

## **STRATEGY & PARTNERSHIPS SCRUTINY COMMITTEE 30 SEPTEMBER 2010**

### **THE CAPITAL PROGRAMME REVIEW & CAPITAL PLANNING PROCESSES - 2011/12**

**Report by Assistant Chief Executive & Chief Finance Officer and  
Director for Environment & Economy**

#### **Purpose**

1. The purpose of this report is to inform the Strategy & Partnerships Scrutiny Committee of
  - (a) the current capital programme review process (2010/11);
  - (b) how the capital planning will be integrated into the Service and Resource Planning Process for 2011/12.

#### **Background**

2. Since September 2009 the responsibility for scrutinising capital programme monitoring was transferred to the Growth and Infrastructure Scrutiny Committee. The Strategy & Partnerships Scrutiny Committee (S&PSC) retains the responsibility for scrutinising the capital planning decisions as per its role in the overall Service and Resource Planning Process.
3. The S&PSC normally discharges this responsibility during December/ January when it considers the draft medium term financial plan and related budget proposals. However, following the National Budget announced on 22 June 2010, it was clear that cuts to local government funding will have an impact on the schemes planned under the council's five year capital programme.
4. Hence, this report aims to ensure the early engagement of the S&PSC in the capital programme review and planning process in line with best practice.

#### **The Capital Programme Review - 2010/11**

5. When the Cabinet agreed the Capital Programme in February 2010, it stated that spending plans might change depending on the outcome of the Government's next Comprehensive Spending Review. The Cabinet also stated that it would be considering the impacts of likely cut backs in capital spending, and a further review of the whole programme is expected once the national budget has given a clearer indication of the likely resources.
6. On 7 June 2010, the Leader of the Council announced that the capital programme be reviewed in response to forthcoming cuts in government funding. This is to ensure that priorities for the capital programme are re-evaluated given that we are entering a new era for local government with the

most sustained period of cuts in central government support for local authorities since the Second World War<sup>1</sup>.

7. This is a wide-ranging review enabling the Council to take a fresh look at the current projects within the programme, debate the relative importance of each scheme and to make decisions about the priorities in this new environment. It includes capital investment in schools, transportation, physical assets needed to deliver public services, carbon and waste management, cultural facilities and the development of public spaces. A number of schemes are not part of the review as they were either physically completed or contractually committed before the review started or are fully funded from specific / ring-fenced funding (e.g. grant and S106 resources).
8. The Cabinet has completed the first part of this review. On 20 July it considered the financial monitoring report and agreed that the schemes listed in Annex 1 were released from the review and could go ahead. These schemes are either all substantially funded by money secured from external resources or by prudential borrowing or they are linked to provision for essential road maintenance or statutory basic needs for school places.

### **The Capital Moratorium**

9. On 20 July 2010, the Cabinet also placed a moratorium on any capital scheme which is not currently contractually committed. This means, all schemes<sup>2</sup> that are not contractually committed will remain “on hold” pending further work on the future programme over the summer and autumn and the Comprehensive Spending Review.
10. It was made clear that just because a scheme is on hold does not mean that it will not go ahead. However, the moratorium means that in some cases the final decision on a capital scheme may not be made until January 2011. It is also likely that some of the Council’s investment programmes and some schemes may have to cease given the expected level of cuts in funding from central government.
11. It is important to note that even the schemes which are not included in the review or released to go ahead are still subject to the Council’s project approval (as per Financial Procedure Rules) and the recently introduced contractual commitment process. This is because
  - (a) some grant funding provisions are still subject to confirmation by central government;
  - (b) there is a need to confirm that S106 resources are secure and held prior to contractual commitment;
  - (c) project approval reports need to confirm whether or not service and revenue implications conform to the business strategy.

This means that some of the schemes although released may not go ahead due to other constraints.

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<sup>1</sup> Source- The institute for Fiscal Studies (June 2010)

<sup>2</sup> Excluding the schemes listed in Annex 1 or excluded from the review in the first place.

12. The Cabinet will continue to consider and evaluate the schemes that are currently on hold in light of up to a 50% cut in capital funding and a 25% reduction in the level of grant funding for Council services.

### **Decision Making**

13. Decisions about which projects to release from the moratorium rest with the highest level of authority within the Council.
  - (a) wherever possible all decisions are made by the Cabinet or the Council in line with the Council's approved policy and budgetary framework as determined by the Council's constitution;
  - (b) where there is an urgency arising from either timescales, external conditions or other interdependencies, projects can be released from the moratorium through the joint approval of the Chief Executive and the Chief Finance Officer in consultation with the Leader of the Council and the Cabinet Member for Finance & Property (Delegated Authority approved by the Cabinet on 20 July 2010);
  - (c) all decisions made by using delegated authority (b) are reported to the Cabinet at the earliest opportunity as part of the Financial Monitoring Report.
14. Deciding which projects to fund is a wider process than just releasing projects from the capital moratorium. This is because such a decision may involve considering new project proposals that are not included in the approved capital programme, placing an additional moratorium on projects that are not currently on hold or removing projects from the programme altogether. Wherever possible these decisions are also made by the Cabinet or the Council as per 13.a.
15. In addition, the Leader of the Council has the delegated authority to approve any proposed changes to the Capital Programme in advance of the financial monitoring report to the Cabinet provided that the funding is agreed by the Chief Finance Officer and the decision is reported to the Cabinet in due course as per the Financial Procedure Rules.

### **Capital Planning 2011-12**

16. Best practice requires that capital investment and programming should be an integral part of the Council's Service & Resource Planning (S&RP) process. This is because the creation of a new asset or investment in the existing assets and infrastructure network can only be justified when detailed business strategies and delivery models for the service are determined.
17. An effective organisational/service business strategy should anticipate changes in the services' requirements for technological capabilities, identify major capital assets and infrastructure that are critical to implement the business strategy and define the outcomes these assets will help realise.

18. The national financial environment means there will be significant (in most cases transformational) changes to the size and the shape of the services provided by local authorities. That is why it is now more critical than ever that priorities for the capital programme should be agreed in light of the new OCC business strategy and the related service strategies.
19. With this in mind, the Capital Investment Board also agreed to integrate the Capital Planning Process completely into the Service and Resource Planning Process in this financial year.
20. In order to achieve this, the Board also agreed to
  - (a) initiate the capital investment planning process early in 2010/11 considering that there may be some policy implications arising from the challenging capital funding environment;
  - (b) use the 50% cut scenario as the starting point for evaluating likely policy implications in each programme area;
  - (c) Review the CYP&F and Transport Capital Programmes as well as the other corporately funded programmes as part of this year's capital planning process ;
  - (d) not to have a capital bidding process for 2011/12 and ask directorates to consider their existing and emerging capital priorities in light of the business strategy and emerging service strategies;
  - (e) consider savings that can be generated through better use of the property portfolio as part of the overall service and resource planning process;
  - (f) give priority to statutory requirements and capital programmes/ projects linked to delivering directorate efficiency strategies/ programmes when reviewing individual programmes;
  - (g) promote the flexible use of resources as far as possible to maintain the investment level in essential areas and align the capital strategy accordingly.

## **Conclusion**

21. This is the first update for the S&PSC on the capital programme review and capital planning process. Given the national financial environment and the key issues listed in the report, it is clear that capital planning needs to be considered as an integral part of the overall Service and Resources Planning process. This will ensure that the capital programme continues to deliver council priorities and effectively support future service delivery.

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