



To: Executive Councillor for Finance and Resources:
Councillor George Owers

Report by: Head of Finance

Relevant scrutiny committee: Strategy & Resources
13/7/2015
Scrutiny Committee

Wards affected: Abbey Arbury Castle Cherry Hinton Coleridge
East Chesterton King's Hedges Market Newnham
Petersfield Queen Edith's Romsey Trumpington
West Chesterton

REVIEW OF CAPITAL PLAN PROCESSES AND PROCEDURES-PHASE 2

Key Decision

1. Executive summary

Mid-year Financial Review (MFR) 2014 and Budget Setting Report (BSR) 2015 highlights the need to improve existing capital plan processes.

This report builds on Phase 1 of the review of the capital plan which examined existing projects in order to release internal funding (e.g. Direct Revenue Funding (DRF), R&R, capital receipts etc.). It also identified projects that were not ready for delivery, no longer required, or were not true capital projects. Projects not ready for delivery were placed on a new Projects Under Development (PUD) list and will be brought forward for prioritisation against available funding when a business case and delivery plan has been developed.

Phase 2 of the review proposes detailed changes to the process whereby new projects come forward and existing projects move from the PUD list for approval and inclusion on the General Fund capital plan.

2. Recommendations

The Executive Councillor is recommended:

- to approve the establishment of a Capital Programme Board (CPB) officer group, to be convened by the Head of Finance (HoF) with delegated

authority to approve project appraisals (full business case) for capital projects up to £300k, subject to changes to the Council's existing delegations (see Appendix A)

- to approve the changes identified in Appendices B and C for 'other' capital approval processes

- to recommend Council to approve a Capital Feasibility Fund of £35,600 in 2015/16, funded from a 'top-sliced' 5% of net capital funding available, with delegated authority for allocation of these funds given to the CPB in conjunction with the s151 officer.

- to approve the appointment of a capital accountant/programme manager, funded from existing resources, to implement the proposed changes detailed in this report.

- to recommend Council to approve placing all current projects on the General Fund capital plan that do not produce a full business case by 30 November 2015 on to the PUD list, i.e. remove approved funding and require these projects to come forward for funding once a full business case has been approved.

3. Background

3.1 As part of the MFR 2014 the HoF proposed a review of the capital plan to address its size and complexity. A number of concerns were identified, including the:

- Capacity to deliver projects to time, cost and quality;
- Dependency on revenue funding; and
- Inclusion of items, such as unallocated funds, projects at an early stage of development, and items more properly treated as small enhancements or maintenance spend.

3.2 There was a further commitment in the BSR 2015 to develop the work started within Phase 1 of the review, which examined existing projects in the General Fund capital plan and moved certain projects onto a Projects Under Development (PUD) list, where they could be brought forward for funding once properly developed.

Method

3.3 As part of Phase 2 of the review, two officer groups were set up to consider the current process. The first was a technical group, with input from accountancy, internal audit and procurement and the second, key stakeholders, including the Head of Finance. A number

of similar issues appeared across both groups and these helped shape the new process.

- 3.4 A number of variations to the main capital approval processes were recognised, such as s106 devolved decision making, the Housing capital plan and capital programmes such as the Environmental Improvements Programme (EIP).

Further discussion with officers involved in the other capital approval processes is summarised with recommendations in Appendices B and C.

- 3.5 The review identified two key stages within the current capital process:
- 1 Funding allocated to the project (approval by Council of capital plan at BSR/MFR)
 - 2 Project ready for delivery (approval of project appraisal by relevant scrutiny committee)

Overview of proposed changes

- 3.6 The review recommends reversal of these stages:
- 1 Is the project properly planned and developed? How does the project score when prioritised? (approval by CPB)
 - 2 Do we have funding available? (approval by Council of capital plan at BSR/MFR, within capital funding available and with consideration of prioritisation score in relation to other projects also requiring funding)

The revised process reflects the reductions in levels of capital funding and therefore the need to allocate funding based on recommended prioritisation and political consideration.

- 3.7 Phase 2 looked at these two stages in more detail and considered a capital project 'journey' from initiation; outline business case (with prioritisation scoring-as used in Phase 1 and any request for feasibility funding), onto the PUD list, full business case, request for funding and eventual approval on to the Capital Plan (see Appendix D).
- 3.8 As a minimum, officers are expected to discuss projects at the outline business case stage with relevant Ward and Executive Councillors. In practice, it is likely that many projects will be developed jointly by Members and officers working together, as is currently the case.

Project managers are expected to evidence Member sign off at outline business case stage. The CPB will ensure that this is the case. A similar sign-off is also expected once a full business case has been sufficiently developed.

- 3.9 Any public consultation required to develop a project should take place after the outline business case has been agreed and in time to inform the full business case decision.
- 3.10 Projects over £300k in value will require the full business case be considered at the same time as relevant scrutiny committees are reviewing items for MFR or BSR.
- 3.11 There are no proposed changes to the existing Member approvals for the EIP and s106 processes, as the local accountability of Area Committees is consistent with the local nature of these projects.

Detailed changes proposed

- 3.12 Following the officer group consultation, a number of significant changes are proposed (see Appendix D) and include:

- 3.12.1 Establish a Capital Programme Board (CPB) officer group, with delegated authority to approve project appraisals (full business case) for capital projects up to £300k; with project appraisals (full business case) for projects above £300k considered at Scrutiny Committee. The approval from the CPB is that of quality assurance, to ensure that risks, deliverability and prioritisation have all been properly considered.

This would align delegated procurement authority and committee key decisions at the same value (£300k). The process of outline and full business cases also aligns with the Council's Corporate Project Management guidance.

- 3.12.2 The financial approval of capital projects would remain with Council, twice a year at MFR (October) and BSR (February) (see Appendix E). This would ensure that any projects with revenue consequences could also be properly considered. The option of taking urgent decisions outside of these committee cycles would remain.

Using existing frameworks for the MFR and BSR, allows officers, in consultation with Members, the opportunity to forward plan capital projects, so decisions and approvals for

outline and full business cases can be made at the appropriate time to feed into those processes.

This will also allow wider decisions regarding the resource required to fund new capital projects to be considered at the MFR and BSR.

- 3.12.3 Setting up a feasibility budget to pump prime initial explorations for significant value/impact capital projects, and delegate authority for allocation of these funds to the CPB in conjunction with S151 officer. The funding for this would come from top-slicing the net capital funding available. BSR 2015 identifies £712,000 net funding available in 2015/16, so the proposed 5% allocation for feasibility is £35,600. In future years the recommendation for feasibility funding will be incorporated into the BSR.
- 3.12.4 Establish a capital programme manager role (with capital accounting expertise to also perform capital accounting tasks currently being covered by other accountants) to service and coordinate the CPB and the individual project managers in developing and progressing new proposals.
- 3.12.5 Projects added to the capital plan as part of BSR 2015 or before will not currently have a full business case. If delivery of these projects has not started, they will be required to produce a full business case by 30 November 2015 or they will be moved to the PUD list and any approved funding withdrawn as part of BSR 2016. This will reinforce the outcomes of Phase 1 and ensure the capital plan only has projects that are deliverable.
- 3.12.6 The proposed changes to the capital process require amendments to existing Financial delegations and are recommended for approval as part of this report (shown as Track Changes in Appendix A). These amendments have been discussed and agreed with the Head of Legal Services.
- 3.12.7 The project brief confirmed that the financial monitoring of the capital plan was outside the scope of the review. However, work identified in Phase 1 and also recommended in this report will ensure that projects that are approved for inclusion on the General Fund capital plan are 'ready to be delivered', subject to any specific procurement requirements.

4. Implications

(a) **Financial Implications**

These are contained within the report. There may be a need for resource to improve and streamline existing documentation and processes; however this is yet to be assessed.

(b) **Staffing Implications** (if not covered in Consultations Section)

This report recommends that a programme manager would be required to fully implement the outlined changes. It is expected the post will be funded from existing resources and would also be responsible for capital accounting tasks.

(c) **Equality and Poverty Implications**

There are no equality or poverty implications for this report as it relates to internal administrative processes, applicable to all capital projects. Individual capital projects may have equality and poverty implications, but these would be addressed within the planning processes of each project.

(d) **Environmental Implications**

Nil

As part of this section, assign a climate change rating to your recommendation(s) or proposals. You should rate the impact as either:

- +H / +M / +L: to indicate that the proposal has a high, medium or low positive impact.
- Nil: to indicate that the proposal has no climate change impact.
- -H / -M / -L: to indicate that the proposal has a high, medium or low negative impact.

Follow the guidance on the intranet at <http://intranet/sustainability/policies-and-procedures.html>

(e) **Procurement**

None directly. However, this review looks to align the delegated authority of the Capital Programme Board with the procurement authority delegated to Directors (£300k).

(f) **Consultation and communication**

As part of the review two internal officer groups have been consulted (Technical and Stakeholder) which have helped inform the recommendations.

There will be need to feedback the outcome of the decision to approve this report with both officers and Members, including updating the Council's intranet, offer officer training and updating existing documentation and processes

(g) Community Safety

Not Applicable

5. Background papers

None.

6. Appendices

Appendix A - Amendments to Financial Delegations

Appendix B - Analysis of other capital approval processes - General Fund

Appendix C - Analysis of other capital approval processes - Housing

Appendix D - Process Chart

Appendix E - Swim Lane Chart

7. Inspection of papers

To inspect the background papers or if you have a query on the report please contact:

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3.1 Financial Matters

a) Spending money from revenue budgets

To incur expenditure on any item for which provision is made in the appropriate approved revenue budget provided that:

- in the case of grants to outside bodies, the approval of the relevant Executive Councillor is obtained for grants over £1,000. (Any grant made under this delegated power must be reported to the next meeting of the relevant scrutiny committee.)
- any action taken complies with any relevant legislative provisions; the terms of any relevant agency agreement; and the requirements of the Council's Constitution (or, where necessary under the terms of an agency agreement, the Constitution of another authority).

b) Proceeding with capital schemes

To proceed with all necessary steps to achieve the completion of capital schemes for which provision has been made in the approved Capital Plan or the Housing [Capital Investment Plan](#) Programme of Work, provided that the approvals required by paragraph c) below have been obtained and the requirements of the Constitution and any relevant legislation are complied with.

c) Approvals needed for new capital ~~schemes~~[projects](#)

Subject to Section 3.1A, in the case of new capital ~~schemes~~[projects](#) the following approvals (together with approval to the necessary budget provision) must be obtained before any scheme may proceed.

- For [schemes projects](#) where the estimated cost is £15,000 and below and has identified capital funding: once included in the capital plan schemes may proceed without scrutiny committee consideration, provided that relevant Ward Councillors, have been consulted, where appropriate.
- ~~For schemes where the estimated total cost is over £15,000 and up to £75,000: a capital project appraisal and procurement report pro-forma must be completed and referred to the relevant Executive Councillor for approval. The schemes may then proceed without scrutiny committee consideration, provided relevant Ward Councillors have been consulted, where appropriate.~~
- ~~For schemes where the estimated total cost is over £75,000: a capital project appraisal and procurement report pro-forma must be completed for consideration by the relevant scrutiny committee and referral to the relevant Executive Councillor for approval.~~

Appendix A – Amendments to Financial Delegations

- For projects where the estimated total cost is over £15,000 and up to £300,000: a full business case report must be completed and referred to the Capital Programme Board for approval.
- For projects where the estimated total cost is over £300,000: a full business case report must be completed and referred to the Capital Programme Board for consideration and then the relevant scrutiny committee and referral to the relevant Executive Councillor for approval.

3.1A

In the case of new capital ~~schemes~~projects, responsibility for which has been delegated to Area Committees by the Executive, the following approvals (together with approval to the necessary budget provision) must be obtained before any scheme may proceed.

• **For schemes where the estimated cost is £15,000 and below:** once included in the Area Committee's programme, may proceed without further committee consideration, provided that relevant Ward Councillors are always consulted.

• **For schemes where the estimated total cost is over £15,000 and up to £75,000:** a ~~capital project appraisal and procurement report pro-forma~~ full business case report must be completed and referred to the relevant Area Committee Chair, Vice Chair and Opposition Spokes for approval. The schemes may then proceed without Area Committee consideration, provided that relevant Ward Councillors are always consulted.

• **For schemes where the estimated total cost is over £75,000:** a ~~capital project appraisal and procurement report pro-forma~~ full business case report must be completed for consideration and approval by the relevant Area Committee.

d) Approval of capital programme bids

The appropriate lead officers are authorised to approve bids of £15,000 and below to be met from the capital programme remits established by the Council provided that the bids meet the agreed remits, objectives and criteria of the programme area concerned.

e) Use of ~~the repairs and renewals funds~~ and maintenance provision

In consultation with the ~~Director of Resources~~Head of Finance, to use ~~the Repairs, and Renewals funds and Maintenance Provision~~ for the replacement or repair of existing plant, vehicles or equipment (or other asset for which payments have been made into the fund) provided that:

- the plant, vehicles, equipment (or other asset) concerned has reached the end of its operational life; and

Appendix A – Amendments to Financial Delegations

- the repair or replacement is to a current reasonable specification; and
- appropriate payments have been made into the Repairs and Renewals provision; and
- provision has been included in the Capital Plan, in the case of proposals which the ~~Director of Resources~~ Head of Finance regards as falling within the definition of capital expenditure. [In such cases current requirements for the approval of capital expenditure would apply.]

In consultation with the ~~Director of Resources~~ Head of Finance, to use the Repairs, ~~and~~ Renewal ~~funds and Maintenance provision~~ for proposals costing £15,000 and below, where at least 50% of the cost is for genuine replacement and repair and the remainder (less than 50%) is for some improvement or enhancement.

f) Acceptance of quotations and tenders

To accept quotations or tenders for work, supplies or services subject to compliance with the Council's Contract Procedure Rules

g) Lists of approved contractors

To compile, approve, or vary lists of approved contractors, subject to the requirements of the Council's Contract Procedure Rules.

h) Virement

To carry out virement of sums between cost centres in accordance with the Council's Financial Procedure Rules.

i) Setting charges

To set or revise charges made for goods or services provided by the Council within any guidelines approved by the Executive.

j) Waiving or reducing charges

To waive or reduce charges for goods or services provided by the Council up to £100. For sums above that limit the current arrangements for writing off bad debts should apply. The appropriate Executive Councillor and spokesperson/s of the relevant scrutiny committee should be consulted where a significant precedent or departure from existing policies would be involved.

k) Writing off bad debts

The Director of Resources and the Director of Customer and Community Services may write off bad debts as irrecoverable in accordance with the following table, and subject to the limits and approvals shown:

HRA debt*

Other Debts

Appendix A – Amendments to Financial Delegations

| | £ | £ |
|---|------------------|------------------|
| Director of Customer and Community Services | up to £500 | |
| Director of Resources | £501 to £1,000 | up to £1,000 |
| Director of Resources in consultation with Executive Councillor (Housing) | £1,001 to £2,000 | |
| Director of Resources in consultation with Executive Councillor (Customer Services and Resources) | | £1,001 to £2,000 |
| Scrutiny Committee (Community Services) & Executive Councillor | £2,001 & above | |
| Scrutiny Committee (Strategy and Resources) & Executive Councillor | | £2,001 & above |

* excluding Sundry Debtors Accounts

Appendix B – Analysis of other capital approval processes – General Fund

| Description | Funded from | Capital Plan focuses on | Existing decision-making arrangements | Recommendations |
|---|---|--------------------------------------|---|--|
| Environmental Improvements Programme (EIP) | Reserves | Overall programme (funding approved) | Decision-making devolved to Area Committees (ACs) Outline business concepts considered & reviewed by ACs | Only projects >£75k reviewed by CPB |
| Cycleways | Reserves/ County Council contribution. | Overall programme (funding approved) | Can involve joint decision-making with the County | All projects within this programme follow new process |
| Climate Change Fund (CCF) (5-year plan covering 2016/17 to 2020/21) | Earmarked Reserve | Approved projects | Funding decisions approved via Carbon Management Plan, requires Scrutiny Cttee/Exec Cllr for Finance & Resources approval | Full Business Case >£15k <=£300k and where 100% CCF, approved at CPB then onto Capital Plan (as funding already approved). Where mix of CCF and use of reserves, Council approval required to get onto Capital Plan |
| Sharing Prosperity Fund (SPF) | Earmarked Reserve | Approved projects | Funding decisions approved by Anti-Poverty Strategy Project Board/Exec Cllr for Finance & Resources | Full Business Case >£15k <=£300k and where 100% SPF, approved at CPB then onto Capital Plan (as funding already approved) Where mix of SPF and use of reserves, Council approval required to get onto Capital Plan |

| Description | Funded from | Capital Plan focuses on | Existing decision-making arrangements | Recommendations |
|------------------------------|--|-------------------------|--|---|
| S106 developer contributions | Generic, off-site S106 contributions (agreed before 6/4/2015) ^A | Approved projects | <p>Depends of contribution type and scale of development:</p> <p>Area committees prioritise local project proposals using devolved S106 funding relating to community facilities, informal open space, play provision and outdoor sports contribution types.</p> <p>Relevant executive councillors prioritise city-wide/strategic projects using (as appropriate) contributions that are not devolved (eg, all indoor sport, public art & public realm contributions and half the contributions from major developments for community facilities, informal open space, play provision & outdoor sports).</p> | <p>S106 priority-setting will continue to be based on reports to area/scrutiny committees, as appropriate (instead of outline business cases). The priorities identified will be added to the PUD List and the S106 funding needed will be provisionally allocated.</p> <p>Full business cases will be developed for consideration by CPB then Members: projects >£75k will be considered by the appropriate area/scrutiny committee. There will continue to be expedited arrangements (eg, for area chairs/exec councillors and opposition spokes) to sign off projects <£75k.^B Ward Members will be consulted on projects relating to their wards as part of the development of the FBC.</p> |

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- A. Where S106 agreements identify contributions for specific purposes, these projects will be added to the PUD List once contributions are received. Full business cases will be reported to CPB in due course, incorporating consultation with local Members. Such projects will be deemed Capital Plan-ready (so they can be implemented) once CPB has approved the FBC: they will be added to the Capital Plan when it is next updated.
- B. For local & city-wide/strategic projects arising from S106 priority-setting, projects will be deemed Capital Plan-ready (so they can be implemented) once the FBC has been approved at Member-level. They will be added to the Capital Plan when it is next updated.

Appendix C – Analysis of other capital approval processes – Housing

| Description | Description | Capital Plan focuses on | Existing decision-making arrangements | Recommendations |
|----------------------------------|---|--------------------------------------|---|---|
| General Fund Housing (Programme) | Disabled Facilities Grants, Private Sector Grants and Loans | Overall programme (funding approved) | Agreed at Housing Scrutiny Committee (HSC) as part of HRA Budget Setting Report (BSR) or HRA Mid-Year Financial Review (MFR) and approved at Council. | Retain existing approval process |
| General Fund Housing (Programme) | Single projects' ie; Assessment Centre | Approved projects | Agreed at Housing Scrutiny Committee (HSC) as part of HRA Budget Setting Report (BSR) or HRA Mid-Year Financial Review (MFR) and approved at Council. | Proposals to be presented to HMT and Capital Programme Board prior to decision making process |
| Decent Homes | Kitchens, Bathrooms, Roofs, etc | Overall programme (funding approved) | Agreed at HSC as part of HRA BSR or HRA MFR and approved at Council. Major voids (over £30k) business case considered by Housing Management Team (HMT) and approved by Executive Councillor for Housing | Retain existing approval process |
| Other Spend on HRA Stock | Garages, Asbestos Removal, Disabled Adaptations, etc | Overall programme (funding approved) | Agreed at HSC as part of HRA BSR or HRA MFR and approved at Council. Major garage refurbishments business cases considered by HMT and approved by Executive | Retain existing approval process |

| Description | Description | Capital Plan focuses on | Existing decision-making arrangements | Recommendations |
|-------------------------------|---|--------------------------------------|--|---|
| | | | Councillor for Housing | |
| New Build / Redevelopment | New Homes, Re-Provision of Existing Homes | Overall programme (funding approved) | 3 Year Affordable Housing Programme agreed at HSC for sites to be investigated. HSC consider each scheme at outline stage (pre-planning) and approve in principle. Scheme is either delivered within this outline approval, or brought back to HSC for amendments throughout the process as required | Scheme specific proposals to be presented to HMT prior to decision making process |
| Acquisitions | Acquisition of existing dwellings on the open market for use for social housing | Approved projects | Business cases prepared, considered by HMT, with decision delegated to Director of Customer & Community Services in consultation with Executive Cllr for Housing | Business case to be circulated by e-mail to HMT and Capital Programme Board prior to delegated decision |
| Disposals | Disposal of HRA dwellings on the open market | Approved projects | Business cases prepared, considered by HMT, with urgent decision taken by Executive Cllr for Housing | Business case to be circulated by e-mail to HMT and Capital Programme Board prior to urgent decision |
| City Homes Estate Improvement | Environmental and Estate Improvements | Overall programme (funding) | HMT and then HSC consider annual programme of works | Retain existing approval process unless individual project is over £75k, when HMT and Capital |

| Description | Description | Capital Plan focuses on | Existing decision-making arrangements | Recommendations |
|-------------------------|---|--------------------------------------|---|---|
| Programme | | approved) | | Programme Board consideration is required |
| Sheltered Housing | Scheme Refurbishments, ie Ditchburn Place | Approved projects | HMT and then HSC consider specific report for each scheme proposal | Proposals to be presented to HMT and Capital Programme Board prior to decision making process |
| Other Capital Spend (1) | IT, Corporate Projects, | Approved projects | IT and corporate projects subject to specific reports where values dictate this | Proposals to be presented to HMT and Capital Programme Board prior to decision making process |
| Other Capital Spend (2) | Shared Ownership Re-Purchases | Overall programme (funding approved) | Delegation to officers to buy back and sell on shared ownership dwellings. | Retain existing approval process |



