights that forward planning of the five year programme for the capital purchase of fleet vehicles must be introduced.

To improve the delivery performance of the capital programme, therefore, the following recommendations have been made. Implementation of these recommendations will ensure accountable officers, at the capital project bidding stage, include project/ programme plans detailing when work is likely to take place, and that resource requirements and pre-work etc have been taken into account.

Recommendations

- Review and rationalise current capital programme.
- An annual review of fleet vehicles is undertaken to inform the capital spend requirements of the following year.
- Capital programmes to be managed through IDP, with the requirement of clear project/ programme plans to be in place before approval for capital funds are awarded.
- Amend the capital programme approval process to include a process step reflecting the requirement for all capital programmes to be managed and governed through IDP.
- Complete the Six Sigma review by further analysis of the procurement processes involved in capital projects.