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Bedfordshire
Council
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**TO EACH MEMBER OF THE
CUSTOMER AND CENTRAL SERVICES OVERVIEW & SCRUTINY COMMITTEE**

11 November 2010

Dear Councillor

**CUSTOMER AND CENTRAL SERVICES OVERVIEW & SCRUTINY COMMITTEE –
MONDAY, 15 NOVEMBER 2010**

Further to the Agenda and papers for the above meeting, previously circulated, please find attached the following late report:

**12. Budget Task Force Recommendations - Portfolio Holder's
Response**

To consider a response from the Portfolio Holder for Finance, Governance and People to the Budget Task Force's recommendations regarding the management of capital projects.

Should you have any queries regarding the above please contact me.

Yours sincerely

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Committee Services Officer

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Meeting: Customer & Central Services Overview & Scrutiny Committee
Date: 15 November 2010
Subject: Budget Task Force Recommendations – Portfolio Holder’s Response

Report of: Cllr Maurice Jones, Portfolio Holder Finance, Governance & People & Cllr Steve Male, Portfolio Holder for Customers, Systems & Assets

Summary: The report presents the response of the Portfolio Holders for Finance, Governance & People and Customers, Systems & Assets to the Budget Task Force’s recommendations regarding the management of capital projects.

Advising Officer: Richard Ellis, Director of Customer & Shared Services
Contact Officer: Matt Bowmer, Assistant Director Financial Services
Public/Exempt: Public
Wards Affected: All
Function of: Council

| CORPORATE IMPLICATIONS |
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| Council Priorities: |
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| The report indirectly impacts upon all 5 Council priorities |
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| Financial: |
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| n/a |
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| Legal: |
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| n/a |
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| Risk Management: |
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| n/a |
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| Staffing (including Trades Unions): |
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| n/a |
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| Equalities/Human Rights: |
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| n/a |
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| Community Safety: |
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n/a

Sustainability:

n/a

RECOMMENDATION:

- 1. that the Customer & Central Services Overview & Scrutiny Committee considers the response of the Portfolio Holders for Finance, Governance & People and Customers, Systems & Assets.**

1. As Members will be aware, at its meeting of 11 October 2010, the Committee endorsed the recommendations of the Budget Task Force regarding the management of capital projects. These recommendations are attached at Appendix A for ease of reference.
2. At this meeting, the Committee also agreed to await a joint response to these recommendations from the Portfolio Holders for Finance, Governance & People and Customers, Systems & Assets. This response is now attached at Appendix B.
3. Members of the Customer & Central Services Overview & Scrutiny Committee are therefore asked to consider the response attached at Appendix B and agree any further actions, if considered necessary.

Budget Task Force

Recommendations Regarding the Management of Capital Projects

1. That the Executive requires officers to review the Code of Financial Governance (& other related Constitutional documents) to ensure greater clarity and consistency regarding the capital programme process;
2. That for all Capital Projects there should be a project manager who is responsible both for delivering the project and all aspects linked to it including liaising with all concerned parties. Additionally there should be a senior officer who oversees the project and is accountable for it. At a minimum this should be at head of service level and for projects above [£100k] this should be a director level
3. There should be a review of the controls associated with slippage of schemes, and the following are recommended:-
 - (i) There should be a biannual review of all capital projects, and schemes that have been approved but not yet started should be part of that review;
 - (ii) Where there is slippage the relevant Senior Officer should explain why there has been slippage; and
 - (iii) Capital Costs need to be re-confirmed for any Capital Project subject to slippage.
4. Officers should review the procedures for both project management and contract specification to ensure that all projects are produced to timescale; achieve the objectives and do not run over cost (For larger projects critical path analysis should be used)
5. That for all Capital Projects an estimate of Officer time and cost associated with the project (even though this element will not be capitalised) should be made and be part of the decision making process.
6. That there should be a separate class of Capital Projects known as Invest to Save projects and these should be treated separately from the main Capital Budgeting process - see Annex A.
7. That the approach to policy led budgeting, and in particular scoring, be reviewed in line with that proposed in Annex B
8. That Capital Allocation should initially be split on an Area basis, before looking at individual projects. This should exclude strategic projects (>£2m). In addition there should be a reserve of 10% of the capital budget that is not allocated by area but invested by specific project as set out in Annex C.

9. That where third party funds are available, they should be held at the highest available level rather than to specific projects until project priorities have been determined.
10. There should be a review of all rolling programmes on a regular basis to ensure that the priorities within the program match those of the Council. In particular this review should include the larger programmes [>£1m] such as Highways.
11. While recognised as not part of the review, two issues did arise that the Task Force would like the committee to consider:-
 - (i) To request sight of a comprehensive list of assets owned by the Council; and
 - (ii) That S106 funding should be reviewed to assess the opportunity to increase this source of funding for the Councils Capital programme.

Annex A: Business Case for Invest to Save Capital Projects

A separate procedure should exist for Invest to Save Capital Projects.

These are defined as projects whose primary objective is to reduce the operating costs or realise income/capital for Central Bedfordshire Council to a level that the Section 151 Officer is willing to sign off that the project will enhance the financial position of the Council, with a suitable margin.

As such the financial benefits must be both significant and provide a high degree of certainty.

The following principles are proposed:-

- 1 The financial benefit should provide an IRR of at least 25% and maximum payback of 4 years
- 2 In calculating the benefit of the project, Officer time must also be included even if this is not capitalised
- 3 Financial benefits should factor in risks of the project, including both timing and performance
- 4 Any financial benefit must be incremental to other programmes
- 5 All directors of an area in which savings are anticipated must agree to the savings, take responsibility for delivering the savings and the requisite adjustment of their budgets. For example if the proposed saving is £100k, then one or more directors must agree to their budgets being reduced by £100k as a consequence of the Capital Project.
- 6 The Section 151 Officer must sign off that the project enhances the financial position of the Council.
- 7 Projects should be below £2m in cost and less than 24 months full implementation
- 8 All projects should have a post completion review
- 9 There should be an annual review of Invest to Save Projects by [Exec/Council/OSC CC&S]

On the basis that Invest to Save Capital Projects enhance the financial standing of the council, in theory there should be an unlimited financial pot available for these. However as part of the Capital Review a cap should be placed on these projects. However it should be fully understood that Invest to Save Capital is incremental to the Capital Budget and any funds allocated to this are not available for other projects.

Annex B: Policy Led Budgeting for Capital Schemes

In principal it is desirable to have policy led budgeting for Capital, however given the broad nature of council priorities, it is difficult to be scientific in assessing this. The current system provides a wide range of latitude in assessing projects and is overly reliant on officer judgment and priorities.

The Task Force recommends the scoring scheme be changed to the following categorisation:-

Council Priorities

Assess impact (benefit) of particular project on council priorities, in relation to net cost of the project (ie after any specific grants or realisations). In determining net cost, Officer time allocated to the project should also be taken into account even though this is not necessarily a capital cost.

Low/no benefit – Low

Medium benefit – Medium

Significant benefit – High

Statutory/Legal

A project that is required to meet legal (inc Health and Safety) or statutory obligations. The specific element of the project that meets the minimum legal/statutory requirement or the lowest cost alternative that meets the legal/statutory requirement

If less than 35% of whole – Low

If less than 75% of whole - Medium

If more than 75% of whole - High

Asset Management Plan

In looking at the project, what is the impact on the Council's asset strategy? In general there should only be investments in assets that are in line with the Asset Management Strategy. In particular avoid Capital Expenditure on assets that have only a temporary life expectancy, unless this creates value through future uplift in value at a point of realisation. Or capital Investment that is expected to be superseded by alternative strategies.

Not in line – Low

In line – Medium

Essential maintenance CapEx – High (only for part that is)

Financial Impact

This is to cover projects that cannot be justified on an Invest to Save basis, but none the less have a financial impact

Revenue impact negative > 4% of project cost – Very negative

Revenue impact negative – Negative

Revenue impact neutral or slightly positive – Low

Revenue impact positive > 4 % of project cost – Medium

Revenue impact positive > 10% of project cost – High

In assessing revenue impact, consideration should be given not only to direct revenue impact but also other potential future costs such as maintenance capex which would otherwise be essential.

Funding

Where funding for a project is provided by a third party and is specific to only that project (not area) this should be considered in assessing the project. Included in this should be potential asset realisations that would only be available should the project go ahead, for instance building of a new school thereby enabling selling of original site. However a suitable risk factor needs to be put in place.

Where external specific funding comprises more than 90% of the cost, should consider it a high, provided there is not substantial hidden cost in officer time. For projects where net funding is below 90%, then this will be accounted for in the above Council Priorities assessment.

Analysis

Once the five criteria have been determined then a priority can be determined based on the outcomes. In scoring terms, would list those with most “highs” first. Additionally anything with a Very Negative would need at least two high scores and/or real evidence of its essential nature.

Annex C: Capital Allocation

There are a number of options to determine allocation of Capital:-

- (i) Allocation to specific projects eg new school
- (ii) Allocation to expenditure service area eg Highways budget
- (iii) Allocation by type eg IT

Currently the council adopts a mixed policy of capital allocation involving all three types of Capital Expenditure allocation. A large part of the determination of allocation is driven by third party grant funding, however the flexibility and scope of third party funding is unclear.

Before allocating Capital there should be a significantly more transparent process to determine available sources of third party funds and the extent of ring fencing.

As part of the Capital programme, all external sources of Capital should be separated out and aggregated to the highest level at which choice exists and not attached to specific projects unless only available to them.

Proposal:-

- (a) Majority of Capital should be allocated by area, which should include in the apportionment all specific monies eg

Highways

Waste

Leisure

Schools

Council Property

CC&S

Housing

Social Care

Etc (areas to be determined)

- (b) Proportion of capital should be held back for specific allocation
- (c) Strategic projects, greater than[£2m] should be dealt with on a specific basis
- (d) Once capital has been allocated by area, area priorities should be determined

Within each project area, there are a number of large rolling programmes, in particular Highways. These should also be looked at to determine Council Priorities and methods of prioritisation.

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CUSTOMER AND CENTRAL SERVICES OVERVIEW AND SCRUTINY COMMITTEE

Budget Process Task Force – Recommendations regarding the management of Capital Projects

Portfolio Holder Response – Cllrs Maurice Jones and Steve Male

The following points respond to directly to those recommendations made by the Task Group in its report to Overview & Scrutiny committee on 11 October.

1. The Finance Team have a rolling programme of review for all Financial Procedures to ensure that they reflect best practice and remain up to date. It is appropriate that the Code of Financial Governance is subject to similar review.
2. All schemes in the Capital Programme have a named project manager. The organisation has a management structure in place which holds these individuals to account.
3. It is essential that there is effective management of slippage.
 - (i) The mid year review of the 2010/11 Programme has been a valuable exercise and will be repeated on an annual basis.
 - (ii) Agreed, slippage should not go forward unexplained.
 - (iii) One of the dangers of slippage is escalation of cost and the recommendation to reconfirm costs is well made.
4. The Council has an agreed Project Management approach based on Prince 2. There is a lighter touch approach within this framework for smaller projects.
5. It is important that there is an awareness of all resources supporting individual schemes and a straightforward approach to identifying officer time will be explored.
6. The concept of 'Invest to Save' schemes was raised in the report to Council in February. It make perfect sense to invest in assets where they generate efficiencies that more than cover the financing costs and make a contribution to the overall revenue budget. The Outline Business Case and Detailed Business Case pro formas will be updated to reflect this.
7. There was a review of policy led scoring to make it as objective as possible and this will be reviewed again for the 2011/12. This is increasingly important given the current financial constraints.

8. Given the scarcity of resources there is little value in setting aside allocations for individual geographical areas of the authority. The Capital Programme should assess the overall needs of Central Bedfordshire as a whole.
9. Capital receipts are held at an authority level whilst other contributions such as S106 are through negotiation with third parties. There is already an objective to hold at as high a level as possible.
10. The Capital Programme in February made no long term commitment to rolling programme and these are already subject to an annual review.
11. In respect of the two further requests:
 - (i) A list of all assets will be provided.
 - (ii) A comprehensive list of all Section 106 funding is available. The ability of of the Authority to increase these funds is limited by the scope for future developments and their infrastructure requirements.