

ANGUS COUNCIL

RESOURCES AND CENTRAL SERVICES COMMITTEE – 16 JUNE 2005

CHANGES TO CAPITAL PROJECT APPRAISAL PROCESS

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report advises the Committee of the changes made to the Council's system of capital project appraisal.

1. RECOMMENDATIONS

It is recommended that the committee:

- a) note the contents of this report for its interest; and
- b) approve the changes made to the Capital Project Appraisal process for implementation with immediate effect.

2. BACKGROUND TO CPA PROCESS

Angus Council's system of Capital Project Appraisal (CPA) has been in operation since March 2000, when the CPA Guidance Manual was first published and the process implemented within departments (report 351/00 refers). Formal CPAs were introduced primarily as a response to the development and implementation of Best Value within the Council, with the aim of ensuring that any capital investment projects were progressed on the basis of the most informed position and with due consideration of all available courses of action. The CPA process has remained relatively unchanged since its inception.

The passing of the Local Government in Scotland Act 2003 has, however, reinforced the importance of CPAs within the capital planning and budgeting process (thus prompting the need to revise and update the process), in particular through:

- the new statutory duty of Best Value which the Act places on local authorities (with effect from 1 April 2003)
- the introduction of the Prudential Code for capital expenditure which, from 1 April 2004, replaced the Section 94 Borrowing Consent regime.

The intervening period has been viewed as a learning experience which has been informed by the bedding down of the implementation of the Prudential Code. It is now considered timely to implement the appropriate changes to the CPA system.

3. SUMMARY OF THE MAIN CHANGES TO THE CPA PROCESS

A copy of the revised Capital Project Appraisal Guidance Manual has been placed in the Members' Lounge for information purposes.

The following summary outlines the main changes which have been made to the CPA process, as reflected in the revised Guidance Manual:

- The guidance has been updated to reflect the Prudential Code and its requirements

- There are 3 types of CPA which may be prepared, depending on the size and nature of the capital project involved – a summary CPA, a standard CPA or a full Option Appraisal CPA. The Capital Budget Sub Group (CBSG) which is chaired by the Chief Executive will determine which type of CPA is required to be produced.
- The de minimis level has been increased from £100,000 (gross) to £200,000 (gross).
- All projects of a capital nature above this revised de minimis level are to be subject to a CPA, regardless of when they are introduced in the Financial Plan cycle and / or how they are to be funded.
- CPAs will be presented to the December meeting of the Capital Budget Sub Group (previously it was the October meeting), as well as to the relevant departmental Budget Review Group meetings (also in December).
- A single round of consultation will take place, replacing the 2-stage consultation previously undertaken. This process has been made more robust and will require the inclusion of statements / declarations from consultees as well as details of any assumptions made.
- Stronger links to departmental / corporate priorities and Asset Management Plans must be demonstrated.
- Increased level of detail required on how capital costs have been built up and any external funding relating to the project.
- Firmer revenue implications of capital expenditure must be included.
- Detailed examination of planning and risk issues must take place.
- Separate Option Appraisal Guidance has been produced (most relevant for carrying out a full Option Appraisal CPA).

4. TYPES OF CAPITAL PROJECT APPRAISAL

At any point in time the Council's Financial Plan will reflect a diversity in terms of the size and nature of capital projects taken forward by Council departments. Whilst in some cases, capital investment will be a simple 'progress the project' or 'do nothing' decision, in others there may be a multitude of ways in which the objectives / needs identified can be met. The CPA process has been adapted to take account of these differences.

There are 3 different types of CPA which may be prepared for particular projects:

1. Summary CPA

A summary CPA will be required for those projects:

- with an estimated gross cost in excess of the £200,000 de minimis level but less than £500,000
- where there are 3 or less genuine alternatives / options for addressing the issue / need for the project, including the option of 'do nothing'.

In the main, summary CPAs will be appropriate for those projects where it is simply a case of doing the work or do nothing at all, for example, road reconstruction projects.

A summary CPA will also require to be prepared for those projects which are put forward outwith, or at a very late stage in, the financial planning cycle. This will ensure that all eligible projects of a capital nature above the de minimus level are backed up by a CPA regardless of when in the CPA process or financial year they arise.

The level of detail required in a summary CPA will be less than that required in other types of CPA.

2. Standard CPA

A standard CPA is based very much on the original CPA format which has been in place for a number of years now, albeit amendments have now been introduced to improve the type and quality of information contained within, in order to make it a more robust and informative document.

A standard CPA will be required for those projects:

- with an estimated gross cost in excess of £500,000
- where there are 4 or less genuine alternatives / options for addressing the issue / need for the project, again including the option of 'do nothing'.

3 Full Option Appraisal CPA

A full Option Appraisal CPA will be required for those projects costing in excess of £500,000 (gross), where:

- the project itself is optional
- there are significant risks associated with the project
- it is proposed that the principal source of the funding for the project is borrowing under the Prudential Code (particularly invest to save schemes where savings or income is intended to pay for the initial investment).

The level of detail required in a full Option Appraisal CPA will be significantly higher than that of a standard CPA and it is in all likelihood a multi-disciplined project team would be formed to take forward the exercise, for example, as with the Montrose Bridge or Provision of Services at Orchardbank projects.

Separate guidance has been produced by Finance officers on taking forward an option appraisal exercise, which will be distributed as an addendum to the CPA Guidance Manual.

5. INTENDED BENEFITS OF REVISED CPA PROCESS

The benefits which the various changes to the CPA process are intended to produce include:

- increased flexibility to allow CPAs to be submitted at any point in the financial year
- the demonstration of clearer links between corporate / departmental priorities and budgets (an issue identified in the Council's Best Value Improvement Plan)
- more robust costing of proposed project, from both a capital and revenue implications perspective
- likelihood of slippage occurring lessened as full and proper consideration is given to planning timescales, risks, etc.
- consideration of all available options to meet objectives / needs identified encouraged through the introduction of full Option Appraisal CPA.

6. INTRODUCTION OF REVISED CPA PROCESS

The exercise to review and update the CPA Guidance Manual has been completed and Finance officers are currently in the process of finalising the revised guidance to allow its distribution to chief officer for use during the 2005/06 CPA cycle.

Completed CPAs will be presented to the Capital Budget Sub Group and Budget Review Groups at their meetings in December. Any CPAs submitted outwith the budgeting cycle (e.g. summary CPAs for late emerging or emergency projects) will be held on file for information purposes.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

8. HUMAN RIGHTS IMPLICATIONS

There are no human rights implications as a result of this report.

9. CONSULTATION

The Chief Executive and Director of Law & Administration have been consulted in the preparation of this report. In addition, all departmental directors have all been consulted in preparing the revised Capital Project Appraisal Guidance Manual.

10. CONCLUSION

The Council's system of Capital Project Appraisal has remained relatively unchanged since its inception in March 2000. The process has now been revised and updated to make it more robust and ensure compliance with the requirements of the Local Government in Scotland Act 2003, namely the duty of Best Value and the Prudential Code. The revised Guidance will be in place for use during the forthcoming CPA cycle and will inform the 2006/07 capital budget cycle. Separate guidance on undertaking an Option Appraisal exercise has also been produced for use within the Council.

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NOTE : No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information), were relied on to any material extent in preparing this report.