FINANCIAL CODE 2

CAPITAL BUDGET PREPARATION & MONITORING

1. Background

1.1 This Financial Code gives guidance on the overall management of the Capital Programme including budget preparation, monitoring and funding arrangements. The Code covers Priority Projects and Asset Classes, as included in the Capital Investment Strategy, and agreed 'Spend to Save' programmes.

1.2 The Code provides a definition of capital expenditure and the policy framework for the preparation, monitoring and reporting of Capital Investment. It defines the procedures to be adopted by the Head of Finance & Procurement and Chief Officers in the develpment of the Council's capital programme and capital budget monitoring.

1.3 The code also sets out the arrangements for the control of cost and timescale variations from initially agreed programmes and sets out the level of authority delegated from the Finance, Procurement & Transformation Committee to Service Committees and to Chief Officers/Lead Officers.

1.4 In addition to sound financial management and contributing to Best Value, the need for effective arrangements for capital budget preparation and monitoring flows from a number of sources including: -

- Section 95 Local Government (Scotland) Act 1973,
- The Local Government in Scotland Act 2003,
- The Cipfa Prudential Code for Capital Finance in Local Authorities,
- The Council's Financial Regulations,
- General Accounting Framework & The Prudential Code.

1.5 The Local Government in Scotland Act 2003 sets out that it is the duty of a local authority to determine the maximum amount it can afford to allocate to capital expenditure and that, in discharging this duty, the authority must comply with capital expenditure regulations. The capital expenditure regulations state that councils must comply with the provisions of the *Cipfa Prudential Code for Capital Finance in Local Authorities*.

1.6 The Prudential Code stipulates that councils must be able to demonstrate, on an on-going basis, that capital spending and associated borrowing is affordable, prudent and sustainable and complies with Best Value requirements. The Council meets this requirement by annually approving a series of prudential indicators and ensuring that there are suitable arrangements for monitoring the indicators on an on-going basis. In addition, when considering, agreeing and implementing a capital investment strategy, the Prudential Code requires councils to take account of a variety of factors such as value for money, asset management planning, practicality and achievability.

1.7 The Head of Finance & Procurement is responsible for reporting to the Council on all relevant matters to be taken into account by the Council when setting prudential indicators and for establishing procedures for the agreement and monitoring prudential indicators.

1.8 To ensure the effective integration of revenue and capital budget planning, and to ensure the affordability of capital investment levels, the 3 Year Capital Programme will be agreed alongside the 3 Year Revenue Budget as part of an integrated process. The Head of Finance & Procurement will continually assess the affordability of the capital investment programme in terms of the Council's Financial Strategy and the likely impact upon the Revenue Account, advising the Council on affordability in light of available revenue resources.

2. Definition of Capital

2.1 The CIPFA Accounting Code of Practice defines capital expenditure as '*All expenditure on the acquisition, creation or enhancement of fixed assets*', Examples include, but are not limited to: -

- Acquisition, reclamation, enhancement or laying out of land,
- Acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures,
- Acquisition, installation or replacement of moveable or immovable plant, machinery, apparatus, vehicles and vessels; and,
- Acquisition, installation or replacement of information and communication technology.

2.2 Enhancement of an asset refers to investment that will significantly lengthen the useful life of the asset; increase the open market value of the asset; or increase the extent to which the asset can or will be used.

2.3 Capital income relates to receipts received on the sale or disposal of a fixed asset (net of the costs of selling/disposal) or the value of grants/contributions received to offset the cost of a new fixed asset.

2.4 Only expenditure and income that meet the above definitions should be recorded against the capital programme. Conversely, all expenditure and income that meet the above definitions must be recorded against the capital programme, including items where the revenue budget provides the funding source.

2.5 Where expenditure is incurred to ensure a fixed asset maintains (rather than enhances) its previously assessed standard of performance, this must be recognised in the revenue account as it is incurred.

3. Development of Capital Programmes

3.1 Full Council sets the strategic direction for the development of the Council's capital programmes by agreeing high level funding allocations to asset classes and corporate priority projects for a 3-year rolling programme within the context of a 10 Year Capital Investment Strategy.

3.2 To support the development of capital programmes, the Head of Finance & Procurement will report to the Council on the level of financial resources estimated to be available to support the capital investment programme in each financial year alongside estimates of ongoing capital commitments based on previous approvals.

Funding of the Capital Programme

3.3 Estimated funding available to support capital programmes will reflect a combination of the following: -

- **Borrowing** – Borrowing undertaken on a prudential basis to support capital investment. Members will determine the level of borrowing to be undertaken and will receive advice from the Head of Finance & Procurement on the level of borrowing that is prudent, affordable and sustainable,
- **General Capital Grant** – Non ring-fenced funding provided by the Scottish Government to support capital investment,
- **Other Grants** – funding provided by the Scottish Government and/or other bodies to support individual projects and therefore ring-fenced for that purpose,
- **Capital Receipts** – Funding generated through the sale of fixed assets (excluding vehicles which are used to support vehicle replacement). In conjunction with the Property, Estates & Programmes Manager, the Head of Finance & Procurement will determine the estimated value of asset sale receipts obtainable over the period of the Capital Investment Strategy,
- **Use of Revenue Funding and Reserves** – Funding from resources held in reserves, including the Capital Fund, and revenue funding to support capital investment (CFCR).

Allocation of Funding Within the Capital Programme

3.4 On an annual basis Full Council agrees a rolling 3-year Capital Programme within a 10 Year Capital Investment Strategy. The 3-year Capital Programme consists of funding allocations to a range of Priority Projects and Asset Classes.
The overall management of the Capital Investment Strategy and the allocation of funding to Priority Projects and Asset Classes is determined by the Finance, Procurement & Transformation Committee and Full Council.

3.5 Priority Projects - Requests from Services to have a project included in the capital programme as a Priority Project must be supported by a business case including a detailed options appraisal, whole life costing (including spend patterns over the life of the project and details of capital income available to support the project) and any revenue budget implications.

3.6 The Business Case must demonstrate how the investment supports our Council's priorities and business plans and be prepared in line with Treasury Green Book Guidance.

Note that the process for the development and approval of capital projects is currently subject to review.

3.7 Asset Classes – Funding is provided at a corporate level to be used to fund new builds, upgrades, replacement and renewal of assets within specified Asset Classes. Service Committees should determine the detailed funding allocations within each asset class for the 3-year period based on the corporate level allocations determined by Full Council. It is essential that the relevant Service Committees have a degree of certainty regarding funding allocations for at least a 3-year period to allow medium term investment programmes to be effectively developed and to support projects that span more than one financial year.

3.8 To ensure that funding allocations to asset classes are fully and effectively utilised, the development of detailed capital programmes within each asset class will be supported by: -

3.9 The use of an appropriate (to that asset class) scoring/prioritisation system to ensure that funding is allocated to support the achievement of identified priorities and fully recognises the revenue consequences (including running cost savings) of competing projects.

3.10 The use of ‘reserve lists’/ over-commitment in the programme to ensure that, where delays occur against approved projects, there is an ability to effectively utilise the released funding.

3.11 A key focus on project delivery arrangements to ensure that projects are delivered in line with appropriate outputs, budgets and timescales; and

3.12 Clear arrangements for the control of variations from agreed programmes and clarity on the level of delegated authority provided to officers to approve works and incur costs.

3.13 The detail of the above arrangements should be agreed by the relevant Service Committees taking into consideration the nature of the capital projects being undertaken within each asset class.

3.14 Capital budgets should cover all costs required to bring the asset into operation (including equipment, furniture etc.) and any revenue implications must be clearly identified at the project development stage to encourage the avoidance/restriction of projects that add to running costs but also to recognise that, in some cases, consideration of the allocation of additional annual funding might be appropriate.

3.15 The agreement of Full Council to the Capital Investment Strategy and subsequent agreement of Asset Class Programmes by the relevant Service Committees provides Chief Officers with approval to incur expenditure on the individual capital schemes/projects contained therein up to the amounts identified, and to the timeframes presented and agreed in the programme.

4. Variations to the Capital Programme

4.1 Variations to the agreed Capital Programme in relation to Priority Projects and Overall Asset Class Programmes, beyond agreed parameters, must be approved by the Finance, Procurement & Transformation Committee. Variations may include: -

- Underspends and/or Overspends against budgets approved for each Priority Project and Asset Class,
- The acceleration or slippage of funding between years for each Priority Project and Asset Class,
- The virement/transfer of funding, on either a temporary or permanent basis, between Priority Projects and Asset Classes.

4.2 **Appendix 1** to this Code provides details of the parameters within which variations to the agreed programme may be approved by the relevant Chief Officers, in consultation with the Head of Finance & Procurement, without seeking prior formal approval from the Finance, Procurement & Transformation Committee. All variations approved under these arrangements will be subsequently reported to the Finance, Procurement & Transformation Committee through the quarterly monitoring report.

Variations Within Priority Projects

4.3 Budgets for Priority Projects are subject to approval by Finance, Procurement & Transformation or Full Council as part of the Capital Investment Strategy.

4.4 Any variation to Priority Projects budgets is subject to the agreement of Finance, Procurement & Transformation Committee. Any variation should be highlighted at the earliest opportunity.

4.5 All underspends on Priority Projects must be made available to support other Capital Projects subject to agreement by Finance, Procurement & Transformation Committee.

Variations to Asset Class Capital Allocations

4.7 Funding for each of the Asset Class Capital Programmes is determined by the Finance, Procurement & Transformation Committee. How that funding is then prioritised and details of the projects to be included in each Asset Class Capital Programme are then determined by the relevant Service Committee. The responsible Committees are detailed below:

Asset Class	**Responsible Committee**
Property Buildings (Schools)	Education and Learning
Property Buildings (Other)	Economy and Resources
Public Realm (incl Infrastructure & Land)	Communities
Economic Development	Economy and Resources
ICT/Business Systems	Economy and Resources
Transport	Communities

4.8 Service Committees can accelerate expenditure up to **10% or £250k** (whichever is greater) of the following years indicative allocation (excluding amounts for specific Scottish Government funded projects) for that Asset Class on the basis that the following year's allocation will be reduced by that amount. Beyond these levels approval is required by Finance, Procurement & Transformation Committee.

4.9 Planned underspending of up to **10% or £250k** (whichever is greater) of the current year's allocation (excluding amounts for specific Scottish Government funded projects) for that Asset Class can be agreed by Service Committees on the basis that the amount will be added to the following year's allocation.

4.10 Any variation out-with these parameters is subject to agreement of Finance, Procurement & Transformation Committee. Service Committees must ensure that the cumulative effect of agreed variation does not breach these parameters in any particular year.

Variations Within Asset Class Capital Programmes

4.11 Budgets for individual projects within Asset Classes must be reported to Service Committees for approval at the beginning of each financial year, and by no later than June each year. Any individual project over £250K (even if it is within an overall programme of works) must be detailed and reported separately as part of the Asset Class Programme.

4.12 Any planned variation to individual project budgets in excess of the Director authorisation limits indicated in the individual asset class appendices must be reported to Service Committees for agreement.

4.13 In exceptional circumstances when there is an urgent need for a decision to accelerate/approve additional funding for a project, the Director, with written agreement of the Chair and Vice Chair of the Service Committee and the Head of Finance & Procurement, may approve this so long as it is within the delegated committee limits indicated above. Any decisions taken in this manner must be retrospectively reported to the next available Service Committee.

4.14 Each Service Committee is therefore required to clearly set out the arrangements and parameters for Variations to the Capital Programme for each of their Asset Classes. In line with the approach outlined above at the overall Capital Programme level, these arrangements should cover each of: -

- Underspends and/or Overspends against budgets approved for each individual project within the Asset Class,
- The acceleration or slippage of funding between years for each project within the Asset Class,
- The virement/transfer of funding, on either a temporary or permanent basis, between projects within the Asset Class.

4.15 A Schedule reflecting details of the current parameters for each of the Asset Class Capital Programmes, as approved by the relevant Service Committees, should be maintained by the relevant Asset Class Lead Officer.

Spend to Save Capital Projects

4.16 It is important that the allocation of funding to priority projects and asset classes within the Capital Investment Strategy fully takes into account future revenue implications of capital projects and seeks to reduce costs where possible. In addition, specific Spend to Save Capital Projects can be agreed outwith/beyond the Capital Investment Strategy where specifically agreed by the Finance, Procurement & Transformation Committee on a spend to save basis.

4.17 Spend to Save Projects should be linked to the delivery of revenue savings/income generation and the savings identified must be sufficient to fully offset the cost of the resultant increase in loan charges from the additional borrowing. Any proposals should be put forward on the agreed template and adhere to the spend to save policy. All spend to save proposals should be presented to the Capital Strategy Group for challenge and scrutiny prior to being presented to Finance, Procurement & Transformation Committee.

4.18 Savings identified from any proposal approved on a spend to save basis will be removed from the revenue budgets identified in line with the template and will be made available to Members to be included in the budget setting process.

5. Capital Monitoring and Reporting

Responsibilities of Head of Finance & Procurement

5.1 The Head of Finance & Procurement will maintain appropriate financial models that: -

- Monitor capital expenditure and income patterns over the life of capital projects,
- Forecast capital expenditure and income for agreed capital projects,
- Continually assesses the likely impact upon the Revenue Account and affordability in terms of the Councils Financial Strategy.

5.2 The Financial Regulations state that the Head of Finance & Procurement is responsible for advising the Council on all financial matters as well as monitoring and reporting on its financial performance and overall financial position.

5.3 The Head of Finance & Procurement is responsible for preparing monitoring reports and producing quarterly (as a minimum) summary monitoring reports on the financial progress of the overall Capital Investment Strategy for presentation to Finance, Procurement & Transformation Committee.

Responsibilities of Chief Officers

5.4 Chief Officers are responsible for securing best value for expenditure incurred, with the objective of achieving the policies of the Council for minimum cost. The arrangements, procedures and systems under their control should ensure the Council's affairs are conducted without waste or extravagance and with full regard for probity and propriety.

5.5 All procurement activity in relation to the Capital Programme should be conducted in line with the Council's Procurement Standing Orders. An adequate allowance for the time taken to perform a robust and legally compliant tender process should be built into overall project timescales.

5.6 Chief Officers are fully accountable for the financial performance of their Service against the budgets allocated and are fully accountable for their project managers in terms of monitoring and controlling capital budgets.

5.7 The approval of the Capital Investment Strategy can be taken as agreement to spend on the individual projects up to the amounts identified in the Capital Investment Strategy and Asset Class Plans as agreed by Full Council and the relevant Service Committees each year. Capital expenditure may only be incurred on projects/programmes approved through the relevant committee and only to the amounts of the approved funding allocations, considering the flexibility arrangements detailed in the *Variations to the Capital Programme* section above.

5.8 Chief Officers are required to produce quarterly reports (as a minimum) to the relevant Service Committees, demonstrating progress and performance against the capital programme for both the Asset Classes and the Priority Projects for which they are responsible.

5.9 These reports will be supported by a detailed appendix showing: -

- Projected expenditure vs budget for the current year,
- Projected expenditure vs budget over the life of the project,
- Actual expenditure to date (in year and over the life of the project),
- Projected variance (in year and over the life of the project) from **both the approved budget and the approved timescale**, outlining reasons for variation and any remedial action taken.

5.10 Any project within an overall works programme with a total project spend of over £250K must be reported separately.

6. Capital Investment Strategy Rules

6.1 The overall management of the Capital Investment Strategy, including the allocation of funding to Asset Classes and Corporate Priority Projects, is determined by the Finance, Procurement & Transformation Committee.

6.2 The following outlines the parameters within which Service Committees can progress their Asset Class Capital Programmes and/or Corporate Priority Projects without prior approval through the Finance, Procurement & Transformation Committee. In addition to this, each Asset Class has a separate practice note detailing variations at a project/programme level which can be approved at Director level.

Movement of Funding Between Financial Years
6.3 The 10 Year Capital Investment Strategy is designed to allow capital programmes to be developed and progressed over medium term timeframes. Service Committees may choose to vary allocations between years, within the parameters outlined below, to best suit the progression of priority investment.

6.4 **Variations to Total Project/Programme Costs (Over and Underspends)**

- Where it is identified that a project/programme is likely to exceed the agreed budget then this must be reported to the Finance, Procurement & Transformation Committee (Priority Projects) or the relevant Service Committee (Asset Classes) in advance of the increased spend being committed/incurred (unless within approved delegated limits),
- Where it is identified that a project can be delivered at a cost below the agreed budget level then the resultant underspend should be returned for reallocation by the Finance, Procurement & Transformation Committee (Priority Projects) or Service Committee (Asset Classes),
- Where the nature/details of a project require a material revision (e.g. increase in scope) then this must be reported to the Finance, Procurement & Transformation Committee (Priority Projects) or Service Committee (Asset Classes.

6.5 **Variations to Timing of Project/Programme Costs (Acceleration, Underspending and Slippage)**

- Where it is identified that net spending on a project/programme is likely to vary from the agreed annual profile (i.e. variation to timing of spend but not to total project/programme costs) then this must be reported to the Finance, Procurement & Transformation Committee (Priority Projects) or the relevant Service Committee (Asset Classes). This covers both project/programme acceleration and slippage,
- Any priority project or asset class may pull forward/accelerate (up to 10% or up to £250k, whichever is greater) of the following year's allocation on the basis that the following year's allocation will be reduced accordingly. Any proposal to accelerate funding beyond this level will be subject to the prior approval of the Finance, Procurement & Transformation Committee,
- Any priority project or asset class may carry forward planned underspending of funding in a financial year (up to 10% or up to £250k, whichever is the greater) to allow a greater level of investment in a subsequent year.

6.6 **Virement Between Approved Project/Programme Budgets**
Any virement of funding between project/programme funding allocations within Asset Classes must be reported to the relevant Service Committee.

6.7 **Allocation of New/Additional Funding**
The allocation of new/additional funding (including any amounts released from agreed allocations to Corporate Priority Projects or Asset Classes) will be determined by the Finance, Procurement & Transformation Committee. Recommendations for the allocation of new/additional funding will be agreed by the Capital Strategy Group before being presented to the Finance, Procurement & Transformation Committee.

6.8 **Transfer of Funding Between Asset Classes and/or Corporate Priority Projects**
Any transfer of funding between Corporate Priority Projects and Asset Classes will be subject to the approval of the Finance, Procurement & Transformation Committee.

Any changes to the above arrangements will be subject to the prior approval of the Finance, Procurement & Transformation Committee.