

MIDLOTHIAN COUNCIL CAPITAL STRATEGY

Guidance Supplement

October 2018

Capital Strategy Guidance Supplement

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SECTION 1 - CAPITAL INVESTMENT AND DISPOSAL APPRAISAL PROCESS

All capital investment is commissioned through the Capital Plan and Asset Management Plan Board (CP & AMPB) with final approval of projects by Council. This approach enables all expenditure and its funding to be better aligned with the Council outcomes and priorities as well as that of other partners and any funding sources they may provide. These partners, from both the public and private sector will be at a regional and district level.

Once initial strategic capital requirements have been identified and prioritised through the Capital Strategy, full business cases are commissioned for the highest priority projects.

For proposals incorporated in the Capital Strategy the following approvals process will be put in place before projects are 1) fully incorporated in to the rolling capital plans (*except for initial adoption in November 2018*) and 2) before any contracts are let:

1. Outline Business Case (OBC) which will focus on options appraisal and quantifiable outcomes.
2. Full Business Case (FBC) – the final investment decision. This will focus on the how the priorities set out in the OBC will be delivered, including:
 - a) Project description
 - b) Consultation
 - c) Expenditure and funding including whole life costs and revenue implications
 - d) Outputs
 - e) Any further option appraisal
 - f) Value for Money
 - g) Delivery
 - h) Timescales
 - i) Risk Management
 - j) Sustainability, Forward strategy and evaluation
 - k) Asset Management
 - l) Procurement
 - m) Equality Impact Assessment
 - n) Environmental Impact Assessment
3. Change Requests where delegated tolerance levels will be exceeded.

For proposals that are identified by officers which fall outside the Capital Strategy there will be an initial extra step in the process, a 'Bid on a Page' which will be a Concept Outline. This will cover the initial concept idea, potential costs and funding sources, links to the Council Strategy and how outcomes will be improved. This will allow early consideration of whether the project should be progress and the impact it would have on the existing Capital Strategy.

The main focus is on projects incorporate in the Capital Strategy and therefore, this route will only be for exceptions.

How Projects Are Appraised

Capital Projects are appraised using the following criteria:

1. Does the project deliver or facilitate the delivery of a strategic priority outcome?
2. Is it worth planning – is it value for money?
3. Can we afford to progress the project and commit funding?
4. Does the project stimulate or add to economic growth?

Business cases are presented to CP & AMPB on the basis that they have had the appropriate clearance by finance, legal and property.

SECTION 2 - HOW THE CAPITAL REQUIREMENTS ARE PRIORITISED

Once a project has demonstrated that it meets the Council's and the Community Planning Partners strategic outcomes, and it has been agreed that it is suitable for capital investment, the strategic requirements will be prioritised using the following criteria (it should be noted that these are not mutually exclusive or in ranking order):

The criteria examines if the proposal is:

1. Related to mandatory, contractual or legislative service delivery requirements;
2. Required to achieve the delivery of a specific revenue budget saving within the revenue budget setting process;
3. Required to support SMP priorities and achieve key objectives;
4. Linked into other regional objectives;
5. Supporting the evolving localism agenda;
6. Reducing costs or backlog maintenance of assets management/estate management;
7. Providing a general revenue saving (not directly linked to the budget cycle) or offering the delivery of a more efficient service;
8. Fully funded from external resources (including project management etc.);
9. Bringing in substantial external resources for which Council matched funding is required

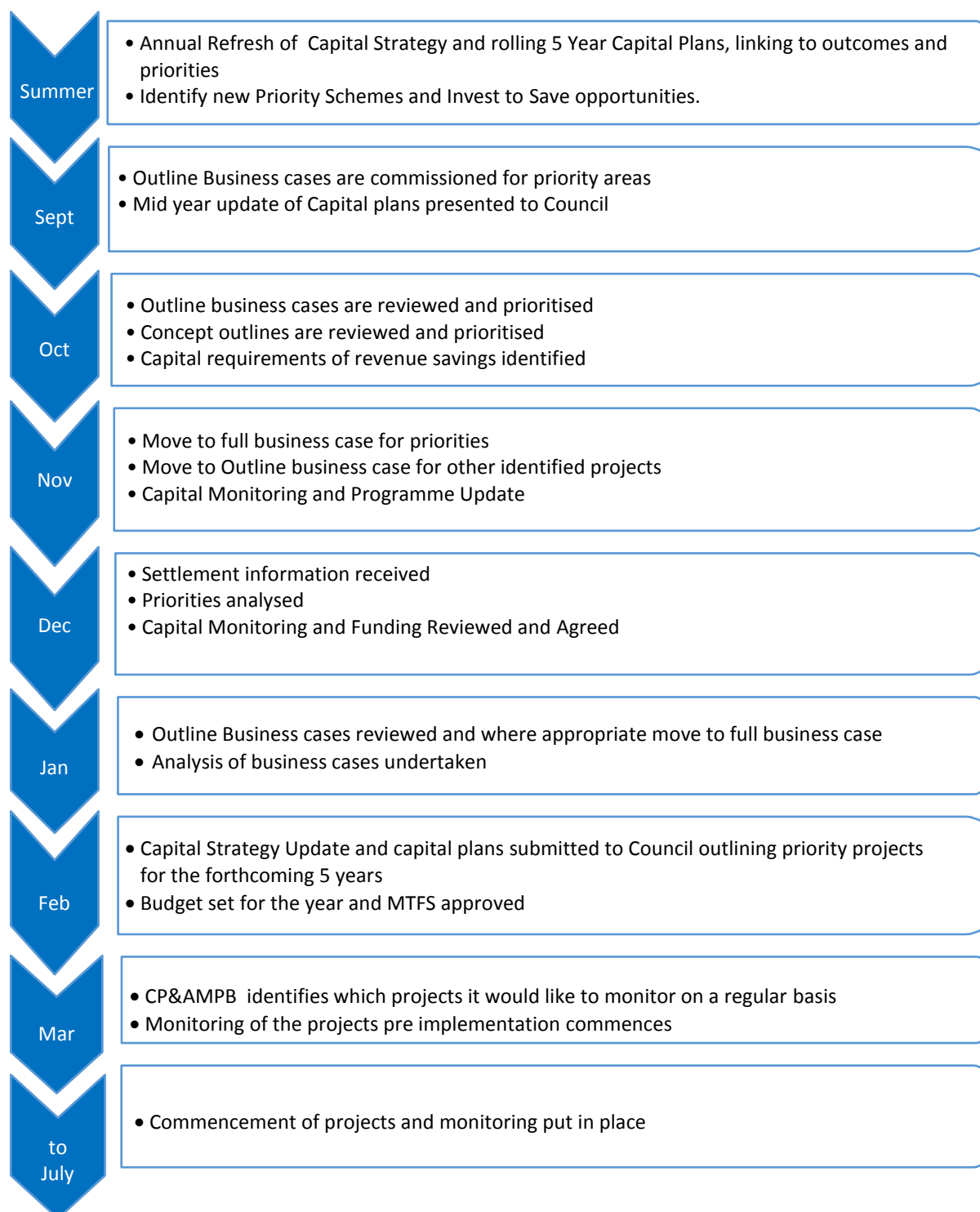
These criteria will be reviewed and any changes reported in line with the refresh of the Capital Strategy. Following this, a process of commissioning alongside officer requests for funding are undertaken and presented to Council each year as part of the process for updating the rolling capital plans.

All projects have to demonstrate that they:

- Deliver the highest impact in achieving the required outcomes;
- Are financially sustainable and any adverse revenue implications can be dealt with within existing budgets, and the whole life cost of the project has been considered;
- Have identified risks and appropriate actions to negate these risks;
- Have identified key milestones;
- Have a full exit strategy identified where the project involves a disposal; and
- Have a method of procurement identified and represents value for money.

SECTION 3 - CAPITAL PROGRAMME DECISION MAKING CYCLE

The diagram below illustrates the decision making cycle for capital projects and the link to the Capital Strategy, the approved annual revenue budget, the Medium Term Financial Strategy, the Single Midlothian Plan.



SECTION 4 - HOW THE COUNCIL PROCURES ITS CAPITAL PROJECTS

The Council has in place a Procurement Strategy and a suite of procurement regulations and guidance. The implementation strategy for all capital projects will ensure that the principles and practices associated with procuring works, goods and services consistently achieve value- for-money and actively contribute to the council's priority outcomes as well as to support the achievement of a modern, sustainable Council.

The Procurement Strategy helps to ensure that procurement becomes an enabler of the business and is sufficiently flexible and agile to support the Council to operate in an efficient, compliant and ethical manner to deliver capital projects on time, on budget and to specified quality standards.

Regional, joint and framework options will be utilised where value for money, an appropriate structure, compliance with the Council's procurement strategy and innovation can be demonstrated. Where appropriate Procurement of capital projects will be progressed in partnership with the Scottish Futures Trust and or via HubCo. In addition consideration will be given to procurement through "turn key" delivery, particularly where the asset is fully or significantly funded by developer contributions.

Future procurement within the Council will consider the whole of the third party spend across capital and revenue categories and budgets to ensure that the total spend and demand are driven downwards to support the budget challenges. Opportunities to consolidate and aggregate spend and achieve economies of scale will be a key focus. There will be an underpinning principle of commercial focus and a drive to better understand and adapt our approach to the markets through risk and reward strategies and utilising commercial mechanisms which incentivise suppliers.

This will be coupled with an effective approach to contract management which will ensure the performance of Council's strategic contracts is managed by suitable qualified and experienced staff.

SECTION 5 - HOW THE COUNCIL MONITORS AND MEASURES THE PERFORMANCE OF THE CAPITAL PROGRAMME

The CP & AMPB will review the financial performance of the capital programme on a regular basis. Financial monitoring and update reports are also considered by Council on a quarterly basis together with a year-end capital outturn report. Issues that have been considered and recommended by the CP & AMP Board are reported to Council as necessary via the regular reports. Where a potential cost overrun has been identified, the CP & AMP Board will explore possible solutions in detail. It will also consider any underspending or identified surplus resources which can be reallocated to other priorities.

Where there is a delay in the commitment of programme/project resources, the CP & AMPB requires project managers to report the reasons for the delay and consider whether it would be appropriate to recommend the decommissioning of the project and the reallocation of non- ring-fenced resources to other projects. It is recognised that there may be a potential revenue consequences of doing this due to the capital accounting requirement to transfer abortive costs to revenue.

The performance of the capital programme is also measured by the prudential indicators which are reported to Council as part of the Treasury Management Strategy, the Treasury Management half yearly review, and the post year-end review.

SECTION 6 - THE CAPITAL PLAN & ASSET MANAGEMENT BOARD

The Capital Plan and Asset Management Board will be made up of the following members:

- Director, Resources (Chair)
- Head of Finance and Integrated Service Support
- Head of Communities and Economy
- Head of Education
- Head of Customer and Housing Services
- Head of Commercial Operations
- Head of Property and Facilities Management
- Financial Services Manager

And is supported by the attendance of the following officers:

- Senior Accountant
- Property Manager
- Project Manager
- Section 75 Officer

The Board meets on a regular basis to:

- Discuss and recommend actions around developing capital issues;
- Develop the capital strategy;
- Commission the coming years capital programme;
- Review the assets disposal plan and capital receipts position;
- Monitor the performance of the capital programme overall;
- Monitor the performance of strategic and high risk projects;
- Periodically review the strategic fit of projects; and
- Receive and consider post project evaluation reports.

The full Terms of Reference for the Board will be determined by the Corporate Management Team (CMT) and are set out below.

It should be noted that projects maybe proposed through other boards such as CMT or BTB but that requests for changes and additions to the capital programme should still follow the proposed process detailed in the sections above.

CAPITAL PLAN AND ASSET MANAGEMENT BOARD TERMS OF REFERENCE

General

1. To oversee and endorse the Council's Capital Strategy.
2. To own and oversee the development of, the Council's Capital Programme for both the General Fund and the Housing Revenue Account. Through doing so, and taking a long- term view, the Board should ensure that both individual projects and the programme as a whole is affordable and fits with the Councils vision, priorities and outcomes as laid out in the Council Plan and other inter linked plans and strategies.
3. To develop and regularly review the processes to support a strategic approach to capital investment planning which will justify investment decisions, taking account of the Council priorities within the resources available.
4. To operate according to the approved processes for consideration of all capital expenditure and for new proposed capital projects.
5. To operate as a critical gateway for capital projects put forward for endorsement of concept and for ultimate commitment by the Council.
6. To consider post project evaluation reports.

On an Annual Basis

1. To receive bids for inclusion in the Council's strategy.
2. To prioritise all bid submissions.
3. To review the 10 year capital strategy and 5 year capital programme taking into account projected available resources for submission to Council.
4. Receive capital monitoring reports (financial and performance information).
5. Receive asset disposal programme update.

On a Regular Basis

1. Consider all requests for in - year additions and changes to the Capital Strategy and or Capital Programmes
2. To oversee, monitor and authorise the progression of capital projects through key stages (to include receiving reports from established project, programme or other boards as appropriate, and approving variations to schemes).
3. To oversee the overall level of contingences provided across the capital plan and to manage the return of contingencies target in the capital plan.

On an Adhoc Basis

1. Review prioritisation and adequacy of existing scoring mechanism.
2. Review systems of pre-project evaluation including project appraisal and business case justification.
3. Review systems of post project evaluation and application to all completed schemes.
4. To review at appropriate points major projects during the construction stage.
5. To receive post-implementation review presentations after the completion of major projects.