

EAST AYRSHIRE COUNCIL

POLICY & RESOURCES COMMITTEE – 8 FEBRUARY 2006

ASSET MANAGEMENT – INVESTMENT OPTION APPRAISAL

Report by the Executive Director of Development & Property Services

1. PURPOSE OF REPORT

- 1.1** For the Policy and Resources Committee to consider matters in relation to Asset Management – Investment Option Appraisal.

2 BACKGROUND

- 2.1** The drive for Best Value includes the deployment of asset management planning to ensure assets are used as effectively as possible, that capital and revenue spending decisions are based on good quality information, and that there is a sustainable long term strategy for the management of assets generally.
- 2.2** Asset management and, in turn, investment option appraisal, are key components of efficient government, as the appropriate use of assets can make the difference between good and poor investment decisions and good and poor delivery of front line services.
- 2.3** In addition, the Prudential Borrowing Code places a formal requirement on Councils to take account of asset management planning and option appraisal when agreeing capital investment proposals.
- 2.4** A Report to the Policy and Resources Committee of May 2005 on Asset Management identified, amongst others, the following key areas in relation to Asset Management Planning:-
- Development of asset management systems and procedures linking strategic asset management planning and departmental service plans
 - Development of option appraisal systems to ensure that decisions on capital funding are made in the most effective way to ensure value for money to the Council
- 2.5** This Report deals with matters relating to option appraisal, and forms part of a suite of reports on Asset Management placed before Committee. The key issues that have to be considered with regard to investment option appraisal are as follows:-
- the level of Council capital resources available for investment
 - Council's strategic priorities in the Community Plan
 - Departmental service demands and priorities
 - Existing corporate Asset Management priorities
 - Integration with revenue budgets

2.6 It should be noted that the report deals with the Council's General Services Capital programme. Housing matters, and in particular option appraisal matters for Housing, have already been dealt with as part of the Housing Standard Delivery Plan.

3. KEY CHALLENGES

3.1 Over the years the Council has developed an ad hoc programme of capital investment option appraisal which has worked reasonably well. However, it is recognised there is a need to take a more strategic and systematic approach to the process, particularly in relation to detailed investment option appraisal.

3.2 Information on option appraisal generally has been gathered from a variety of sources, including practice at other Councils. It is clear that, in some local authorities, option appraisal is a highly technical and time-consuming process that makes extensive use of rigid scoring mechanisms.

3.3 The more generally considered view in many Councils is that, whilst it is important to establish a credible, effective capital planning process, it would be more appropriate to adopt a less complex rigid methodology. The key issue here is that a clear corporate approach would have to be developed prior to detailed consideration of any individual capital projects. In addition, it should be recognised that it may not be appropriate to apply a full methodology to all projects, and that projects which are of a de-minimis nature may not require an extensive and detailed assessment.

3.4 For the Council, it is considered that the process should involve two key stages:-

- Strategic Option Appraisal, ie, what is the Council's strategic planning objective and how this translates to capital expenditure plans. The objectives of the Council's Community Plan are key here.
- Project Option Appraisal, ie, having robust systematic and consistent appraisal processes that analyse projects on a business planning model in order to demonstrate a fit with the Council's strategic objectives and more importantly, added value and value for money for the proposed expenditure.

Details of how this should be dealt with are highlighted in sections 4 and 5 below. In addition PWC, as the Council's auditors, have set out more detailed requirements for project management which will also improve the process, and which have been taken into account in drawing up these proposals.

4. STRATEGIC OPTION APPRAISAL

4.1 The proposed framework at the strategic level is set out in general terms in the flow chart at Appendix 1, with the various stages discussed in more detail below.

- **Step One – Agreement of Corporate/Community Planning Objectives**

There would be extensive consultation through the annual review process of the Community Plan, including elected members, who would take an active role in contributing to the strategic options.

- **Step Two – Completion of Service Department programmes/bids based on their priorities and demands, but within the overall context of the Community Plan priorities**

Indicative costs and budgets would be taken into account, prepared by individual management teams who score and prioritise these. This would also take into account partnership arrangements and external funding, where appropriate.

- **Step Three – Assessment of service priorities, including condition surveys, and overall objectives of the Council's Asset Management Plan**

An overall list of all bids which would be assessed by a new cross-departmental appraisal group which would also advise if full option appraisal was required, and which would propose programmes to the Corporate Management Team. This in turn would make recommendations to P & R Committee.

- **Step Four – Assessment of resource issues and procurement strategies as well as implementation plans**

There will be an assessment of different options for procuring and managing projects, with recommendations to the Policy and Resources Committee

- **Step Five – Production of Committee reports for necessary approvals**

Agreement of monitoring and review mechanisms

In order to achieve a degree of consistency on strategic fit with Community Planning Objectives, it is proposed that the scoring of applications will be carried out for each project. This would be done by departments as part of their option appraisal process.

5. PROJECT OPTION APPRAISAL

- 5.1** Consideration also has to be given to a more structured and systematic business plan approach to developing bids for capital expenditure which should incorporate capital option appraisals.

5.2 Project business plan investment option appraisal should consider the following, where appropriate:-

Objectives

- Strategic objectives of proposal in relation to Community Plan
- Medium and short term results
- Agreed processes
- Realistic objectives
- Time-dependent

Options

- Various alternatives – partnership alternatives
- Timing
- Quality
- Funding
- Scale
- Also, do nothing/little

Costs

- Quantification
- Assessment of net present values
- Risk on uncertainties associated with any of the cost and benefits will have to be identified

Analysis of information assembled for each option

Results/Recommendations

- Consideration of project feasibility
- Prior commitments
- Implication on budget/estates

Evaluation

- recommendations for support
- issues with post evaluation, of outcomes of project

5.3 It is considered that this detailed business plan approach to departmental project appraisal will result in a clear audit trail demonstrating how options have been considered and how they also link to the financial appraisal process.

5.4 It would be proposed to develop the above business planning model into standard pro formas that, once agreed, would be used by all departments. This would also include the pro forma scoring schedule on Community Planning Objectives. This need not be a resource-intensive arrangement.

6. GENERAL COMMENTS

- 6.1** It is therefore important to link both the Strategic Option Appraisal process with Project Option Appraisal process.
- 6.2** A balanced approach has to be taken on the level of detail required for each option appraisal. A major project will involve a different level of appraisal than one involving a more modest capital spend. However the general principles should be the same.
- 6.3** If approved, it is proposed the new policy/operating arrangements will be implemented for the Capital Programme for 2007/08.
- 6.4** It is clear from discussions and meetings with other local authorities that having too rigid scoring mechanisms does not work. This has particularly been the experience of West Lothian Council who have adopted a process similar to that recommended here. West Lothian has recently been successfully audited by Audit Scotland, which included a review of their developing Asset Management plans.
- 6.5** The Councils Corporate Management Team have considered, and are supportive of the contents of the report.

7. POLICY / LEGAL IMPLICATIONS

- 7.1 Nil

8. COMMUNITY PLANNING IMPLICATIONS

- 8.1 Asset Management will play a key part in the delivery of the Councils Community Plan.

9. RECOMMENDATION

- 9.1** It is recommended that the Policy and Resources Committee note the requirement to have these option appraisal arrangements, and agree that the arrangements detailed above be put in place.

James Lavery
Executive Director of Development & Property Services
27 January 2006

LIST OF BACKGROUND PAPERS

Nil

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Planning Process

Relevant Information

