Central Bedfordshire Council
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CONSTITUTION ADVISORY GROUP
DATE: 25 August 2009

TITLE	**REVIEW OF CAPITAL PROGRAMME PROCESSES**		**ITEM NO.**
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REPORT OF	Director of Corporate Resources		

PURPOSE	To review and suggest proposed amendments to the processes for approving the capital programme and capital projects outlined in the Constitution (Section I2 Code of Financial Governance).

ORIGIN OF PROPOSAL	The Leader of the Council, Portfolio holders for Corporate Resources and for Culture and Skills met with the Deputy Chief Executive/Director of Children, Families and Learning and Director of Corporate Resources to discuss problems which have arisen with regard to operation of the provisions within the Constitution relating to the Capital Programme. This report now invites the group to consider a variation of the procedures relating to the Capital Programme.

RECOMMENDATION:
That the Constitution Advisory Group consider this report and the suggested amendments to the Code of Financial Governance.

SUPPORTING INFORMATION

1. Introduction

1.1 Since the establishment of Central Bedfordshire as a new unitary authority, a number of problem areas have emerged regarding the processes for the incurring Capital Programme expenditure as set out in the Council's Constitution (primarily through the Code of Financial Governance) and the Capital Handbook. Although the Shadow Council approved a Capital Programme for 2009/10, problems in the operation of the scheme were to be expected given that there were not the officer or member structures in place critically to review and evaluate these processes in line with the new authority's emerging priorities.

1.2 Key problem areas that have emerged can be summarised as follows:-

- the nature of both the Constitution and Handbook processes which are more relevant for specific, higher-value, projects (rather than rolling programmes and low value schemes)
- the potentially restrictive nature of the Constitution re: approvals, variances, and virements;
- confusion and uncertainty regarding the application of processes to legacy authority schemes and the status of the CBC Capital Programme

1.3 This report is a discussion paper that suggests an approach towards addressing these issues in the Code of Financial Governance in the Constitution.

For the avoidance of doubt, the Constitution provides full authority to the Code of Financial Governance and the Capital Handbook contains the necessary detail

These suggested revisions should then form the policy background for revising Capital Handbook and implementing processes for approving the 2010/11 Capital Programme.

1.4 These suggested approaches are then reflected in suggested amendments on a track changes basis to the Code of Financial Governance, which is attached as Appendix A. Where this report suggests two alternative approaches to a particular issue, these are shown as alternative options. The relevant paragraphs of the Code relating to a particular issue are referred to in this report.

1.5 The 2009/10 Capital Programme itself was essentially a consolidation of schemes from the demised authorities, and needs to be the subject of a detailed review. This work is outside the scope of this report, but revisions to the Constitution should greatly assist the review and delivery of the programme.

2. Categorisation of Capital Projects / Schemes

2.1 At present, the Constitution and the Capital Handbook do not make any distinction between different types of capital project in terms of the approval processes required, although the Handbook does suggest that guidance be sought on the level of detail to be required for individual proposals.

There are indications that this lack of categorisation is creating confusion as to the level and type of documentation required at various stages of the approval process. Review of the current programme suggests that the Capital Programme can be broadly categorised into the three types outlined below. These categorisations can then be used as the basis for determining issues such as approval processes, documentation levels, variance levels, and virement limits. (4.9.4)

2.2 **Rolling Programmes (4.9.8)**

2.2.1 The Council has a number of significant rolling programmes in its Capital Programme, which tend to have the following characteristics:

- Year to year delivery of strategic objectives
- Relate to large service blocks
- May have significant element of government funding
- Largely concentrated on infrastructure and asset improvement and maintenance

2.2.2 Examples of rolling programmes include the following:

- Highways Structural Maintenance Allocations
- Affordable Housing Provision
- New Deal for Schools
- HRA Capital Programme

2.2.3 It should be noted that no suggested approach to categorisation can be completely definitive. In particular in respect of rolling programmes, an individual project in a rolling programme may be of such significance that it is appropriately regarded as a major scheme (see below) with the commensurate approval and documentation levels.

2.3 **Larger Capital Schemes (4.9.9)**

2.3.1 Review of the current programme has indicated that a major scheme can be broadly defined using a gross expenditure figure of £500k. Typically, these are one-off, named schemes, which entail a specific project outcome and individual procurement. Examples might include provision of a new leisure centre, a major office refurbishment, a major ICT implementation, etc. As noted above, some projects that would generally be regarded as part of a rolling programme could more appropriately fall into this category, such as provision of a new school or construction of a by-pass.

2.3.2 In addition, in practice some schemes under this value may have the characteristics of a large, significant scheme in terms of strategic importance to the Council, and the degree of project analysis and management required. Conversely, some high value projects may entail limited input from the Council, other than the provision of funding, e.g. providing affordable housing in partnership with a RSL. Categorisation by budget is a starting point, but a degree of judgement still needs to be exercised as to appropriate approval and management arrangements.

2.4 **Smaller Capital Schemes (4.9.10)**

2.4.1 Finally, this category would cover those specific smaller schemes under £500k which are not part of rolling programmes.

3. Suggested Approval Process

3.1 Appendix B, attached, outlines a suggested approval process for each category, and the level of project documentation to be produced. (4.9.5) The following paragraphs provide some more information on this suggested process. The attachments refer to the "Corporate Asset Management Group", hereafter referred to as "CAMG". CAMG is an officer group whose role, in summary, is to review and challenge schemes and provide advice to the Executive and Central Beds Management Team thereon.

3.2 All projects / rolling programmes would require an outline business case to be produced for consideration by CAMG, although this would not preclude the production of a detailed business case at an early stage if this was achievable and was subsequently required in the process. An Outline Business Case (OBC) would normally have best estimates of costs, timescales, deliverables etc.

(These differ from a Detailed Business Case (DBC) which would have fully validated costs, deliverables, and timescales. For example, for a building project the Outline Business Case may have estimates by officers based on previous similar projects, but the Detailed Business Case would have accurate estimates by a Quantity Surveyor or by obtaining quotes from suppliers).

Outline Business Cases are intended to be a first pass indication so that an initial decision can be made as to whether to proceed, with minimal cost incurred to get to that position. An OBC would normally be required in order for a scheme to appear in the Council's Approved Capital Programme each year.

The Detailed Business Case requirement for a Rolling Programme is intended to cover that programme as a whole. (4.9.6)

3.3 Proposals will almost certainly exceed the level of financial resources available to the Council, so CAMG would need to advise on the priority of the OBCs to enable the Executive to consider an overall recommended programme.

This prioritisation needs to link to the annual policy planning and medium term financial planning cycles. The Council's projected revenue position outlined in the medium term financial strategy will determine the quantum of the Capital Programme that is affordable. The function of the Directorate review bodies such as the Learning Transformation Board in the Children's and Families Directorate is to review the project then challenge and improve on the Business Case (Detailed or Outline as the case may be). (4.9.7)

3.4 For larger schemes, it is recognised that some further costs may well need to be incurred to take a project up to Detailed Business Case stage. In these circumstances, it is proposed that Directors can authorise expenditure up to a level of 5% of the total scheme cost at this stage, on the understanding that these costs would fall on the revenue budget of the directorate if the scheme ultimately does not proceed for any reason. (4.9.9)

3.5 A number of other issues that need to be addressed in the Constitution and the Capital Handbook then flow from this outline approval process, as follows:

- Approval of new projects during the course of the year
- Approval of variations in scheme costs
- Virements

4. Approval of New Projects In Year

4.1 The approval process outlined above focuses on annual approval by Full Council of a Capital Programme, and this is intended to remain at the core of the process, linking as it does to the annual policy planning process, the Budget and Policy Framework, and the Medium Term Financial Strategy. However, there will always be circumstances in which there may be a need for the approval of new capital projects during the course of the year.

The Code of Financial Governance in the Constitution currently allows for this and Paragraph 4.9.3 states: "In year, the Executive may approve new schemes estimated to cost less than £300,000 that have not previously been included in the Capital Programme. New schemes estimated to cost more than £300,000 must be approved by Full Council. "

4.2 This approach may still be a valid one, utilising the proposed approval process and documentation. However, if it is retained it may be useful to revise these limits to £500,000, in line with the proposed scheme categorisation. (4.9.11 Option1)

4.3 A possible alternative approach might be for the Capital Programme approved by Full Council each year to include a Contingency Sum for new projects. This Contingency Sum would already be included within the assessment of affordability of the Capital Programme and could be allocated to new projects with the approval of the Executive. A possible figure for this sum could be, say, around 5% of the Capital Programme. This approach could mean that more account is taken of the overall affordability of the programme, and that fewer proposals need to be made to Full Council for approval. (4.9.11 Option 2).

5. Approval of Variations in Scheme Costs and Virements

5.1 The Code of Financial Governance appears quite onerous in respect of the approval of additional costs on capital schemes. At present, the Code requires variances between £25,000 and £100,000 to be approved by the Executive, with variances above £100,000 being approved by Council. There is no scheme of virement for the Capital Programme.

5.2 It is suggested that a scheme of virement could be introduced for the Capital Programme along similar lines to the revenue budget, with a virement limit being allocated to Directors and Portfolio Holders for virements within the capital schemes in their Portfolios. These approvals would be made in consultation with the Director of Corporate Resources and with the agreement of the relevant Portfolio Holder. (4.9.12)

5.3 The introduction of a virement scheme should reduce the need for approvals to increase the capital programme. However, it is suggested that these could be amended to enable Directors and Portfolio Holders to approve additions within an overall tolerance limit, possibly within a contingency sum on a similar basis to the approval of new projects to above. (4.9.13)

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Key Background Papers:
None