

COMMITTEE: CONSTITUTION

DATE: 12TH NOVEMBER, 2003

SUBJECT: PROPOSED SCHEME FOR MANAGING CAPITAL EXPENDITURE

REPORT BY: HEAD OF CORPORATE FINANCE

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IMPLICATIONS:

LEGAL	✓	COMMUNITY SAFETY
EQUALITIES		ENVIRONMENT
FINANCIAL	✓	CONSULTATIONS
STAFFING		OTHER

WARDS AFFECTED: NONE

PURPOSE

1. To improve the Council's financial management and monitoring procedures by introducing a specific scheme of financial management for capital expenditure.

RECOMMENDATION(S)

2. That the Council be recommended to approve:
 - a) An amended Standing Order 101, as set out in Appendix A
 - b) A revised Scheme of Devolved Financial Management (part of Financial Regulations) as set out in Appendix B

BACKGROUND

3. The Council's current scheme of devolved financial management has specific rules for virement of the revenue budget, but no provision for virement in relation to capital. (Virement is transferring part of one budget to another budget – see definitions at the end of Appendix B.) There are also specific requirements on cost centre managers to monitor revenue budgets monthly, but no specific

requirements for the managers of capital projects to monitor their budgets regularly.

4. Currently standing orders include a system of release and spend approval for capital projects which was devised at a time when the capital programme was set at a level which was not affordable, and therefore projects could only go ahead if their affordability was checked individually – hence the need for release and spend approval. Now, in accordance with best practice, the Council sets a capital programme at an affordable level.

REPORT

5. While the Council's revenue monitoring system is generally robust, the capital monitoring does require development to reflect best practice. Capital monitoring is not sufficiently regular, and the level of slippage in previous years has been high.
6. The Council's finance staff, both central and devolved, have therefore developed proposals to introduce a regular system of capital monitoring and virement largely based on the system used for revenue. We also think it is important to end the current system of requiring release and spend approval, as it has the effect of delaying the start of projects and hence causing slippage against the approved programme.
7. This requires amendments to the Council's constitution, both in the Standing Orders (it is proposed that the current standing order 101 is replaced with the wording shown in Appendix A), and in Financial Regulations, in particular to the scheme of devolved financial management, which is appendix G to those regulations. It is proposed to add sections on the monitoring and virement of capital schemes to the existing regulations on revenue budgets. Hence Sections 7 and 8 of the Financial Regulations are new, relating to capital, and there are additional definitions at the end.
8. It should be noted that the proposed capital virement rules are limited.
 - Virement only applies to schemes funded in the same way (8.3)
 - Virement is not permitted if it could affect any contribution from 3rd parties (8.5)
 - Virement can only be used to fund unavoidable overspends (8.6)
 - Officers cannot use virement to fund new or additional projects (8.6). This requires Executive approval.
 - Fortuitous savings cannot be used for virement (8.6).
 - Changes – whether increasing or reducing spend – involving policy change must be reported to Executive for approval (8.6).
 - Virement must not create any additional budget liability, either for capital or revenue (8.11).
9. It is also suggested that the opportunity be taken to make a small amendment relating to revenue. Currently requests to carry forward budgets at the year-end are referred to Council if they are in excess of 5% of an individual service's

budget. This will vary from service to service. It is suggested that this be changed to a specific amount, for clarity and consistency. It is suggested that any request to carry forward an underspend of more than £200,000 should be referred to full council.

PROPOSAL/OPTION

10. Committee could approve these proposals for submission to Council, amend them, or decide to make no changes.

LEGAL IMPLICATIONS

11. The proposals change the Council's constitution, as set out in the report and appendices.

FINANCIAL IMPLICATIONS

12. The proposals regularise the financial monitoring and management of capital schemes.

APPENDICES

Appendix A – Proposed Standing Order 101.

Appendix B – Proposed Scheme of Devolved Financial Management

LIST OF BACKGROUND PAPERS

LOCAL GOVERNMENT ACT 1972, SECTION 100D

There are no background papers relating to this report.