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capital strategies and programming

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SECTION 1

Introduction

1.1 PURPOSE OF THIS GUIDE

For most public sector organisations, capital assets are their most valuable resource (other than staff). How those assets are deployed and developed must therefore be a key subject of their strategic planning. The purpose of this guide is to help public sector organisations both in the UK and elsewhere to develop effective capital strategies and to use their assets efficiently to achieve the best possible outcomes within constrained budgets.

> The term 'asset' is used in this guide to mean physical assets, such as land, buildings, roads, railways, equipment and vehicles, and excludes financial assets and intangible assets, such as intellectual property.

Organisations with limited capital resources or limited discretion over how they spend their capital funding may not see capital planning as a priority. But these limitations make it even more important for an organisation to take a strategic approach to capital planning so that it can protect its assets and continue to fulfil its responsibilities.

The crisis of 2008 has transformed the financial landscape for public sector organisations. The severe squeeze on budgets is set to continue for the foreseeable future; the public sector has entered a new era of austerity. This calls for better strategic thinking and a willingness to embrace new ways of working in order to maximise the use of scarce resources.

Budgets are always constrained to some degree, even in times of prosperity, and public sector organisations always have a duty to spend taxpayers' money wisely. The lessons that are being learned from austerity are therefore relevant to organisations that have emerged relatively unscathed from the crisis of 2008 and will continue to be relevant should there ever be a return to high levels of public spending.

While austerity calls for innovative ways of working, organisations must first ensure that they have got the basics right, learning from established good practice. This involves:

- developing asset and capital strategies that facilitate a long-term approach to decision-making
- ensuring that assets are only held as needed to achieve the organisation's objectives
- maximising efficiency in the management and use of assets
- ensuring that the pressure to achieve savings in the short run does not compromise the value of assets through lack of investment
- ensuring that capital investment is targeted where it will achieve the greatest long-term benefit.

This guide is aimed at all types of public sector organisation, whether large or small, including central governments, government departments, arm's-length agencies, local authorities and public health bodies. Although this publication is based mainly on UK experience it is written with a wider audience in mind, which makes it relevant to public sector organisations throughout the world.

1.2 APPROACH AND TERMINOLOGY

Capital planning is an art, not a science. There are no definitive rules about right or wrong approaches, as there are in capital accounting. This guide does not set out to prescribe rigid processes, but instead to point to good practice and set out the key issues that public sector organisations need to consider. The focus is on substance rather than form.

Neither is this guide prescriptive about terminology. Different organisations use different terms to describe aspects of capital and asset planning. The glossary at the end of this publication defines the key terms used in this guide, which may not be familiar to everybody. The most important ones are set out in the box below.

Asset strategy	Long-term strategy for moving towards the optimal asset portfolio, which includes strategies for: - purchasing and constructing new assets - investing in and replacing existing assets - transferring assets to other organisations - disposing of assets that are surplus to requirements.
Asset management plans	Detailed plans for individual assets or groups of assets covering: - how they will be managed on a day-to-day basis - investment in, replacement, transfer or disposal of those assets, in accordance with the asset strategy.
Asset planning	A general term for the activities covered by an asset strategy and asset management plans.
Capital strategy	Long-term strategy for investment in assets and for obtaining the resources required for that investment.
Capital programme	A set of capital projects that an organisation plans to undertake within a specified timescale, typically three to five years.
Capital planning	A general term for the activities covered by a capital strategy and the development of a capital programme.

The relationship between the asset strategy and the capital strategy is explained in section 3.5.

Given the difference in terminology (the asset strategy, for example, may be known as the property strategy in some organisations), readers are urged to focus on the substance of the strategies, plans, processes and documents described in this guide rather than on the specific terms it uses to refer to them.

1.3 EXECUTIVE SUMMARY

It is vital that the need to maintain and develop the asset portfolio is fully considered during discussions about prioritising capital investment. Capital planning and asset planning are therefore inextricably linked.

The purpose of asset planning is to develop the asset base so that the assets held are those required to deliver the organisation's objectives efficiently. The key components of asset planning are an asset strategy and asset management plans (AMPs). The asset strategy includes strategies for purchasing and constructing new assets, investing in and replacing existing assets, transferring assets to other organisations and disposing of assets that are surplus to requirements. AMPs are plans for individual assets or groups of assets and should be based on the asset strategy.

Every public sector organisation with significant assets should have a robust capital strategy that is clearly related to its corporate objectives. These should be the same objectives as those for which assets are held. The capital strategy should be linked with infrastructure planning, as well as asset planning, and should include a strategy for funding capital investment.

The capital strategy forms the basis for the capital programme, which contains the capital projects that the organisation intends to undertake in the medium term. Robust processes need to be put in place for potential projects to be proposed, evaluated and prioritised, and for approving the programme and the resources to fund it. This requires clear parameters to be set at the beginning of the process, clarity about the information that must be supplied with each project proposal and clear criteria, related to the organisation's corporate objectives, for prioritising projects.

In determining how much capital investment to undertake, organisations need to consider the long-term impact of borrowing and other forms of capital funding on their revenue budgets. The same principle applies to the use of leases, public–private partnerships and outsourcing arrangements to procure public assets.

Delivering the capital programme requires efficient programme management, project management and procurement, as well as appropriate systems for corporate monitoring, control and scrutiny. It is vital to ensure that there are sufficient resources and the right skills in place for delivery. It is also vital to ensure that the processes and culture of the organisation facilitate delivery and that delivery teams are not hampered by excessive bureaucracy.

In the new era of austerity, however, good planning and efficient management are not enough. Public sector organisations need to adapt their capital strategies to a changed financial landscape in which revenue budgets are likely to be reduced not just in the medium term, but permanently. This requires a change in capital investment priorities to reflect the new reality; it also calls for new ways of working, such as shared services, so that more can be achieved from less.

1.4 STRUCTURE OF THIS GUIDE

Section 2 explains that asset planning is the foundation of capital planning. It sets out the key components of asset planning, including the asset strategy and asset management plans.

Section 3 discusses the importance of a capital strategy, the contents of the capital strategy and the need for the capital strategy to be linked to corporate objectives and infrastructure planning. It also explains the relationship between capital planning and asset planning.

Section 4 describes the need for a clear and coherent process to develop the capital programme that is consistent with the capital strategy. It sets out how evaluation criteria should be used to prioritise project proposals and the role of feasibility studies, option appraisal, business cases, asset management plan information and financial information.

Section 5 highlights the importance of a financing strategy as part of the capital strategy. It describes the capital budgeting process and the different sources of funding for capital expenditure. It concludes by summarising the revenue budget implications of capital funding and the reasons why these must be fully considered when the capital budget is being set.

Section 6 describes alternative ways of procuring assets, including renting, operating leases, public–private partnerships and outsourcing. It explains that the impact on revenue budgets must also be fully assessed when these options are being considered.

Section 7 sets out what is required to deliver the capital programme efficiently. The first half of the section explains the importance of efficient programme management, project management, procurement and contract management. The second half covers corporate monitoring, scrutiny and control. The section concludes with a plea for organisations to keep governance processes and reporting relatively simple so that delivery teams can focus on delivery.

Section 8 considers how the public sector can adapt to austerity in the wake of the financial crisis of 2008. It provides examples of how organisations might redirect their capital investment priorities to reflect the new reality. It also gives examples of new ways of working, such as shared services, that enable assets to be used more efficiently.

The guide ends with a **glossary** that defines key terms used and a **further reading** section for those interested in delving deeper on specific topics.

SECTION 2

Asset planning

2.1 THE IMPORTANCE OF ASSET PLANNING

Capital planning is about investment in assets and should therefore be founded on sound asset planning.

Public sector organisations are custodians of the assets that they hold, which have been acquired using public money; for that reason alone they have an obligation to protect the value of those assets. Failure to invest in existing assets means that they gradually deteriorate; in the long term this puts at risk the organisation's ability to fulfil its basic responsibilities.

Asset planning is sometimes treated as a mundane, bureaucratic discipline that can be left to middle management and is divorced from the planning of capital projects, which is more likely to draw in the leadership of the organisation. However, these two processes should complement each other and result in consistent strategies. One way to achieve this is to merge the two processes and develop a combined capital and asset strategy.

Asset planning should in fact be at the heart of an organisation's decision-making. This requires its status to be raised across the public sector. The head of property, or head of asset planning, as custodian of the organisation's assets, should have sufficient seniority and clout within the organisation to ensure that asset planning is the foundation for formulating the capital strategy and the capital programme. It is otherwise likely that the existing portfolio will be neglected, resulting in a long-term decline in the ability of the organisation to achieve its objectives efficiently and an increasing risk that the organisation will be in breach of its statutory obligations.

2.2 FORMULATING AN ASSET STRATEGY

2.2.1 Key elements of asset planning

The key elements of asset planning are:

- having good information about existing assets
- determining the optimal assets for efficient delivery of the organisation's objectives
- identifying the gap between existing assets and optimal assets
- developing strategies for purchasing and constructing new assets, investment in existing assets, transfer of assets to other organisations and disposal of surplus assets
- formulating plans for individual assets.

These are described in the following sections.

2.2.2 Information about existing assets

It is essential to get the basics right in any business process. For asset planning, this means having accurate and up-to-date information about existing assets. This is typically contained in inventories, asset databases and asset registers.

The information held should include as a minimum:

- basic information, such as when the asset was created, type of asset, location and dimensions
- the purpose for which the asset is held
- performance information, such as the frequency of faults or failures
- what is known about the condition of the asset, eg as a result of condition surveys
- financial information, such as maintenance and operating costs.

It may also include mapping (GIS) information.

The detail that is kept about particular assets should depend on the type of asset. Basic information is sufficient for assets that are of relatively low value and easily replaced, such as standard items of office furniture, but for more complex and higher value assets it is appropriate to keep more comprehensive records.

The organisation should also be aware of assets that it does not own, but which are used to deliver the services for which it is responsible, such as those that are leased and those that have been transferred to third parties under outsourcing contracts. The information required may be less detailed than for assets that are managed in house, but in the absence of any such information, asset planning will be incomplete and current arrangements, such as leases, will be likely to continue by default, even where they are no longer the best option.

It is also important to ensure that the information about assets is accessible and up to date and that it can be conveniently summarised for decision-making at the appropriate level, or it will not be useful.

2.2.3 Divergence analysis

Divergence analysis looks at the gap between the existing portfolio and the optimal portfolio. This is then used as the basis for formulating the asset strategy.

As part of this exercise, the purpose of holding each asset should be reviewed to ensure it continues to fulfil an objective of the organisation. In a period of austerity, with resources at a premium, the optimal portfolio is likely, other things being equal, to be smaller than during periods of prosperity. This requires organisations to fundamentally review how they use assets to achieve their objectives.

The identification of the optimal asset portfolio requires the organisation to consider what assets it needs to deliver its corporate objectives efficiently. These should be the same objectives as those on which the capital strategy is based and should be related to the purpose for which the organisation exists: the services it is responsible for providing and the statutory functions it is responsible for fulfilling. At the most basic level, therefore, the organisation should consider what assets it requires in order to provide those services and fulfil those functions.

The optimal portfolio is not simply the assets that the organisation would ideally like to have if resources were unlimited, but those assets that best enable corporate objectives to be delivered, taking into account overall value for money. In the dynamic environment in which most public sector organisations now operate, this is constantly changing. For example, as web technology develops, more and more services are being provided online, thus reducing the need for physical facilities that customers visit.

Since the optimal portfolio is defined in terms of efficient delivery of corporate objectives, divergence analysis involves assessing:

- the levels of service that existing assets are providing compared with the optimal levels of service
- how existing assets are performing
- the risk that the existing portfolio will become less suitable for delivering objectives as a result of changing circumstances.

The degree of sophistication that is required in divergence analysis depends on the nature of the assets, the nature of the service being provided and the desired outcomes. An education authority, for example, seeking simply to increase the number of laptops in schools would need to carry out a less sophisticated exercise than a ministry of defence developing weaponry to meet new geo-political threats.

The results of the divergence analysis should be used to develop an asset strategy covering:

- purchase and construction of new assets
- investment in existing assets
- transfer of existing assets to third parties
- disposal of existing assets.

This is illustrated in the following example.

Decentralisation of acute healthcare

A local provider of acute healthcare has a corporate objective to achieve better health outcomes by providing more of its services from neighbourhood clinics rather than at large hospitals. It carries out divergence analysis, which shows a mismatch between the existing asset base (more large hospitals and fewer neighbourhood clinics) and the desired asset base (more neighbourhood clinics and fewer large hospitals). Its asset strategy, based on this analysis, is to acquire sites for new clinics, build the clinics and dispose of some of its hospitals.

2.2.4 Transfer of assets to other organisations

Assets currently held by the organisation may be transferred to another organisation for various reasons, including:

- outsourcing of the relevant service
- transfer of functions from one type of public sector organisation to another
- transfer or devolution of powers from public sector organisations to charitable bodies
- boundary changes.

Such transfers have implications for the capital strategy and capital programme. The general impact is to reduce the need for capital investment, but there may be a corresponding reduction in capital resources, eg government grant. In some cases there may be a need to invest in the asset before it is transferred to make it fit for purpose, eg as a requirement of an outsourcing contract. Outsourcing as a means of securing investment in public assets is discussed in section 6.3.

The effect of transfers and potential transfers therefore needs to be fully considered as part of the organisation's asset planning and capital planning. This can be difficult because such transfers are not always within the organisation's control and may not be predictable. Local education authorities in England, for example, cannot control or predict which of their schools will become academies and therefore do not know which school buildings they will be responsible for maintaining in future. In these cases a number of scenarios are possible and so the organisation should carry out scenario planning as part of its asset planning.

2.3 ASSET MANAGEMENT PLANS

Asset management plans (AMPs) are plans for individual assets or groups of assets. Many public sector organisations have service-specific AMPs. These are sometimes brought together in a corporate asset management plan that also includes the asset strategy.

AMPs should set out:

- information about the assets, as described in section 2.2.2, including:
  - what is known about their condition
  - their purpose
- the suitability of the assets for meeting their purpose
- plans for how the assets will be managed and maintained
- long-term plans for each asset or group of assets, eg investment, replacement or disposal, based on the asset strategy
- any expectation that an asset or group of assets may be transferred to another organisation, as described in section 2.2.4.

The way in which assets are managed on a day-to-day basis can have significant implications for the capital strategy and programme. Inadequate levels of routine maintenance and capital investment can increase the cost of reactive maintenance and the capital expenditure that is required in the long run. A good example of this is highways maintenance, where cutting capital budgets tends to result in increased revenue expenditure on filling potholes.

Inadequate levels of routine maintenance and capital investment also reduce the value of capital receipts that can be achieved from the disposal of assets. AMPs should therefore be based on an integrated approach to the day-to-day management of assets and the longer-term plans for those assets based on the asset strategy.

An asset may be in good condition, but no longer suited to the purpose for which it exists. For example, a school built in the Edwardian era might be in good condition, but the thickness of the walls might prevent the functioning of a wireless network, making it an unsuitable environment for the provision of 21st century education.

AMPs are of key importance in capital planning because they provide:

- an overall picture of the existing portfolio to inform the capital strategy
- detailed information that can be used to identify capital project proposals and to evaluate and prioritise projects for inclusion in the capital programme.

SECTION 3

Capital planning

3.1 DEFINITION OF CAPITAL EXPENDITURE

Capital planning is about capital investment or expenditure, as distinct from revenue expenditure or running costs. For the purposes of this guide, capital expenditure can be defined as expenditure on assets that will provide a benefit to the organisation beyond the current financial year. This includes expenditure on:

- purchase of new assets
- creation of new assets
- enhancing and/or extending the useful life of existing assets.

A more detailed definition of capital expenditure, as it applies to UK local authorities, is contained in *Practitioners' Guide to Capital Finance in Local Government* (CIPFA, 2012).

The accounting treatment should be in accordance with International Accounting Standard 16 *Property, Plant and Equipment*.

3.2 IMPORTANCE OF THE CAPITAL STRATEGY

A capital strategy is the foundation of proper long-term planning of capital investment and how it is to be delivered. Every public sector organisation that has significant capital assets and access to capital funding should therefore have a robust capital strategy. Even if the organisation's only assets are office buildings and equipment, it is likely to need to reconfigure and invest in those assets at some point and therefore to require a long-term plan for how it will secure that investment.

3.3 CONTENTS OF THE CAPITAL STRATEGY

The following table summarises what the contents of the capital strategy should be and cross-refers to the relevant sections of this guide.

Content	Reference
Capital investment objectives	Section 3.4.1
How the strategy relates to asset planning	Sections 2.1 and 3.5
Statement about risk appetite	Section 3.4.3
Capital funding strategy	Sections 4.2.2 and 5.1
Governance process for determining the capital programme	Section 4.3.3
Requirements for outline business cases to be submitted	Section 4.4.1
Requirements for feasibility studies and option appraisal should be carried out	Section 4.4.2
Strategy for use of specific funding	Section 5.4
Strategy for use of alternative ways of procuring assets	Section 6.1
Objectives for delivery of the capital programme	Section 7.1
Plans to re-prioritise capital investment in response to austerity	Section 8.2

3.4 DEVELOPING A CAPITAL STRATEGY

3.4.1 Link with corporate objectives

The starting point for developing the capital strategy is to identify corporate objectives and to translate these into achievable goals for capital investment. This should be integrated with the asset planning process described in section 2 to identify what investment is required in existing assets to meet these objectives.

A corporate strategy or similar document may be considered as the definitive statement of the organisation's objectives. However, these documents tend to focus on objectives that require a change from business as usual and may not cover routine activities where no change is envisaged within the relevant planning horizon. The latter may include some of the organisation's statutory functions and so it is essential that they are taken into account in the formulation of the capital strategy.

The objectives that are expressed in the capital strategy must be achievable, at least in the long run; otherwise the strategy will not be a useful tool for determining action. It is important to distinguish between strategy and vision; the vision may not be achievable within any reasonable planning horizon. The capital strategy, however, must recognise constraints and bear some relation to:

- what is physically feasible
- the funding that may be available
- what may be achievable within the relevant planning horizon.

This is illustrated in the example below.

A transport undertaking's vision and strategy for cycling

A transport undertaking responsible for the road network in a large city has a vision for there to be segregated cycle lanes along every major road, but a significant proportion of roads are too narrow to enable this to be achieved without compulsory purchase and demolition of large numbers of buildings.

Its capital strategy, based on achievable goals related to this vision, sets out:

- the priority to be given to investment in cycle lanes
- what types of cycle lane should be provided
- the criteria for determining which routes should receive investment first
- targets for miles of cycle lane to be completed within specified timescales.

That is not to say that a capital strategy should be based on pessimistic assumptions. It is a plan for the long term and it is appropriate for it be more ambitious than the capital programme, which will be based on a firmer and more realistic assessment of constraints over the medium term, including the funding identified in the medium-term financial strategy. The process for developing a capital programme is described in section 4.

It is important to ensure that those charged with the governance of the organisation (such as ministers, elected members and non-executive directors) are involved in the formulation of the capital strategy. Their role in determining the content of the capital programme is discussed in section 4.3.3.

3.4.2 Link with infrastructure planning

Public sector organisations that are responsible for providing infrastructure should ensure that their capital planning is joined up with sound infrastructure planning.

Different public sector organisations are responsible for providing different elements of infrastructure, such as roads, railways, housing, health facilities and schools. They cannot fulfil their functions effectively if they operate in isolation from each other. In areas of England where there is a two-tier system of local government, for example, county councils and district councils have to work together to ensure that where there is a new housing development, the local road network is developed accordingly and sufficient new school places are created in the area.

Infrastructure planning is particularly important where there is a growing population, as there is in the UK at present. This requires a proactive approach, eg to agree housing targets and how they are to be met, and good partnership working with other organisations, including private developers.

Public sector organisations with responsibility for spatial planning, economic development and development control have a special role in the infrastructure planning process. These functions therefore need to be joined up with capital planning; staff from the relevant departments, with knowledge of future requirements for infrastructure investment, should be involved in the process to develop the capital strategy.

3.4.3 The organisation's appetite for risk

An organisation's ability to achieve its corporate objectives, especially if those objectives are ambitious, depends not only on the availability of resources, but also on the organisation's willingness to take a reasonable level of risk. This has implications for the capital strategy.

Although public sector organisations, as custodians of taxpayers' money, must be more risk averse than commercial enterprises, excessive caution is likely to result in paralysis, particularly in the sphere of economic regeneration. Accepting risk means accepting that there may be the occasional failure and consequent adverse publicity. Although this can be painful, it can also enable the organisation to achieve more overall.

In formulating its capital strategy, a public sector organisation may find it useful to think about its attitude to risk and include a statement about this in the strategy document. Bournemouth Borough Council's *Capital Strategy and Corporate Asset Management Plan 2013-16 Handbook*, for example, indicates that the council will share risks with the private sector to enable it to progress ambitious, large-scale regeneration plans.

The degree of risk each organisation should take is a matter of policy, to be decided by the organisation's leadership. What is important is that the risks involved in different methods of delivering capital investment are fully understood. This is particularly important when innovative delivery models, as discussed in section 8.3, are being considered.

3.5 RELATIONSHIP BETWEEN ASSET PLANNING AND CAPITAL PLANNING

There is a great deal of overlap between asset planning and capital planning, at both the strategic and the operational level.

The following table illustrates the overlap between the asset strategy and the capital strategy.

	Included in:	
Strategy for:	**Asset strategy**	**Capital strategy**
Purchase and construction of new assets	Yes	Yes
Investment in existing assets	Yes	Yes
Day-to-day management of assets	Yes	No
Disposal of assets	Yes	Yes
Financing capital expenditure	No, but disposals strategy will affect capital resources	Yes

Asset planning considers the entire asset portfolio and the need for capital investment both to maintain and renew existing assets and to create new assets. This is vital information for developing the capital strategy and for identifying potential projects to include in the capital programme.

In addition, asset planning identifies assets for disposal and is therefore the primary source of information for assessing the availability of capital receipts to fund the capital programme. See section 5.3.2 for more information about capital receipts.

The importance of AMP information in the development of the capital programme, as mentioned in section 2.3, is another reason why asset planning and capital planning are closely linked.

There is therefore a strong argument for asset and capital planning to be integrated instead of being treated as two separate processes. This helps to ensure that sufficient resources are directed to maintaining and reshaping the asset base so that it continues to be fit for purpose.

An example of an organisation that has established a clear link between capital planning and asset planning is Bournemouth Borough Council. This can be seen in its capital strategy mentioned above.

SECTION 4

Developing a capital programme

4.1 INTRODUCTION

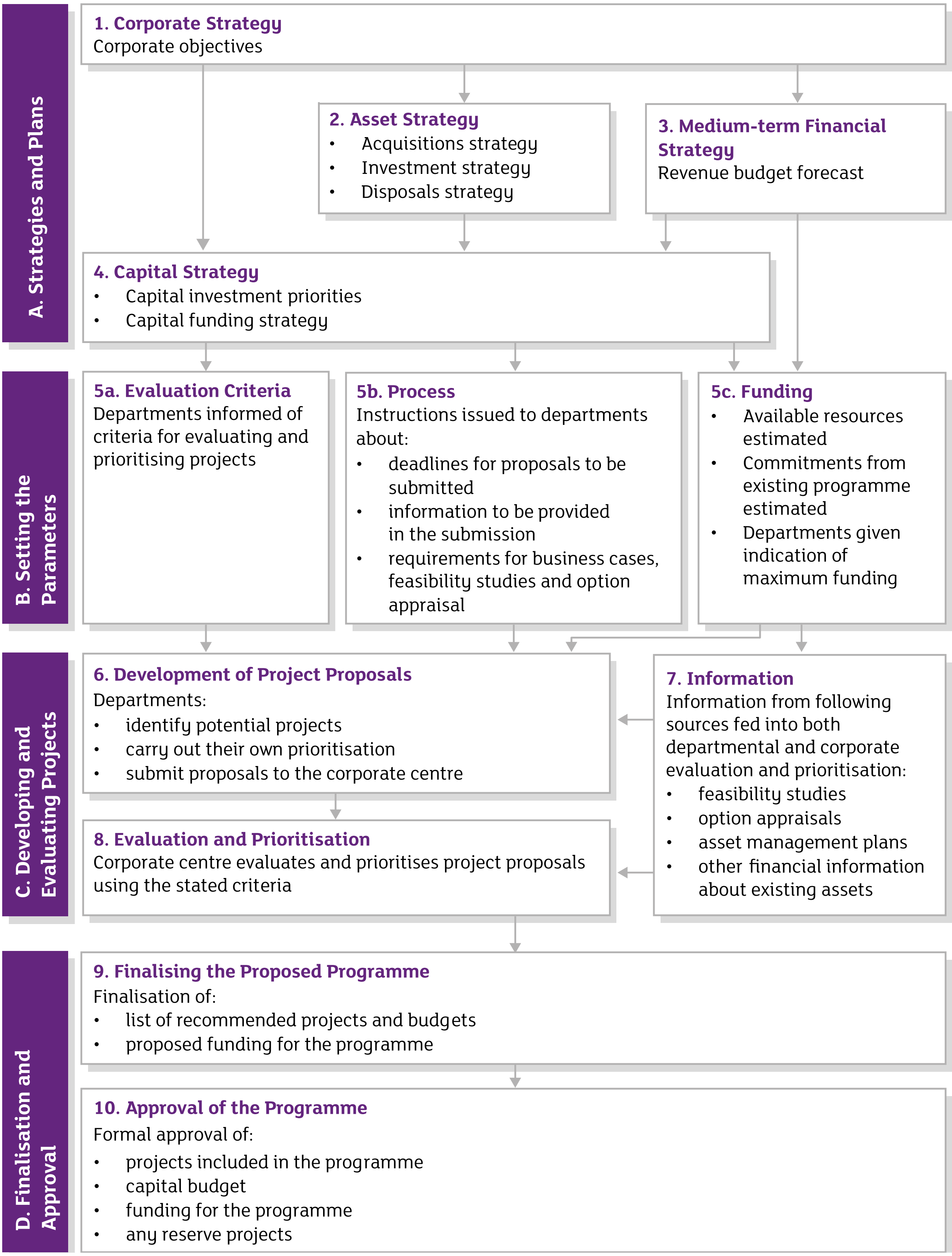
A capital programme is a set of capital projects that an organisation plans to undertake within a given timeframe. It should be based on the capital strategy, which in turn should be linked to the asset strategy, as explained in sections 2 and 3; otherwise it will not be aligned to the organisation's long-term objectives and will be more susceptible to considerations of what is expedient in the short run.

The approved programme typical covers a period of three to five years and is usually updated annually. However, the programme period may be significantly longer in an organisation, such as a ministry of defence, with assets that require a long time to develop and design.

The development of a capital programme involves the following key activities:

- setting the parameters
- identifying and developing project proposals
- evaluating and prioritising project proposals
- finalising and approving the programme and confirming the funding.

The flowchart below provides an overview of these processes, which are described in this section, and their links with the corporate strategies and plans described in sections 2 and 3.


A. Strategies and Plans
1. Corporate Strategy
Corporate objectives
2. Asset Strategy
• Acquisitions strategy
• Investment strategy
• Disposals strategy
3. Medium-term Financial Strategy
Revenue budget forecast
4. Capital Strategy
• Capital investment priorities
• Capital funding strategy
B. Setting the Parameters
5a. Evaluation Criteria
Departments informed of criteria for evaluating and prioritising projects
5b. Process
Instructions issued to departments about:
• deadlines for proposals to be submitted
• information to be provided in the submission
• requirements for business cases, feasibility studies and option appraisal
5c. Funding
• Available resources estimated
• Commitments from existing programme estimated
• Departments given indication of maximum funding
C. Developing and Evaluating Projects
6. Development of Project Proposals
Departments:
• identify potential projects
• carry out their own prioritisation
• submit proposals to the corporate centre
7. Information
Information from following sources fed into both departmental and corporate evaluation and prioritisation:
• feasibility studies
• option appraisals
• asset management plans
• other financial information about existing assets
8. Evaluation and Prioritisation
Corporate centre evaluates and prioritises project proposals using the stated criteria
D. Finalisation and Approval
9. Finalising the Proposed Programme
Finalisation of:
• list of recommended projects and budgets
• proposed funding for the programme
10. Approval of the Programme
Formal approval of:
• projects included in the programme
• capital budget
• funding for the programme
• any reserve projects

4.2 SETTING THE PARAMETERS

4.2.1 Introduction

The process to develop the capital programme needs to be coherent and well organised to ensure that the projects that get approved are a) those that best meet corporate objectives, and b) deliverable. At the beginning of the process, senior management should:

- set a working assumption for the level of funding
- set the criteria for evaluating and prioritising project proposals
- issue clear instructions to departments.

4.2.2 The assumed level of funding

The process to determine the level of funding for the capital programme may be straightforward for an organisation that has a fixed capital budget, but for most public sector organisations is likely to be iterative because there are two variables – the available funding and the need to spend – neither of which is fixed. Each influences the other so that the funding is not finalised until the end of the process to evaluate and prioritise projects. A working assumption therefore needs to be made at the beginning of the process about the level of funding; otherwise resources will be wasted in developing proposals for projects that have no chance of being approved.

The way the capital programme is funded should be consistent with the capital funding strategy, forming part of the capital strategy. Any proposals to use capital receipts should also be consistent with the disposals strategy forming part of the asset strategy. Capital financing and budgeting are discussed in section 5.

Capital expenditure has an impact on the revenue budget; the funding of the capital programme therefore needs to be linked with the medium-term financial strategy. In particular the organisation needs to ensure that the level of any borrowing used to fund the capital programme will be affordable in terms of the impact of the loan repayments and interest on the revenue budget.

At each annual review of the programme, the scope for selecting new projects in accordance with local priorities will be limited by:

- the availability of funding
- existing commitments from projects that have been approved previously
- unavoidable or compelling new pressures, for example health and safety requirements or a need to strengthen coastal defences following storm damage
- specific funding being available only for a defined purpose.

In a period of austerity, the room for manoeuvre may be very limited indeed; only a small proportion of the overall funding may be available for the organisation to use at its discretion to meet its own priorities. However, this makes a proper process for developing the capital programme all the more important, to ensure the best use is made of limited resources.

4.2.3 Evaluation criteria

Clear criteria are needed for evaluating project proposals and determining which of them should be approved for inclusion in the programme. The criteria, and any scoring system that is to be used, should be disclosed to departments at the beginning of the process so that they can develop their proposals accordingly.

The criteria should be consistent with the capital strategy and with corporate objectives. A housing authority, for example, with a strategy to improve energy efficiency, should set criteria that prioritise schemes which incorporate energy efficiency measures, such as better insulation.

In formulating the criteria, it is useful to think in terms of three broad headings: benefits, cost and deliverability/risks. The following table sets out criteria that might be used against each of these headings.

Broad headings	Typical criteria
Benefits	■ whether the project is critical to the business, eg necessary for the organisation to continue to meet its statutory obligations ■ how closely the project aligns with corporate objectives
Cost	■ value for money – benefit in relation to cost ■ impact on future running costs
Deliverability/risks	■ how likely it is that the project will be delivered on time and within budget ■ possible negative effects of the project, such as disturbance to local residents from construction works

Projects that are essential in order for the organisation to continue to meet its statutory obligations, particularly those relating to health and safety, should have top priority; this should be made clear in the evaluation criteria.

Where projects are to be funded from external sources, the evaluation criteria may need to take into account the objectives of the funding body, including any explicit funding conditions. However, if these are not consistent with the organisation's own objectives, it may not benefit the organisation to make use of the funding stream in question. This issue is explored further in section 5.4.

For projects where the outputs or outcomes are suitable for measurement, it may be appropriate to require departments to specify SMART objectives and how they will be measured. This information can then be used to evaluate the contribution the project makes to meeting corporate objectives.

Lessons learned from post-project evaluation (see section 7.4.5) should be taken into account in formulating the evaluation criteria where appropriate, eg if a lot of projects have been slipping, more weight could be given to deliverability when deciding which projects should be included in the programme.

Scoring systems

Some organisations use a scoring system to prioritise project proposals. An example is the system used by Wrexham County Borough Council, as described in a report to its Finance and Performance Scrutiny Committee in March 2012. In summary, proposals are scored as follows.

Criteria	Maximum score
Contribution to the council's strategic priorities and corporate objective outcomes	7
Risk management/continuity (eg urgent investment to meet statutory obligations)	15
Additional factors (eg enables external grant to be secured)	5

The purpose of this approach is to introduce more discipline into the evaluation process and to make it more objective, so that the projects that are selected are those that are likely to best deliver the organisation's objectives. However, scoring systems do have a number of potential pitfalls:

- they can make the process too bureaucratic and time-consuming
- they can lend a false sense of objectivity to a process that must involve both professional and political judgements
- it can be difficult to assign appropriate weightings to the criteria, especially if there are a lot of criteria
- it can be difficult to get evaluators to score on a consistent basis.

Careful consideration therefore needs to be given to whether the use of a scoring system is the right approach in a particular organisation. Where a scoring system is used, it needs to be designed well and applied intelligently.

Whether or not a scoring system is used, there is a risk of 'groupthink', ie that group dynamics prevent the different evaluators from thinking independently. This can undermine the objectivity of the process. This may be avoided by:

- having an evaluation team made up of a diverse range of individuals with different backgrounds and outlooks
- avoiding having evaluators with line management responsibility for other evaluators
- starting the process with each evaluator scoring the proposals independently, then recording the initial scores, as part of an audit trail, before the evaluation team meets to discuss the proposals and moderate the scores.

4.2.4 Instructions about the process

To enable the capital programme to be developed efficiently and coherently, the organisation should issue clear and timely instructions to departments about the process. These should cover:

- the deadlines for proposals to be submitted
- the evaluation criteria and any scoring system that is to be used

- the information that must be included in a project proposal, including estimates of whole life costs and other financial implications
- any requirements for feasibility studies and option appraisal to be carried out (see section 4.4.2)
- any information about the available funding that it has been decided should be disclosed to departments
- where relevant, guidance on the types of project that will be acceptable, taking into account any provisions of the capital strategy, such as those relating to the organisation's appetite for risk, as discussed in section 3.4.3.

It may be useful to issue a form and/or a template business case for departments to complete for each project proposal. Care needs to be taken in the design of such forms and templates to ensure they enable departments to submit all the relevant information, but do not require unnecessary information. An example of a relatively simple form can be found in the report to Wrexham's scrutiny committee (see section 4.2.3). The use of business cases in the evaluation of project proposals is discussed in section 4.4.1.

4.3 DEVELOPING AND EVALUATING PROJECT PROPOSALS

4.3.1 Identifying potential projects and developing proposals

Proposals for new projects may have their origins in:

- an analysis of investment needs as set out in the asset strategy and AMPs
- new policies or initiatives from within the organisation
- initiatives from external organisations, such as partners and providers of funding
- external factors, such as new legislation and technological developments.

The need for investment in existing assets should be fully taken into account in the formulation of the capital programme. The starting point for this is an analysis of AMP information; otherwise it is likely that the programme will be skewed towards new, high-profile projects, resulting in under-investment in existing assets.

The asset strategy and AMPs should be frequently revised in light of new policies, initiatives and external developments, but it will not always be practicable to keep them completely up to date. A separate analysis may therefore be needed to identify any capital investment that is required as a result of these changes.

Project proposals should as a minimum consist of a description of the proposed project and a rationale. The detail should be sufficient to enable the proposal to be evaluated and prioritised against other proposed projects. This will depend on the project. For complex and innovative projects, a detailed business case may be required, whereas for the most straightforward projects, a few sentences should suffice.

Lessons learned from post-project evaluation (see section 7.4.5) should also be taken into account when proposals for new projects are being developed.

4.3.2 Ensuring the process is manageable

It is not cost-effective for an organisation to expend significant resources on developing proposals for projects that have little or no chance of being approved. Departments may understand this implicitly and limit the number of proposals they make accordingly, but there is a risk that they submit 'wish lists' and that the process becomes unmanageable. The submission of an excessive number of proposals may be discouraged by:

- setting funding parameters at an early stage
- requiring feasibility studies and option appraisal (see section 4.4.2) to be carried out before projects are proposed for inclusion in the capital programme
- requiring service directors to sign off proposals before they are submitted to the corporate centre.

Even if steps are taken to limit the number of proposals, it may still not be feasible to carry out detailed evaluation of all the proposals received. A two-stage approach is common. A simple evaluation process is used to determine a long list, then a further, more detailed evaluation is carried out to determine the short list. However, the second stage of evaluation should remain relatively simple for smaller, straightforward projects.

4.3.3 Evaluating and prioritising proposals

Evaluation and prioritisation should be carried out in accordance with the criteria set at the beginning of the process (see section 4.2.3).

In an organisation with a diverse range of services, it may be difficult to compare proposals from different departments (eg to compare a project to renew refuse collection vehicles with one to improve kitchens in social services day centres). One option in these circumstances is to allocate a capital budget to each department and let each prioritise its own projects within that budget. This approach is not ideal, because it is likely to result in the selection of projects that do not best meet corporate objectives. On the other hand, if evaluation is carried out by a corporate team, there is a risk that it does not have the right resources and skills to make judgements about the relative priority of a diverse range of potential projects. There is no easy answer to this dilemma; each organisation should careful consider the best way to deal with it, depending on its own structure and culture.

The use of business cases, feasibility studies, option appraisal, AMP information and financial information in the evaluation of project proposals is described in section 4.4.

The role of those charged with governance and senior management

The role of those charged with governance in determining the capital strategy is described in section 3.4.1. They are also likely to have a role in deciding which projects are included in the capital programme, as well as being responsible for the formal approval of the programme.

Senior management – the chief executive, the director of finance and service directors – are responsible for leading the capital programme process and for advising those charged with governance on the decisions that they take.

It is important to ensure that both those charged with governance and senior management carry out their roles in a way that supports the organisation's corporate objectives and its capital strategy. This can be facilitated by:

- clear corporate objectives
- a robust asset strategy and AMPs
- a robust capital strategy with a clear link to the asset strategy
- strong governance with the process for determining the capital programme clearly set out in the capital strategy
- clear criteria for prioritising projects that are consistent with the capital strategy
- giving decision-makers clear and complete information, with alternative options set out where appropriate, to enable them to make good decisions.

The role of the head of property is critical in ensuring that decision-makers are aware of their responsibilities to protect existing assets. It may therefore be appropriate to give him or her a formal role in advising on decisions relating to the approval of the capital programme, similar to the role that the director of finance and the chief legal officer usually have.

4.4 INFORMATION USED TO DEVELOP AND EVALUATE PROPOSALS

4.4.1 Business cases

Section 4.2.4 suggested that departments should complete a form and/or submit a business case when proposing a project for inclusion in the programme. A careful judgement needs to be made about the level of detail that is appropriate at this stage. It is unlikely to be cost-effective to require business cases for all project proposals, but it may be appropriate to require them for projects, or groups of projects, that exceed a specified threshold. It may be useful for the organisation to specify in its capital strategy when business cases are required and the level of detail that must be submitted at each stage.

Where business cases are required, they should include estimates of whole life costs so that these can be taken into account in evaluating project proposals. If an option appraisal is carried out, then the information should be generated as part of that exercise.

Business cases are more likely to be required for projects at key stages after they have been approved. Typically an outline business case is required for approval to commence procurement and a final business case is required for approval to award the main contract. The role of business cases at the project delivery stage is described in section 7.4.4.

4.4.2 Feasibility studies and option appraisal

Feasibility studies and option appraisal provide invaluable information that may be used at both stages described in section 4.3: when project proposals are being formulated and when they are being evaluated and prioritised. This information may be included in the business case, if one is required at these stages; otherwise it may be summarised on the pro forma submission. Care should be taken to avoid duplication of information requirements.

The widespread use of feasibility studies and option appraisal is to be encouraged, but the degree of sophistication with which they are applied should be tailored to the needs of different projects depending on their size and complexity. Again, it may be useful for the organisation to specify in its capital strategy when these techniques should be used and the associated information that must be submitted with a project proposal.

Feasibility studies

The purpose of a feasibility study is to determine whether a proposed project is deliverable and to provide a reasonable estimate of the cost. Feasibility studies should be carried out for all significant projects, before the project is approved for inclusion in the capital programme. This helps to ensure that:

- projects included within the programme are deliverable
- project budgets are based on informed estimates rather than being just guesses.

Where a feasibility study has been carried out before a department makes a proposal for a project to be included in the capital programme, the information produced may be used by the corporate team as part of the evaluation of the proposal.

Option appraisal

Option appraisal is particularly useful for evaluating different options for achieving the same objective, eg to build a bridge or a tunnel to provide a new river crossing. A sophisticated option appraisal is appropriate for major projects where it is not obvious which solution is best. For simpler projects, it may be appropriate to require that project proposals include a brief explanation of the alternative options and why the proposed solution is considered the best option.

The guidance in *The Green Book: Appraisal and Evaluation in Central Government* (HM Treasury, 2003) is mandatory for central government departments and executive agencies in the UK.

More information about option appraisal is provided in *Option Appraisal: A Practical Guide for Public Service Organisations* (CIPFA, 2011).

4.4.3 Asset management plans and financial information

AMPs are a key source of information both for identifying potential projects and for the evaluation process. The relevant information that they provide may include:

- current usage
- current maintenance costs
- other operating costs
- incidence of faults/failures
- condition and suitability of the asset
- estimated remaining life of the asset
- plan for the asset based on the asset strategy.

Other financial information, such as information about actual running costs, should be used to complement or substitute for AMP information where appropriate.

The financial and performance information will be most useful if it is put in context, eg through trend analysis and/or benchmarking.

4.5 FINALISING AND APPROVING THE PROGRAMME

The final stage in the development of the capital programme is approval of:

- the projects to be included in the programme
- the budget for each project
- any separate contingency budgets
- the funding for the programme as a whole
- any reserve projects.

As capital programmes are invariably for a multi-year period, if everything goes according to plan and nothing else changes, then each year, as the programme rolls forward:

- approved projects that have been completed will fall out of the programme
- approved projects that have not been completed will remain in the programme
- new projects will be approved for inclusion in the programme.

This is illustrated in the following simple model.

Programme for Years 1 – 3		
Year 1	**Year 2**	**Year 3**
Project 1	Project 4	Project 7
Project 2	Project 5	Project 8
Project 3	Project 6	Project 9

Programme for Years 2 – 4		
Year 2	**Year 3**	**Year 4**
Project 4	Project 7	Project 10
Project 5	Project 8	Project 11
Project 6	Project 9	Project 12

This assumes that every project is completed within a single financial year, but the same principle applies where projects stretch over more than one financial year.

The approved programme is fixed in the sense that, if all goes according to plan, the approved projects will remain in the programme until they are completed. In reality, however, things rarely go entirely to plan, and plans tend to change too. Projects that have been approved, but which have not yet commenced, may be removed from the programme for various reasons, including:

- a change in policy
- new legislative requirements
- external funding being less than expected
- other resources, such as capital receipts, being less than expected
- a feasibility study, undertaken after the project has already been included in the programme, showing that the project is not deliverable within the available budget
- a gateway review showing the project will not deliver the required outputs within the available budget
- the project not being deliverable at all, eg due to inability to acquire a piece of land
- a significant delay to the start of a project, eg due to a judicial review, resulting in a decision to take it out of the programme for the time being.

Over-programming, a list of reserve projects and programme contingencies may be agreed as part of the approval of the capital programme. The pros and cons of these options are described in section 7.4.2.

SECTION 5

Capital financing and budgeting

5.1 FINANCING STRATEGY

The setting of the capital budget and the way it is to be financed should be based on a sound capital financing strategy that is clearly linked to the rest of the capital strategy. This will help to ensure that the financing of the capital programme reflects the organisation's long-term objectives rather than short-term expedience.

The following sections describe capital budgeting and the various sources of capital funding. Section 5.5 explains the importance of fully assessing the revenue implications of capital financing.

5.2 CAPITAL BUDGETING

Capital budgeting differs from revenue budgeting because:

- the need for capital investment tends to fluctuate year on year to a much greater degree than the need for revenue spending
- there is usually significant discretion over how or when to make use of the capital funding that is potentially available, eg to determine the level of borrowing and the use made of capital receipts in a particular period
- there is usually significant discretion over when particular capital projects take place
- capital budgets, unlike revenue budgets, can usually be carried forward from one year to another
- many public sector organisations are able to fund capital expenditure from sources that they are not permitted to use to fund revenue expenditure, such as borrowing.

There is therefore a judgement to be made, as part of the medium-term financial planning process, about the size of the programme, depending on the organisation's overall financial position and its capital investment priorities.

Some public sector organisations receive all their capital funding in the form of grant from central government or another external body. The organisation receiving the grant may be required to submit capital investment proposals to the body that makes the grant, in which case the level of the grant may depend wholly or partly on the capital investment needs set out in the submission. In order to develop its submission, the organisation may need to start with a working assumption about the likely level of funding, which is then revised as investment needs are refined.

5.3 SOURCES OF FUNDING FOR CAPITAL EXPENDITURE

The sources of funding that may be available to public sector organisations to finance capital expenditure include:

- revenue contributions
- borrowing
- capital receipts
- grants and third party contributions.

All public sector organisations, including central governments, face varying degrees of constraint on their ability to fund capital investment. The cost of providing assets ultimately falls on revenue budgets under most forms of capital funding. For most public sector organisations, therefore, it is their long-term revenue budget position that is the ultimate constraint.

These issues are explored in more detail in the following sections.

5.3.1 Revenue contributions

Revenue contributions are contributions from the current year's revenue budget, which are either used to meet capital expenditure incurred in the current year or put into a fund, or reserve, to be used to meet capital expenditure in future. Public sector organisations usually have the legal power to finance capital expenditure from revenue funding, but in a time of austerity their ability to do so is severely constrained. The overall impact of capital funding on revenue budgets needs to be fully considered before any decision is made about using revenue contributions.

5.3.2 Capital receipts

Capital receipts are the proceeds from the disposal of assets, usually land and buildings. They may be used to fund capital expenditure. Indeed it is normally considered imprudent to use them to fund revenue expenditure.

Public sector organisations may dispose of assets for various reasons, including:

- reductions in demand for services, eg a decrease in the birth rate resulting in a reduced need for school places
- a decision to cut services, eg central government deciding to reduce its international defence commitments
- changes in the way that services are provided, eg providing care to elderly people in their own homes rather than in institutional facilities
- more intensive use of assets, eg use of hot-desking to reduce the organisation's need for office space (see section 8.4).

A disposal may take the form of either:

- an outright transfers of ownership, or
- the grant of a long-term lease of land in which the public sector organisation retains the freehold or a head lease.

It is sometimes tempting to dispose of assets quickly in order to plug a short-term capital funding gap. However, the disposal strategy should be planned, as part of the asset strategy, so that:

- the decision to dispose of assets is based on a considered judgement that they are surplus to requirements
- best value is obtained, eg if a large number of assets become surplus to requirements at the same time, it may be better to dispose of them in phases rather than flooding the market
- receipts are made available in accordance with the needs of the capital programme, as set out in the funding strategy that forms part of the capital strategy.

The role of the head of property (as described in section 2.1) is critical in ensuring that the disposal of assets is carried out in accordance with a proper, long-term asset strategy.

Organisations sometimes ring-fence receipts for reinvestment in the relevant service. This makes sense where:

- receipts only become available as part of a project that requires capital investment to be incurred, eg where an asset is being replaced or a group of assets is being rationalised, as in the Coventry City Council example described in section 8.4.2, or
- grant funding is conditional on a receipt being used as match funding.

In some cases it may also be useful to allow departments to keep a proportion of receipts so that they have an incentive to identify assets that are surplus to requirements. However, where the organisation has a robust asset management culture and a strong ‘corporate landlord’ model (ie a corporate approach to the management of assets), such incentives should not be necessary.

It is otherwise rational to consider receipts as a corporate resource, along with all the other sources of capital funding, and to allocate overall levels of funding to specific services in accordance with the corporate prioritisation of investment needs.

5.3.3 Borrowing

Central governments and various other public sector organisations have the power to borrow. Their ability to do so is ultimately constrained by their long-term revenue budget position. It may also be constrained in the short to medium term by a poor credit rating, which makes it more expensive, or in extreme cases impossible, for them to borrow.

Most public sector organisations, other than central government, that have the power to borrow have a limited power to do so. Local authorities in the UK, for example, are subject to a capital financing regime. This prescribes what may be classed as capital expenditure and how it may be financed. All other expenditure must be met from revenue funding. Authorities have discretion to borrow in accordance with the Prudential Code (see section 5.5) and they are required to make a prudent provision from their revenue budgets to cover their borrowing commitments. This means that the ability to borrow to finance capital expenditure is determined largely by the authority’s revenue budget position. Detailed guidance on the capital financing regime that applies to local authorities in the UK is provided in *Practitioners’ Guide to Capital Finance in Local Government* (CIPFA, 2012).

Tax increment financing, which enables local authorities to undertake additional borrowing for infrastructure developments, is described in section 8.2.2.

Some loans are available to the borrower only to use for a specific purpose. The implications of this are discussed in section 5.4.

5.3.4 Grants and third party contributions

Grants and third party contributions include:

- government grants
- grants and contributions from other bodies.

There is no clear distinction between grants and contributions. Grants tend to be made by organisations that have a role to provide funding to other organisations. Contributions is a less well-defined term that includes:

- statutory contributions from developers towards the cost of providing infrastructure or other public assets related to a development, eg to build a new school required as a result of a housing development
- voluntary contributions or bequests from an individual or an organisation towards a worthy project, eg provision of a memorial.

Some grants and contributions are available to be used only for a specific purpose, as explained in the next section.

5.4 FUNDING FOR A SPECIFIC PURPOSE

Various forms of funding from central government and other external sources may only be used for a specific purpose. These include:

- specific grants and contributions, eg grants from the UK's Heritage Lottery Fund
- loans made for a specific purpose, eg the Green Investment Bank's loan for the Glasgow street lighting scheme described in section 8.2.3
- bequests.

The purpose may be widely defined (eg 'investment in schools') or narrowly defined (eg 'improvement of school kitchens'). In a time of austerity, public sector organisations may be inclined to welcome any additional funding, but an opportunistic, piecemeal approach to the use of funding that may only be used for a narrowly defined purpose is likely to skew capital investment, so that it does not reflect the organisation's own objectives.

Making use of specific funding opportunities may not always be in the organisation's best interests because:

- applying for these funding streams and managing the projects in question diverts resources away from other projects
- the number and variety of specific funding opportunities can sometimes make it impracticable to identify and investigate all of them
- specific funding is frequently conditional on the applicant organisation providing match funding, which is not then available to meet other priorities

- the investment may saddle the organisation with long-term operating costs that it cannot afford.

As part of the capital strategy, therefore, public sector organisations should plan how they will:

- use specific funding to meet their capital investment priorities
- identify, investigate and apply for specific funding opportunities

and they should be prepared to turn down funding opportunities that are inconsistent with the strategy.

5.5 REVENUE BUDGET CONSTRAINTS AND PRUDENCE

Most forms of capital funding have an impact on the revenue budget, as the following table shows.

Funding source	Impact on revenue budget
Revenue contributions	Whole amount of contribution charged to current year's budget
Borrowing and finance leases	Whole amount of the sum borrowed plus interest charged to future years' budgets
Capital receipts	Loss of rents from commercial properties and/ or loss of income from investment of the receipts
Grants and third party contributions	None

The table shows that the cost of capital investment met from revenue contributions and from borrowing falls wholly on revenue budgets either in the current year or in future years.

For most public sector organisations the ongoing revenue budget position is the key constraint on their ability to fund capital expenditure. So, in considering how much capital investment they can afford, they should estimate the overall impact on future revenue budgets and exercise prudence. This means ensuring that the level of capital investment is sustainable, taking into account the whole life cost of the assets as well as the cost of funding capital expenditure. *The Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2011) provides guidance on good practice in this area. It refers to the need to:

- carry out option appraisal and whole life costing to ensure value for money
- consider the implications for external debt
- consider the impact on affordability.

While adherence to the Prudential Code is a statutory requirement for UK local authorities, its principles are relevant to all public sector organisations.

In the new era of austerity, revenue budgets have become severely constrained; public sector organisations must adapt their capital strategies accordingly. This theme is explored in section 8.

SECTION 6

Alternative ways of procuring assets

6.1 INTRODUCTION

Public sector organisations may procure the assets required to provide the services they are responsible for, without incurring capital expenditure, through:

- renting and operating leases
- public–private partnerships and outsourcing.

The strategy for using these alternative options, and how they are to be funded, should be included in the capital strategy, so that there is an integrated approach to capital planning.

6.2 RENTING AND OPERATING LEASES

In some cases it may be better value for money for an organisation to rent or lease an asset rather than owning it.

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Certain types of lease, known as operating leases, are akin to renting. Where an asset is rented or leased under an operating lease, the public sector organisation does not incur capital expenditure.

International Accounting Standard 17 *Leases* defines a finance lease as *'a lease that transfers substantially all the risks and rewards incidental to ownership of an asset'* and an operating lease as *'a lease other than a finance lease'*. UK local authorities are required to treat finance leases as if they were borrowing and this means that they come within the capital financing regime. The payments under operating leases, however, are treated as revenue expenditure; this enables local authorities to have use of the relevant assets without incurring capital expenditure. Operating leases are commonly used for vehicles, photocopiers, computer hardware and other types of equipment, and for land and buildings that are required for a relatively short period. Further guidance on leases for UK local authorities can be found in the *Practitioners' Guide to Capital Finance in Local Government* (CIPFA, 2012).

While the rules about finance leases and operating leases may not be the same for other public sector organisations as they are for local authorities in the UK, the distinction between de facto ownership and de facto renting has wider relevance in that it highlights the point that ownership is not the only means of having the use of assets.

The following table sets out the advantages and disadvantages of operating leases; the same principles apply to renting.

Advantages	Disadvantages
No upfront capital outlay	No asset ownership
Lessor may not incur repair and maintenance costs	Lessor may not be able to modify assets to suit changing business requirements without the approval of the lessor and paying a fee
Lessor may not incur costs associated with disposal and replacement of assets at the end of their useful lives	Asset replacement and early termination at the request of the lessor may attract penalties and fees
Assets may be replaced more frequently, allowing access to latest technology for no additional cost	
Possible access to knowledge, purchasing power and discounts offered by the lessor	Potential capital outlay at the end of the lease term if purchasing the asset at the end of the lease

The decision to rent or use operating leases for particular assets rather than owning them should be based on value for money considerations. However, it is unlikely to be cost-effective for an organisation to carry out a separate option appraisal for every asset to inform this decision; a more sensible approach is to look at categories of asset, such as photocopiers, and carry out reviews periodically and/or when there is a significant change that might affect the decision. Where an option appraisal is carried out, net present value analysis is an appropriate technique given the different timing of payments under the different options.

The asset strategy should set the overall policy on renting assets and using operating leases. This might simply say that these options will be considered on a case-by-case basis. If, on the other hand, it is known that one option is best for a particular type of asset, then the policy may be more specific; it could, for example, state a presumption in favour of using operating leases for street cleaning machines.

6.3 PUBLIC–PRIVATE PARTNERSHIPS AND OUTSOURCING

Public–private partnerships (PPPs) and outsourcing can be used to secure investment in public assets.

PPPs is a broad term for various arrangements in which the public sector organisation has a longer and more intensive relationship with a private sector supplier than it does under traditional contracts. It includes PFI contracts, local asset backed vehicles (LABVs) and strategic partnering. Outsourcing may be carried out under either a traditional services contract or a strategic partnering arrangement.

Both PPPs and outsourcing arrangements tend to be long term and therefore often involve some element of capital investment by the private sector partner in assets that it uses to provide the services under the contract. The need for investment in assets may be the main reason for entering into the arrangement, or it may be incidental to a service-led objective.

The public sector organisation will not usually need to find capital funding to cover the capital investment under these arrangements, even if the assets transfer to it at the end of the contract. However, it should make prudent financial provision for any long-term liabilities incurred.

6.4 IMPACT ON REVENUE BUDGETS

Most types of capital funding have an impact on revenue budgets. This is also the case for alternative ways of procuring assets, as the following table shows.

Alternative option	Impact on revenue budget
Renting and operating leases	Charge to current year's revenue budget for use of the asset, not for the full cost of the asset
PPPs and outsourcing	Depending on the contract structure: ■ either whole or part of the capital expenditure incurred by the contractor, and ■ any interest incurred by the contractor will fall on the client's revenue budget via the contract charges, although these costs will usually be spread over the contract term

In considering how much capital investment they can afford, public sector organisations should estimate the overall impact on future revenue budgets and exercise prudence. The same applies to alternative ways of procuring assets.

SECTION 7

Delivering capital investment

7.1 INTRODUCTION

As part of its capital strategy, an organisation should specify its objectives for delivery of the capital programme. It is useful to think in terms of three broad headings: time, cost and quality. The following table sets out typical objectives against each of these headings.

Broad headings	Objectives
Time	Projects are delivered on time
Cost	Projects are delivered within budget
Quality	Projects achieve their intended outcomes

It will rarely, if ever, be possible to achieve all of these objectives for all the projects in the programme, but in order to maximise performance against them, organisations need to put in place efficient and effective systems for:

- programme management and project management
- procurement and contract management
- corporate monitoring, control and scrutiny.

The same principles apply to PPPs and outsourcing.

These issues are explored in the following sections.

7.2 PROGRAMME AND PROJECT MANAGEMENT

7.2.1 Importance of programme management

Efficient delivery of the capital programme requires that it is managed at the programme or service level, as well as at the individual project level. This enables:

- projects to be sequenced and grouped in accordance with the availability of delivery resources
- project management resources to be allocated efficiently to different projects and
- procurement to be planned across the programme rather than on a project-by-project basis.

These responsibilities could be given partly to a corporate team, such as a programme management office, and partly to programme managers working in specific delivery teams and managing the work of those teams. A local authority with large highways and education capital programmes, for example, might employ separate programme managers for each of these service areas.

7.2.2 Ensuring projects are managed efficiently

The prerequisites for efficient management of capital projects are:

- employing people with the right skills and experience to deliver capital projects
- recognising that project management is not a generic discipline, but must be tailored to the need of different kinds of capital project
- providing appropriate training that is specific to management of capital projects
- creating an environment that supports the delivery of capital projects.

Experience and skills in construction issues are particularly important in the delivery of capital projects.

The people required to deliver a capital programme include:

- programme managers, as explained above
- teams of project managers consisting of a mixture of individuals with a variety of skills to support each other and deliver different kinds of project
- those who provide a supporting role, such as finance and procurement officers.

All of these people need to have the right experience, skills and training. The role of the project manager is critical and so is explored in more detail below.

While public sector organisations need to have some degree of consistency in their systems and procedures, a one-size-fits-all approach to project management is unlikely to facilitate efficient delivery of capital projects. This is because:

- the ability to manage capital projects requires an understanding of construction issues
- capital projects vary widely in terms of size, complexity and the service outputs they are intended to provide.

Much progress has been made in recent years in developing the project management discipline in the public sector in the UK. Methodologies such as PRINCE2 have become well established and can provide a useful way of thinking about the issues that are common to management of all types of project. However, they do not provide the specific skills that are required for managing and delivering capital projects. Organisations may therefore need to develop and provide more specific training in this area.

Section 7.4.7 explains the need to reduce the bureaucratic burden to enable project management resources to be used efficiently.

7.2.3 Role of the project manager

The role of the project manager is a challenging one because it seeks to achieve the three potentially competing objectives set out at the beginning of this section relating to time, cost and quality.

The delivery of a capital project consists of three main phases:

- planning
- procurement (see section 7.3)
- construction.

The project management role may be carried out by more than one person during these different phases. There will typically be:

- a client project manager, who is directly employed by the public sector organisation and has overall responsibility for ensuring the project is delivered
- a separate construction project manager employed indirectly through external technical advisers.

The client project manager is typically responsible for:

- obtaining internal approvals
- keeping the overall costs of the project within budget
- ensuring the project is delivered on time
- ensuring the project meets its outcomes
- engaging and managing external advisers
- carrying out any project management activities that are not performed by the construction project manager.

The client project manager will often be the only person carrying out the project management role during the planning and procurement phases; he or she is therefore the person with ultimate responsibility for the delivery of individual projects.

Having good project managers is an essential ingredient in the successful delivery of a capital programme. However, recruiting and retaining them can be challenging, especially at a time when the construction market is buoyant and private sector firms are also recruiting. Public sector organisations may therefore need to be flexible about rates of pay. They may also need to use different methods of recruitment – including direct employment, use of agency workers and secondments from consultancy firms – in order to put in place a fully staffed team with the right mixture of skills and experience.

7.3 PROCUREMENT AND CONTRACT MANAGEMENT

7.3.1 Efficient and effective procurement

Efficient and effective procurement is critical to the delivery of the capital programme and to securing investment in public assets through public–private partnerships and outsourcing.

The procurement activities that are required to deliver capital investment may include:

- purchase or leasing of existing assets (such as land, buildings, vehicles, and furniture and equipment)
- procurement of technical, financial, legal and other specialist advice and skills
- procurement of works

- procurement of PPPs
- outsourcing.

The type of procurement process that is used and the way it is conducted should suit the project, so that public funds are used efficiently. There are two issues here that have a direct impact on value for money:

- the cost of the procurement process as a percentage of the total scheme budget
- the quality of the procurement process in terms of its impact on the outcomes of the project.

Small schemes, if procured individually, require a simple process; otherwise procurement costs will consume too high a proportion of the budget. On the other hand, putting insufficient resources into procurement is likely to result in poor value for money in the long run. Large and complex procurements, however, whether of a single project or group of projects, will require more resources to plan and manage them effectively.

Procurement should be planned and managed across the programme rather than on a project-by-project basis. This enables:

- procurement resources to be used efficiently
- timing of different procurement processes to be planned and co-ordinated
- economies of scale to be achieved.

The use of framework agreements and the appointment of a single contractor for more than one project are two options that can deliver significant savings in procurement costs. In a period of austerity it is particularly important that full use is made of these options where appropriate.

Framework agreements

A framework is an arrangement whereby an advertised procurement process is carried out to select a contractor or a number of contractors who can then be offered work within the scope of the framework without a further full procurement process. The procuring authority enters into a framework agreement with each contractor, which sets out the terms and conditions under which individual contracts (call-offs) can be made throughout the period of the framework (normally a maximum of four years).

The use of a framework agreement can significantly reduce the time and cost of procurement for a contract that would otherwise have to be advertised, especially if it would have to be advertised in the Official Journal of the European Union (OJEU).

In the UK, framework contracting has become more prevalent in recent years. Most public sector organisations now have access to a number of frameworks, set up by others, that are specifically designed for delivering capital projects. These include frameworks for construction works and for construction-related professional services. There are also frameworks for procurement of specialist supplies and services relevant to capital projects, such as for modular buildings. One example of an organisation that has used a variety of frameworks is Waltham Forest Council.

Case study – Waltham Forest Council

Waltham Forest Council in north east London has a team responsible for delivering a variety of construction projects including schools, libraries, museums and civic buildings. In recent years it has used frameworks to procure both technical advisers and works contractors. These frameworks include:

- IESE construction framework led by Hampshire County Council
- London Borough of Barking & Dagenham construction framework
- Norfolk County Council construction framework
- central government's framework for modular buildings
- framework led by Haringey Council for procuring quantity surveyors
- Homes and Communities Agency framework for procuring technical advisers.

There are two key issues to be aware of when considering the use of frameworks set up by others:

- the public sector organisation should obtain its own legal advice on whether it may use the framework
- the framework must be used in accordance with the rules established under the framework itself, eg to hold a mini-competition among the framework contractors.

The rules of each framework are different and so it can be a time-consuming exercise for an organisation to familiarise itself with a framework that is has not used before, but this can save time in the long run.

Single contractor for more than one project

Another way to reduce procurement costs for capital projects is to procure a single works contractor for more than one project, resulting in either:

- a single contract for all the projects within the scope of the procurement, or
- separate contracts for each project, but all of them with the same contractor.

This approach may be particular useful where:

- the cost of procurement is high in relation to the value of individual projects
- a number of projects are being procured as part of a programme covering one service area, eg a programme to refurbish a number of libraries
- the projects are taking place simultaneously but are geographically close so that the contractor can manage them together
- the projects are taking place sequentially so that the contractor can move its delivery team on from one project to another, saving on set-up costs.

While this approach is most relevant to the procurement of works, it can also be used for other types of contract, eg for the procurement of specialist advisers.

7.3.2 Ensuring sufficient competition

Projects that are large, complex or innovative may not automatically attract competition. Indeed there are numerous instances where procurement processes have failed due to there being insufficient bidders. This occurs because contractors consider that the risks are too great and/or that the bidding costs are high in relation to the rewards.

Ensuring sufficient competition is particularly challenging in PFI projects, IT projects and other complex PPPs and outsourcing arrangements, where bidding costs and the risks to the contractor tend to be particularly high.

Public sector organisations can encourage competition through:

- market warming – engaging with potential bidders before procurement commences to make them aware of the project and encourage them to bid
- obtaining feedback from bidders about what is deliverable and modifying requirements if necessary, eg increasing the budget or reducing the specification if the original specification is not deliverable within the original budget
- reassuring potential bidders that the public sector organisation is committed to the project and will run an efficient procurement process
- ensuring all documentation is clear and 'bidder friendly'
- building up the organisation's reputation as one that is good to do business with.

Pre-procurement engagement with bidders must, however, be carried out in a way that ensures fair competition; otherwise the public sector organisation is at risk of legal challenge and damage to its reputation. It is particularly important to ensure that all potential bidders are given the same information.

7.3.3 Procurement within timescales

Ensuring procurement is carried out in a timely fashion is important for various reasons including:

- negative effects on the procurement process itself if procurement is delayed, such as:
  - increased procurement and bidding costs due to a protracted process
  - increased construction costs due to inflation in the construction market
  - reduced competition due to bidders losing confidence in the process or moving on to other projects
- negative effects if the project is not delivered on time, such as:
  - failing to meet a critical deadline, eg for facilities to be completed in time for the 2012 Olympics
  - damage to the organisation's reputation if it fails to deliver on a promise
  - delays in achieving savings in operational costs.

For larger projects that are tendered on the open market, the deadlines for placing advertisements in the relevant publication must be factored in. This is particularly important within the European Union for contracts above specified thresholds, which must be advertised in OJEU.

It is therefore important to commence and carry out procurement in a timely fashion. This requires:

- good planning – a robust project plan with realistic timescales for the procurement process
- starting the procurement process on time, in accordance with the project plan
- putting sufficient resources into the procurement process for it to be run efficiently.

However, it can be counter-productive to stick to a timetable come what may. Starting the process without having the right resources and tender documentation in place is likely to result in delays further down the line and a poor overall outcome. It is therefore sometimes wise to be flexible, for example to give bidders more time to develop their bids if it becomes apparent that the original period allowed for this is insufficient.

7.3.4 Contract management

Effective contract management is also essential to the delivery of capital programmes.

The management of works contracts is usually relatively straightforward, in which case responsibility can be left to construction project managers. This is not always the case, however. Managing the contract may be more challenging if the project is complicated or innovative and issues arise that the client and contractor are not used to managing. More intensive contract management may also be required if the contractor is not performing well. In these cases, the client project manager and even the programme manager may need to get involved. The same principles apply to contracts for professional services.

Framework agreements, strategic partnerships, PPPs and outsourcing contracts require different skills to manage them. Public sector organisations commonly fail to put effective contract management arrangements in place from the beginning of these contracts because they have been focusing on completing contract negotiations and/or have allowed insufficient time for mobilisation. Good planning is needed to avoid this.

Organisations also need to plan ahead to allow sufficient time for re-procurement or putting new arrangements in place when contracts are due to expire.

7.4 CORPORATE MONITORING, CONTROL AND SCRUTINY

7.4.1 Introduction

The senior managers of an organisation have overall responsibility for ensuring that delivery objectives are met for all projects, but they will have a particular focus on ensuring that:

- high-profile projects are delivered on time and achieve the intended outcomes
- good progress is being made in delivering the programme generally
- the overall use of capital and revenue funding is as close as possible to the plans set out in the current year’s budget, the capital programme and the medium-term financial strategy.

It is therefore essential that robust corporate monitoring and reporting systems are put in place and that there are effective processes for corrective action to be taken where necessary.

It is counter-productive, however, to make these systems and processes too bureaucratic and onerous, as this diverts resources away from delivery. This issue is explored in section 7.4.7.

7.4.2 Financial monitoring

The need for clarity

It is essential that there is clarity and transparency about:

- who is responsible for the budget for each capital project
- how each project is financed.

Clarity is also needed, both at the project and the programme level, about which budget expenditure is being monitored against: the original budget or a revised budget and, if the budget has been revised more than once, which revised budget.

The original budget for a project is the one that is set when the project is approved for inclusion in the capital programme. At the programme level the original budget is the aggregate of the original budgets for all the approved projects and any separate contingency provisions.

The programme budget for a financial year may change because:

- changes are agreed to the budgets for individual projects, eg to reflect an agreed increase in the scope of a project
- projects progress more quickly or slowly than expected and project budgets are re-profiled accordingly.

However, if an increase in a project budget is met from the programme contingency, there will of course be no change to the overall programme budget.

Because of the complexity of capital programmes, changes to budgets are frequent and common. It is likely that the aggregate budget for the programme will change every quarter and so it is important that the process for approving any changes is clear. These changes need to be tracked carefully so that there is an audit trail from the original to the latest budget. References to the 'revised budget' need to be clear about which iteration of the budget is meant.

Variances are the differences between actual expenditure, or estimated expenditure, and budgets. Again, clarity is needed as to which budget the variance is being measured against.

Monitoring the outturn cost of projects

The key financial delivery objective is that projects within the programme are being delivered within budget. This is difficult to judge before a project is complete, because it could appear to be on target to be delivered within budget, but end up being overspent due to something that happens at a late stage. To get an accurate picture of whether projects are being delivered within budget, it is necessary to look at projects that have been completed. One way to do this is, as part of the outturn report for a financial year, is to report on all projects that have reached completion within that financial year.

Monitoring the overall spend in a period

The main focus of financial monitoring in public sector organisations is usually on the overall spend in a particular period, such as a quarter or a financial year. However, the headline figure, ie the overall underspend or overspend, says as much, if not more, about the progress of projects (the time objective) than about whether projects are within budget (the cost objective).

Capital programmes commonly underspend, not because there are genuine savings on projects, but because projects are delayed. This is known as slippage, which is described in more detail below. The effect of slippage is to mask the true financial performance of projects. The possible scenarios are set out in the following table.

Scenario	Effect of delays (slippage)	Effect of genuine differences between project costs and estimates	Impact on programme spend for period
1	Nil	Nil	Nil
2	Nil	+£10m	+£10m
3	Nil	–£10m	**–£10m**
4	–£5m	+£10m	+£5m
5	–£10m	+£10m	Nil
6	–£10m	+£5m	–£5m
7	–£5m	–£5m	**–£10m**
9	–£10m	Nil	**–£10m**
10	–£15m	+£5m	**–£10m**

In each of the four scenarios highlighted in the above table , there is an overall underspend of £10m, but the reasons for this are different in each case. This illustrates that underspending can be due:

- entirely to genuine underspends, ie to savings or other underspends that do not simply result from a delay
- partly to genuine underspends and partly to slippage
- entirely to slippage with no genuine underspends or overspends, or
- to slippage that is partly offset by genuine overspends.

In order to understand the true financial performance of projects across the programme, it is necessary to get behind the headline figures. This requires detailed monitoring at the project level to identify reasons for variances, which can then be aggregated to the programme level and reported accordingly. In the final scenario shown in the above table, for example, it would be reported that there had been slippage of £15m and overspends of £5m.

When there has been slippage on a project and it is agreed that the relevant unspent budget should be carried forward to the following financial year, care needs to be taken to ensure that the overall budget allocated to the project remains correct.

Causes and effects of slippage

Slippage commonly occurs in public sector capital programmes because organisations tend to be too optimistic about how quickly projects will be delivered. As a result, expenditure across the programme in each quarter and each financial year is considerably less than the programme budget for that period.

There is a strong tendency for organisations to overestimate how quickly projects will be delivered. This occurs for a number of reasons, including:

- senior management or those charged with governance putting pressure on departments to set unrealistic timescales for the delivery of pet projects
- departments putting forward unrealistic timescales in order to get their projects prioritised
- pure optimism.

Delays can occur for reasons too numerous to mention, including:

- late start due to poor project management or lack of project management resources
- delays in securing a suitable site
- stakeholder resistance and/or complications with the consultation process
- procurement problems, eg insufficient bids resulting in the need to re-tender
- delays in obtaining planning permission
- problems on site, eg awkward location of a water main not revealed by surveys
- delays caused by the contractor.

The factors that cause slippage also tend to result in projects overspending in the long run because:

- optimism about timescales tends to go hand in hand with optimism about costs
- delays before or during the procurement phase tend to result in increased costs due to construction inflation
- delays on site that are not the contractor's fault tend to result in increased costs due to contractor claims.

Minimising and mitigating slippage

The best way to minimise slippage is to tackle its root causes by:

- improving the processes and skills for estimating project costs and timescales across the organisation
- improving project management
- putting in place effective monitoring processes that are not overly burdensome on delivery teams
- engaging with stakeholders regularly
- ensuring delivery teams have sufficient resources and the flexibility to operate efficiently
- avoiding a culture of blame and encouraging honest reporting.

These steps should help to reduce slippage, but are unlikely to eliminate it because of the nature of the risks that are inherent in delivering capital projects.

Slippage can also be mitigated by over-programming or having projects in reserve, but organisations should think carefully about what they are trying to achieve in the longer term, rather than in a single financial year, before pursuing either of these options.

Over-programming means approving a greater number of projects so that the aggregated project budgets for the period exceed the allocated resources. This approach may seem attractive where:

- there has been consistent slippage in previous years, and/or
- there are inherent risks in the programme beyond the organisation's control that can be expected to result in a proportion of projects being delayed.

The rationale for over-programming is that a particular level of spend must be achieved within a given period, usually a single financial year. However, it is likely to result in lower-priority projects being implemented, and so does not usually make sense over the longer term, unless:

- there is a risk of losing resources either because a grant must be spent by a particular deadline or because the allocation of future funding is dependent on a track record of delivery, or
- the additional projects are of equal benefit to the organisation as other projects in the programme.

When considering over-programming, organisations should therefore look at the longer-term position and satisfy themselves that:

- there is a clear rationale for over-programming
- the overall outcome will not be worse due to resources being allocated to lower-priority schemes
- there will be sufficient resources available in subsequent periods to cover the commitments from the current period.

Another option is to have a number of reserve projects that can be brought into the programme relatively quickly. This is similar to over-programming except that the additional projects only get the go-ahead if currently approved projects are either removed from the programme or delayed. The reserve projects may otherwise be treated as priorities when the capital programme is next revised.

The rationale for approving reserve projects is similar to that for over-programming and similar objections apply. One instance where this approach may make sense is where it is necessary to ensure that a funding stream that is available for a class of assets, eg to improve school play equipment, is fully utilised if there is a risk that some projects cannot be delivered by the deadline set in the funding conditions.

Best practice is, however, to tackle the root causes of slippage so that the need for mitigation is minimised.

Contingencies

The purpose of contingencies is to cover risks. Organisations need to make a balanced judgement about what provision to make for contingencies, depending on:

- the nature of the risks inherent in the type of projects being undertaken
- how tightly project budgets excluding contingencies have been estimated.

In the construction industry, it is usual for the contract price to include a contingency to cover risks for which the contractor is responsible, such as poor performance by a sub-contractor. As the contingency provision is part of the agreed contract price, it is controlled by the contractor, and the client organisation does not usually benefit if is unspent. Public sector organisations need to be aware what risks are allocated to the contractor and to avoid duplicating the contractor's contingency.

To cover risks for which they are responsible, such as variations resulting from a change in policy, organisations may either:

- include contingency provisions in the budgets of individual projects, or
- make a separate contingency provision to cover risks across the programme.

On the whole it is better if contingency sums are held at the programme level because:

- if they are included in project budgets it is more likely that they will be spent, even if this is not the best use of resources for the organisation as a whole
- a programme contingency enables the risks on different projects to be spread across the programme and facilitates more realistic budgeting for individual projects.

Where there is slippage on the programme, contingency provisions will exacerbate the overall underspend for the relevant period. But slippage does not mean that projects will be underspent on completion. The use of contingencies therefore needs to be monitored on a multi-year basis depending on how projects are progressing. If, for example, there has been 20% slippage in a financial year, this means that some of the risks that the contingency is meant to cover have been postponed and part of the contingency for that year should be carried forward accordingly.

7.4.3 Approvals and delegation

Accountability is of fundamental importance in public sector organisations, because they are funded from the public purse and, in democratic countries, are ultimately answerable to the electorate.

Most public sector organisations have well-defined rules about levels of authority for decision-making, particularly over financial matters. There may be general rules that apply to all financial transactions and specific rules that apply to contracts and/or capital programmes and expenditure.

The controls that apply to a capital project through its lifecycle typically include approval for:

- the project to be included in the capital programme
- the project to proceed to procurement, eg invitation to tender

- contract award
- contract variations.

The level at which each of these approvals takes place will depend on rules that are typically set out in a scheme of delegation and based on financial thresholds.

In addition to these controls, which are specific to capital projects and contracts, the project will be subject to the normal controls over financial transactions, including approval of orders, payments and transfers of budgets between projects.

Compliance with rules can be challenging for capital projects because:

- delays to a project can have a knock-on effect in terms of obtaining approvals, eg where a committee meets once a month
- capital projects are susceptible to things happening ‘on the ground’ at construction stage, requiring approval for variations and increased spending, with the risk of contractor claims for delays if these are not obtained quickly.

This underlines the need for good planning and management to ensure that projects are delivered as efficiently as possible. It is essential that the rules are clear and strike the right balance between control, to ensure accountability, and flexibility, to facilitate delivery. How the burden on delivery teams can be reduced is discussed in section 7.4.7.

7.4.4 Gateway reviews and business cases

A gateway review is a review of a project or programme carried out at a key stage or ‘gate’ in its lifecycle. The technique can be applied to any major project or programme, but is particularly useful for capital projects and programmes.

It may be appropriate to link the reviews with business cases. The role of business cases in the development of the capital programme is described in section 4.4.1.

The Office of Government Commerce (OGC), now part of the Efficiency and Reform Group within the Cabinet Office, introduced gateway reviews in the UK in the early 2000s. The model envisages reviews at five points, which tie in with HM Treasury’s five case model for developing business cases. These are set out in the following table.

	Gateway review point	HM Treasury business case stage
0	Strategic assessment	Determining the strategic context and preparing the strategic outline programme
1	Business justification	Scoping the proposal and preparing the strategic outline case
2	Delivery strategy	Planning the scheme and preparing the outline business case
3	Investment decision	Procuring the solution and preparing the full business case
4	Readiness for service	Implementation
5	Operations review and benefits evaluation	Evaluation

The gateway review concept has become fairly widespread in the public sector in the UK. Local Partnerships, a body set up by the Local Government Association and HM Treasury, carries out reviews for local authorities in England and Wales based on the Cabinet Office model. The Australian Government has also adopted the model.

Gateway reviews may be carried out by an internal or an external team. Some organisations have set up permanent internal review teams; others have a ready pool of expertise, which they may not be aware of, consisting of employees who have taken part in reviews in other organisations. It may therefore be worthwhile for senior management to identify this resource and to use it.

Reviews may be linked to approvals, especially when carried out internally, or may simply be a way to help the organisation to ensure the project is delivered efficiently in accordance with corporate objectives. In either case, reviews help to ensure that projects are managed efficiently and continue to meet the organisation's objectives.

Smaller organisations may not have the resources to conduct or commission gateway reviews; even in a larger organisation it may not be cost-effective to carry them out for smaller projects. However, the gateway principle, ie to check projects are on track at key stages, can be applied without carrying out a full gateway review. A relatively simple peer review or a check by someone not directly involved in delivering the project helps to ensure that projects are being delivered as planned and to determine what action needs to be taken if they are not.

7.4.5 Post-project evaluation

In order to improve the way that capital programmes are formulated and delivered, organisations should carry out reviews of projects once they have been completed. These should consider the three key delivery objectives – time, cost and quality.

Lessons learned should be used to improve the organisation's processes for selecting, developing and delivering capital projects, as discussed in section 4.

In some cases it may be years after the completion of the project before a definitive judgement can be made as to whether it has fully achieved its intended benefits, for example whether improvements to a building have reduced energy consumption as much as expected. But it is important for an organisation to learn lessons as quickly as possible, and so it is best to carry out the evaluation shortly after completion based on what is known at that stage. This will show if the project has completed on time and within budget and at give at least an indication of whether all the benefits will be achieved.

It is unlikely to be cost-effective to carry out reviews of every project. Resources may be better targeted at carrying out more in-depth reviews of a smaller number of projects than superficial reviews of every project. Getting to the bottom of what has happened can be time-consuming and require the skills of experienced reviewers. This is especially true of projects that have not gone smoothly, which is where the most useful lessons can often be learned.

On the other hand, it is also useful to review projects that have gone well, especially where these were expected to be challenging, so that good practice can be disseminated across the programme.

7.4.6 Scrutiny

In public sector organisations, scrutiny of decision-making and performance should be carried out by individuals who are independent of the decision-making process. In the UK, this role is carried out by parliament and parliamentary committees, such as the Public Accounts Committee, for central government, and by scrutiny committees for local government.

Scrutiny of capital delivery should as a minimum cover:

- the process for determining which projects are included in the capital programme
- the extent to which projects have been delivered on time and within budget
- the extent to which projects are delivering or are set to deliver their intended outputs.

7.4.7 Reducing the bureaucratic burden

There is a risk that corporate monitoring and scrutiny, as described in the preceding sections, put too much of a burden on delivery teams, so that they have insufficient time to spend on delivery. This problem is particularly acute in organisations where project management resources are stretched due to difficulties with recruitment and retention or a sudden increase in workload, but it is an issue in all organisations in the sense that it is not an efficient use of the resources of delivery teams if they must spend a large proportion of their time dealing with monitoring and reporting requirements.

Creating an environment that supports the efficient delivery of capital projects can sometimes conflict with the organisation's duty to account for the use of public money. This is a dilemma that must be faced, however, if projects are not to be mired in bureaucracy. This requires a willingness to delegate and accept a reasonable level of risk.

Much can be done to facilitate efficient delivery without increasing risk. One way is to make the approvals process more user-friendly by ensuring that:

- internal rules are well thought-through and clearly written
- internal and public procurement rules are clearly communicated across the organisation
- there is good communication between delivery teams and those responsible for determining and administering the approvals process
- those responsible for determining and administering the approvals process have a good understanding of the particular requirements of capital projects and works contracts
- finance, procurement and legal teams allocate their resources appropriately, so that they can provide timely input to the approvals process for capital projects.

Over-elaborate governance and reporting is a common problem in the public sector, which can put an excessive burden on delivery teams. Organisations can reduce this burden by:

- rationalising and clarifying governance processes
- standardising the formats of reports and designing templates well to make them user-friendly
- being clear about what information is required and when
- ensuring the information requested is no more than is required.

It may be illuminating to monitor the proportion of time that project delivery staff spend on dealing with monitoring and reporting, but this should be done in a way that does not itself put an unnecessary burden on them. Where staff are already keeping appropriate records, this information should not be duplicated.

SECTION 8

Adapting to austerity

8.1 THE IMPACT OF THE 2008 FINANCIAL CRISIS

Following the financial crisis of 2008, tax revenues in most western economies fell dramatically and budget deficits increased accordingly. The downgrading of central government credit ratings in France, the UK and the USA, coupled with the near bankruptcy of various governments in southern Europe, provided a salutary lesson that projected levels of public debt were not sustainable.

There has been a tacit consensus among the main political parties in the UK and elsewhere that the deficit must be reduced and that the main brunt should be borne by cuts in spending rather than increases in levels of taxation. Ongoing pressures of health and welfare spending, as well as the burden of debt repayments, have, however, meant that the axe has fallen disproportionately in other areas, such as defence, local government and infrastructure.

Total public spending in the UK is forecast to decrease by 4.4% between 2010-11 and 2018-19, but increases in welfare spending, the cost of public service pensions and the cost of other 'non-departmental' spending mean that there will be cuts of 19.9% in spending by government departments on public services. However, some services, notably the National Health Service, have been protected, which means that cuts to other services are even greater. Spending on local government, for example, is being reduced by 28.4% between 2010-11 and 2015-16.[1]

Most public sector organisations therefore face severely constrained revenue budgets in the medium term and an uncertain prospect that this will change even in the longer term. At the same time, many of them face overwhelming pressure to maintain or increase spending on education, welfare, healthcare and social care as demand for these services increases. There seems to be no prospect in the foreseeable future that levels of spending will return to their pre-2008 levels; the public sector has entered a new era of austerity.

In this context it is more important than ever that public sector organisations use their resources efficiently. This requires coherent strategies to reshape the way in which assets are used to provide public services. This is not simply a matter of doing what was done in the past in a more efficient way; it requires a wholesale rethink of why assets are held, how they are deployed and how capital investment should be targeted.

1. The figures in this paragraph are taken from a presentation 'UK public finances and the financial crisis' given by Carl Emmerson and Gemma Tetlow of the Institute of Fiscal Studies at a workshop on 'European public finances through the financial crisis' at the ZEW Centre for European Economic Research, Mannheim, Germany, 11 June 2014.

Many organisations are already embracing new ways of working. This section outlines a number of options. Most of them have already been successfully implemented in the public sector; others are untested in the UK and are more risky. The latter are included in order to stimulate thought about how things might be done differently rather than as examples of established good practice.

8.2 RE-PRIORITISING CAPITAL INVESTMENT

8.2.1 Introduction

Section 4 explained the importance of a proper process for prioritising capital investment proposals, including the need for clear evaluation criteria linked to the organisation's corporate objectives. It should be part of normal good practice to revisit the process and review the criteria from time to time, but the unprecedented constraints on funding that many public sector organisations now face call for a more wide-ranging rethink about what the priorities for capital investment should be.

8.2.2 Encouraging economic growth

Some public sector organisations in the UK have redirected their capital investment priorities to support economic growth. Central government, for example, has prioritised infrastructure, such as roads and rail. Many local authorities have followed a similar approach to support the growth of their local economies.

The rationale for this in an era of austerity is that a growing economy will improve the public finances in the long run. UK local authorities benefit directly from economic growth in their areas, because they keep half the additional business rate income that is generated. They can benefit further from the recent introduction of tax increment financing. This allows local authorities to borrow for infrastructure projects against the anticipated growth in business rate receipts that will result from the projects. The idea originated in the USA, where it has been successfully implemented in a number of cities. Transport for London is now using tax increment financing to fund the extension the Northern Line of the London Underground to Battersea as part of the Nine Elms Regeneration Project.

If economic development is made a higher priority for capital investment, this needs to go hand in hand with a proactive approach to infrastructure planning, strong partnership working and a willingness to take calculated risks, as discussed in sections 3.4.2 and 3.4.3.

8.2.3 Prioritising revenue savings

Section 5 explained how the cost of most capital funding falls on revenue budgets sooner or later. Where the funding is used to invest in or replace existing assets, this is often mitigated by decreases in running costs, eg due to increased energy efficiency. However, achieving revenue savings is rarely the primary reason for undertaking a capital project.

Austerity warrants giving a higher priority to projects that yield revenue savings. These can either be used to mitigate revenue budget pressures or reinvested in the capital programme.

Thorough analysis is needed to ensure that estimates of savings are robust; claims that are not backed up by evidence should always be treated with caution. However, excessive caution can result in paralysis.

Invest-to-save schemes

Invest-to-save (or spend-to-save) schemes are capital projects that are expected to achieve an overall net saving in the long term. The investment improves or replaces existing facilities resulting in reduced maintenance and other operating costs, with the long-term savings exceeding the upfront capital expenditure and any related financing costs. A good example is the Glasgow street lighting scheme (see the box below), which demonstrates how a project aligned to corporate objectives can be self-financing over its lifecycle.

Case study – Glasgow street lighting

Glasgow City Council has received a loan from the Green Investment Bank to replace 10,000 of its existing sodium street lamps with eco-friendly LED lights. This is phase 1 of a plan to replace the majority of the city's 72,000 street lights by 2018.

The new lamps will:

- use 50% less energy than the old ones
- last two to six times longer than the old ones
- reduce light pollution by directing nearly 100% of their light to the ground.

The scheme will be self-financing, due to the long-term savings in operating and maintenance costs. The capital investment in phase 1 is £8.9m, but the net savings are estimated at £8.4m over 18 years.

The scheme is part of the council's commitment to reduce carbon emissions by 30% by 2020. Phase 1 will deliver 5.9% of the target reduction for the council as a whole.

The carbon reduction commitment is enshrined in the council's carbon management plan. It also fits in with the council's overall strategy – the strategic plan 2012–2017 – which includes a goal to achieve a reduced carbon footprint. It also identifies the investment required in street lighting as a key challenge in the uncertain economic climate.

The scheme is also informed by the road asset management plan 2012-13. This refers to a strategy to change from sodium lights to white light sources and a pilot spend-to-save project to reduce energy use and light pollution. It also highlights a need for substantial investment (in lamps and columns) to reduce the number of faults and the cost of reactive repairs and backlog maintenance.

Invest-to-save schemes are not a new idea, but have tended to be considered as a marginal addition to the overall capital programme, perhaps providing a rationale for a slight increase in borrowing. In the new era of austerity they deserve to be given more prominence in public sector capital strategies, with project evaluation criteria weighted accordingly.

Generating income

Another way to achieve an overall improvement in the organisation's long-term financial position is to invest in schemes that generate new income streams or that protect or enhance existing income. Where, for example, an organisation owns commercial properties that generate a rental income, it might choose to invest in these properties to make them more attractive to potential tenants and thereby increase the income it receives.

8.3 INNOVATIVE DELIVERY MODELS

Innovative delivery models, such as LABVs, can sometimes offer the prospect of 'more for less': either more investment in assets for a given level of capital funding or more efficient use of assets, reducing the need for capital investment.

While the majority of innovative schemes are successful, they are, almost by definition, risky. There are numerous examples that have looked good on paper, but have failed to achieve the expected results. A recent example is Surrey Police's abortive ICT project, SIREN, which was the subject of a public interest report published in June 2014 by the auditors, Grant Thornton.

Where these schemes are used primarily to secure investment in assets, as in a PFI contract, the private sector supplier incurs significant financing costs, which the public sector organisation pays for sooner or later through the contract charges. Since public sector entities can usually borrow more cheaply than the private sector, it is important to ensure in these cases that the value for money benefits clearly outweigh any additional costs of borrowing.

That is not to say that innovative schemes should be avoided, but that a prudent approach needs to be taken to considering the risks and the long-term implications for the revenue budget. Proper professional advice should be obtained where the appropriate expertise is not available within the organisation, but advice offered by consultants who may have a vested interest in promoting a product that enables them to earn substantial fees should be treated with caution.

Robust procedures and governance arrangements need to be in place so that innovative proposals can be fully considered, properly compared with other options and agreed in a transparent way.

8.4 USING ASSETS MORE EFFICIENTLY

8.4.1 Introduction

There are many ways in which public sector organisations can reduce their use of assets relative to the value of the services they provide. These usually involve increasing the use of individual assets, particularly buildings, so that either:

- the overall portfolio can be reduced, or
- increasing demands on services can be met without the need for a corresponding increase in the volume of assets required to provide those services.

It is beyond the scope of this guide to provide comprehensive advice on this subject, but the examples in the following sections illustrate the point and may stimulate thinking among those organisations that have not yet considered these kinds of options.

8.4.2 Rationalising office space and hot-desking

With the squeeze on revenue and capital budgets, but continuing pressure to maintain frontline services, rationalising office space may be an attractive solution. It enables revenue budget savings to be achieved through a reduction in the overall floor area that must be heated, lighted and maintained and through reductions in other property-related costs, such as rents. Capital receipts may be achieved from the disposal of surplus buildings and, in the long run, following the initial outlay to adapt the retained buildings, the need for capital investment will be reduced as a result of a reduction in floor area.

Savings can be achieved simply by reducing office space pro rata to any reduction in headcount, but further savings can be made by reducing space per employee. Many public sector organisations in the UK have achieved this through the introduction of hot-desking. This involves reducing the number of desks to less than one per employee, based on the rationale that at any one time a significant proportion of employees are on leave or out of the office for other reasons such as a site visit or working at home.

The savings achieved by a move to hot-desking can be very significant. A 25% reduction in space per employee is not unusual. There may be scope for organisations that have already adopted hot-desking to reduce their use of office space even further by encouraging employees to work at home more. Some local authorities in the UK have reduced office space to as low as $6m^2$ per employee.

Coventry City Council (see the box below) is one example of an organisation that is rationalising its office accommodation. This is an invest-to-save scheme and is linked to development of the new Friargate business district and the council's wider city centre regeneration plans.

Case study – Coventry City Council office rationalisation

Coventry City Council is reducing its office buildings from 27 to 9, with most back-office functions relocated to the new Friargate development adjacent to the railway station. A new bridge deck across the ring road to link this area with the city centre is currently under construction and is being funded by grant of £12.7m from the UK government's Regional Growth Fund.

The overall footprint of office buildings occupied by council staff will be reduced by one third, generating estimated savings net of borrowing costs of at least £0.5m per year or £24m over 40 years. £59m of capital investment in the buildings that are retained will be funded from prudential borrowing. This is therefore an invest-to-save project. Capital receipts from disposal of the existing buildings will be ring-fenced to the project and used to reduce borrowing in due course.

The reconfigured estate will result in customer-facing services being concentrated in a new customer services centre in an existing council office at Broadgate House in the city centre, with an associated programme to digitalise council services and improve the customer experience.

The reduction in office space is linked to a move to more flexible ways of working. All staff will have access to a desk or a facility to access the council's IT systems within council buildings, but will not have a desk dedicated to their sole use and will need to work flexibly. Space allocation will be reduced to $8m^2$ per person and on-site paper storage and filing will be reduced by 87% to one linear metre per person. This will be achieved through a massive paper reduction programme and investment in a document management system.

Revenue savings will be achieved not only from the reduction in premises costs, but also through a reduction in staff numbers due to the efficiency of working in fewer buildings and a reduction in duplication of building-based activity. The office rationalisation is a key part of the council's medium-term financial strategy and wider transformation plans.

The move to Friargate is intended to give private sector investors the confidence to move there too and act as a catalyst for regeneration. The council estimates that the scheme could create up to 13,400 permanent jobs and 7,800 jobs in construction, growing the local economy by £1.1bn and growing the city's business rate base by £11m a year.

Implementing office rationalisation, even without hot-desking, can be difficult, especially where the organisation has a mixture of buildings that are unsuited to modern working arrangements. The introduction of hot-desking is even more challenging; it can adversely affect employee morale and productivity if it is implemented in the wrong way. Employees will not feel valued if they are squeezed into offices too tightly, have to fight for a desk and have insufficient meeting rooms, break-out areas, toilets and kitchens. Also, staff who work at home may not be as productive, especially if they require a lot of supervision.
Hot-desking requires a major change in the culture of the organisation, which cannot be achieved overnight. It may be better therefore to introduce it in stages rather than in a 'big bang'.

Hot-desking is still a relatively new development in the UK public sector and will no doubt be refined in the next few years. Public sector organisations should therefore keep abreast of emerging best practice and research in this field so that they can make informed decisions about how far they should follow this route.

8.4.3 Dual use of assets

Organisations providing similar services in the same or adjacent localities may have scope for sharing assets that are currently underused, such as a mortuary or a waste disposal facility. Savings may also be achieved through dual use of assets, eg use of a sports hall by a school and the local community.

The principle of dual use of assets can also be applied to different departments within an organisation, eg different departments of a local authority might share vehicles that would otherwise be underutilised.

Dual use is not a new idea, but should be looked at afresh in light of the changed financial landscape.

8.4.4 Shared services and collaboration

A more recent development, which has the potential to deliver substantial savings, is shared services. This is principally a means of achieving savings in staffing costs and other running costs, but it can also bring significant savings in the use of office space and other assets.

Many local authorities in the UK are already sharing back-office functions with neighbouring authorities. This is relatively uncontroversial and relatively simple to achieve. A more radical step, which enables even greater savings to be achieved, is the sharing of frontline services. This is more difficult to achieve politically, particularly for an organisation that has a strong individual identity. The most well-known example of local authorities that are sharing frontline as well as back-office services is the 'tri-borough' initiative (see the box below).

Case study – Tri-borough shared services initiative

The tri-borough initiative was launched in 2011 when the London Borough of Hammersmith & Fulham, the Royal Borough of Kensington & Chelsea and the City of Westminster came together to share frontline and back-office services. The three authorities now share adult care, children's services and library services. They also share treasury and pensions teams. In addition, Hammersmith & Fulham and Kensington & Chelsea share a chief executive and have a shared environment and leisure team.

It is claimed that the shared arrangements will have saved £43m by 2015-16.

The partnership was formed when all three boroughs were Conservative controlled. When Labour took control of Hammersmith & Fulham in the election of May 2014, it confirmed its commitment to working with the other two boroughs and to the principle of sharing services.

The move towards an integrated approach to the provision of health and social care, which requires partnership working between local authorities, clinical commissioning groups and others, is one development that should encourage public sector organisations in the UK to share services and therefore assets.

The One Public Estate is another UK example of how assets can be used more efficiently through collaboration among public sector organisations. The initiative, led by the Cabinet Office and the Local Government Association, encourages organisations to share services and buildings with partners to help reduce running costs and generate capital receipts from the release of surplus property. It was launched in June 2013 in 12 pilot local authorities and extended to a further 20 authorities from August 2014.

One of the pilot projects is the Knowle Green Public Sector Hub, where Surrey County Council, Spelthorne Borough Council, the Ministry of Justice and the National Health Service are working in partnership to integrate public services. It is forecast that this will yield savings of up to 50% in operational costs and generate £15m to £20m in capital receipts.

More information about the One Public Estate can be found in *One Public Estate Programme Prospectus* (Local Government Association, 2014).

8.4.5 Double-shift schooling

Double-shift schooling is a radical idea that appears in this publication not because it is accepted good practice, but rather as an example of another way of getting more from less.

Under this model the school day is lengthened and divided into two shifts with half the pupils attending in the morning and the other half in the afternoon. This enables the number of pupils educated in a school building to be doubled.

The difference between double-shift schooling and other ways of intensifying the use of assets is that it involves a radical change from customary hours of service provision and working. The same principle could be applied to back-office functions to reduce office space even further than it can be through hot-desking.

This system has been used in developing countries, such as Indonesia and the Philippines, but has not yet been tried in the UK. Introducing it here would be fraught with difficulties, including:

- resistance from parents, especially those whose work–life patterns are fitted around the existing school day
- resistance from teachers to a radical change to their working hours
- effect on pupils of starting school early and/or finishing late and having fewer breaks
- difficulty in providing school meals
- squeezing out of breakfast clubs, after school clubs and other extra-curricular activities.

While it seems unlikely that this idea will catch on in the UK in the near future, it is being talked about, albeit tentatively, in areas where there is a severe shortage of space for school buildings. A report in the Times Educational Supplement in July 2014 highlighted an increasing problem of encroachment on outdoor play space due to the expansion of schools to meet a growing population. In areas where this problem is particularly acute, unless another solution is found, a move to double-shift schooling could eventually come to be seen as the lesser of two evils.

Glossary

AMP	Asset management plan – see section 1.2
Asset	See section 1.1
Asset strategy	See section 1.2
Asset planning	See section 1.2
Capital expenditure	See section 3.1
Capital planning	See section 1.2
Capital programme	See section 1.2
Capital project	Project that involves capital expenditure
Capital receipts	Income from the disposal of assets
Capital strategy	See section 1.2
Finance lease	See section 6.2
LABV	Local asset-backed vehicle – see section 6.3
OJEU	Official Journal of the European Union, in which public contracts above specified thresholds in all EU member states must be published
Operating lease	See section 6.2
PFI	Private finance initiative – see section 6.3
PPP	Public–private partnership – see section 6.3
Revenue budget	Budget for revenue expenditure
Revenue contribution	See section 5.3.1
Revenue expenditure	Expenditure on recurrent items (such as employee costs, premises running costs, supplies and services)
Revenue funding	Funding available to meet revenue expenditure
Revenue spending	Revenue expenditure
Slippage	Delays to projects that result in capital expenditure being lower than expected in a given period

SMART objectives	Objectives that are specific, measurable, achievable, realistic and timescaled
Third party contributions	See section 5.3.4

Further reading

Section 2 – Asset planning

Better Practice Guide on the Strategic and Operational Management of Assets by Public Sector Entities (Commonwealth of Australia, 2010)

Highway Infrastructure Asset Management Guidance (Highways Efficiency Management Programme/Department for Transport, 2013)

Hot Property: Getting the Best from Local Authority Assets (Audit Commission, 2000)

Local Authority Asset Management Best Practice (RICS, 2009)

Managing Council Property Assets (Audit Commission, 2014)

Public Sector Property Asset Management Guidelines 2nd Edition (RICS, 2012)

Room for Improvement: Strategic Asset Management in Local Government (Audit Commission, 2009)

Section 3 – Developing a capital strategy

Capital Strategy and Corporate Asset Management Plan 2013 – 2016 Handbook (Bournemouth Borough Council, 2013)

Guidebook on Capital Investment Planning for Local Governments (World Bank, 2011)

Section 4 – Developing a capital programme

Capital Project Proposal Scoring (Report to Wrexham County Borough Council's Finance and Performance Scrutiny Committee, 15 March 2012)

The Green Book: Appraisal and Evaluation in Central Government (HM Treasury, 2003)

Option Appraisal: A Practical Guide for Public Service Organisations (CIPFA, 2011)

Section 5 – Capital budgeting and financing

Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (CIPFA, 2014)

Local Authority Capital Accounting: A Reference Manual for Practitioners (CIPFA, 2014)

Practitioners' Guide to Capital Finance in Local Government (CIPFA, 2012)

The Prudential Code for Capital Finance in Local Authorities (CIPFA, 2011)

UK public finances and the financial crisis (presentation given by Carl Emmerson and Gemma Tetlow of the Institute of Fiscal Studies at a workshop on 'European public finances through the financial crisis' at the ZEW Centre for European Economic Research, Mannheim, Germany, 11 June 2014)

Section 6 – Alternative ways of procuring assets

Managing Complex Capital Investment Programmes Utilising Private Finance (National Audit Office and HM Treasury, 2010)

A New Approach to Public Private Partnerships (HM Treasury, 2012)

Section 7 – Delivering capital investment

Achieving Excellence in Construction (Office of Government Commerce, 2007)

Guidelines for Managing Programmes: Understanding Programmes and Programme Management (Department of Business, Innovation & Skills, 2010)

Guidelines for Managing Projects: How to Organise, Plan and Control Projects (Department of Business, Innovation & Skills, 2010)

OGC Guidance on Framework Agreements in the Procurement Regulations (Office of Government Commerce, 2008)

Public Sector Business Cases Using the Five Case Model (HM Treasury, 2013)

The Public Sector Programme Management Approach Guide (Capital Ambition, 2011)

The Scottish Government's web pages on programme management: www.scotland.gov.uk/Topics/Government/ProgrammeProjectDelivery/Programmemanagement

The Scottish Government's web pages on project management: www.scotland.gov.uk/Topics/Government/ProgrammeProjectDelivery/Projman

Section 8 – Adapting to austerity

Double-Shift Schooling: Design and Operation for Cost-effectiveness (Unesco, 2008)

One Public Estate Programme Prospectus (Local Government Association, 2014)

Termination of the SIREN ICT Project (public interest report to the Police and Crime Commissioner for Surrey and the Chief Constable for Surrey, Grant Thornton UK LLP, 2014)

Tri-Borough Proposals Report: Bold Ideas for Challenging Times (London Borough of Hammersmith and Fulham, The Royal Borough of Kensington and Chelsea and Westminster City Council, 2011)

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