
Report of the Director of Corporate Services

Outer East Area Committee

Date: 12th December 2006

Subject: Revenue Implications of Capital Schemes

Electoral Wards Affected:

All Outer East Wards

Specific Implications For:

Equality and Diversity ☐

Community Cohesion ☐

Narrowing the Gap ☐

Council
Function

☒

Delegated Executive
Function available
for Call In

☐

Delegated Executive
Function not available for
Call In Details set out in the
report

☐

1. PURPOSE OF THIS REPORT

- 1.1. At its last meeting, the Committee received a joint report from the Directors of Corporate Services and Legal and Democratic Services which outlined the application of the Council procedures in respect to capital schemes under the control of Area Committees and specifically around any schemes which have a revenue implication. Members noted the report but requested that a further paper be brought to outline the potential options that could be considered to enable Area Committees to support capital projects which have revenue implications for services.

2. INFORMATION

- 2.1. The previous report outlined the application of the Council's procedures and constitution in respect to decisions taken by area committees in respect to capital spending under the control of area committees. In essence, where a capital scheme has revenue implications the current Financial Procedure Rules are such to require any revenue effects associated with a scheme to be clear, reasonable and acceptable. In practice this does mean that for the Area Committee to be able to progress a capital scheme which has revenue implications, it is necessary for the relevant service departments to be able to accommodate any revenue implications within their current approved revenue budget.
- 2.2. The report then went on to identify that under the Council's constitution where a Director is not entirely comfortable with a proposed decision of an Area Committee he/she may refer the matter upwards to Executive Board for further consideration.

Where a matter has been referred to the Executive Board in this manner, the Executive Board may:

- decide the matter itself; or
- endorse any decision already made; or
- refer the matter back to the Area Committee for determination; and/or
- make any other decision it considers appropriate.'

3. **MAIN ISSUES**

- 3.1. The Committee at its last meeting expressed concern with current position and requested a paper to be produced outlining options that might be available in order to facilitate Area Committees in taking decisions on spending capital monies which have revenue implications, but which cannot be accommodated within current departmental budget limits. Below are detailed a number of potential alternative approaches to the current position, but it should be appreciated that none of them are really without difficulty, and would require further consideration and ultimately approval in accordance with the Council's Policy and Budget framework.

3.2. **Capital to Revenue**

- 3.2.1. Inclusion of a scheme within the Council's Capital Programme, does commit the Council to an ongoing revenue commitment in respect to financing of the capital spend. One option open to an Area Committee might be to agree to a reduction in its Capital Programme allocation which would then free up the associated financing costs which could then be allocated to the relevant service department to fund additional on going revenue costs.
- 3.2.2. Just by way of illustration capital spend of £77,000, results in annual capital financing costs of around £10,000. Thus in order to generate say £10,000 to support revenue costs of a particular capital scheme, an Area Committee would be required to give up around £77,000 worth of its overall capital programme, allocation dependent upon the interest rate prevailing. By this means it is therefore possible to enable revenue resources to be generated to fund associated on going revenue costs of other capital schemes.
- 3.2.3. Given the scale of the required transfer, this may be seen as prohibitive, and given that the initial allocation of capital and revenue well being budgets to Area Committees is a Council decision a question may be asked as to whether this option is consistent with Council policy.

3.3. **Creation of a Central Provision**

- 3.3.1. A further option may be to create some form of central provision. Once an Area Committee agrees to support a scheme of revenue implications, an amount of money from this central provision could then be transferred to the relevant department to enable them to meet identified on going revenue costs. One issue with this proposal is how to determine an appropriate amount to be put aside as a central provision. On the face of it there have not been many proposals from Area Committees which have significant revenue implications, and it may be considered that a relatively small sum, perhaps less than £50,000 could be set aside for such a central provision. However, there is a

potential concern that with such a central provision, Area Committees could be more encouraged to support schemes which have significant revenue implications with the result that any central provision could quickly become oversubscribed. There is also a question as to whether or not any central provision created in this way should be apportioned to Area Committees in accordance with the apportionment of either the capital programme provision or the revenue wellbeing funding, or whether it should operate on some form of first come: first served basis.

- 3.3.2. It also needs to be appreciated that within the current approved City Council budget there is no central provision for this type of spending, and any such proposal to create such a provision would need to be considered in accordance with the Council's budget and policy framework, and alongside other spending pressures and priorities.

3.4. **Transfer from Area Committees Revenue Wellbeing Funds**

- 3.4.1. A further option may be for an Area Committee supporting any capital scheme with revenue implications to agree to transfer part of their revenue wellbeing budget to the appropriate department in order for the revenue costs of a scheme to be funded.
- 3.4.2. This would need to be seen as a permanent transfer away from the area's revenue wellbeing budget, and would have to be taken account of the annual determination and allocation of the Area Wellbeing revenue budget. Consideration would also need to be given to any additional revenue costs in future years.

4. **RECOMMENDATION**

- 4.1. Members are asked to consider the above options and to determine how they might want to progress this matter.