



HM TREASURY

Why asset management matters – a HMT perspective?

Presentation to the CIPFA Managing Local
Transport Assets Conference

19 July 2010



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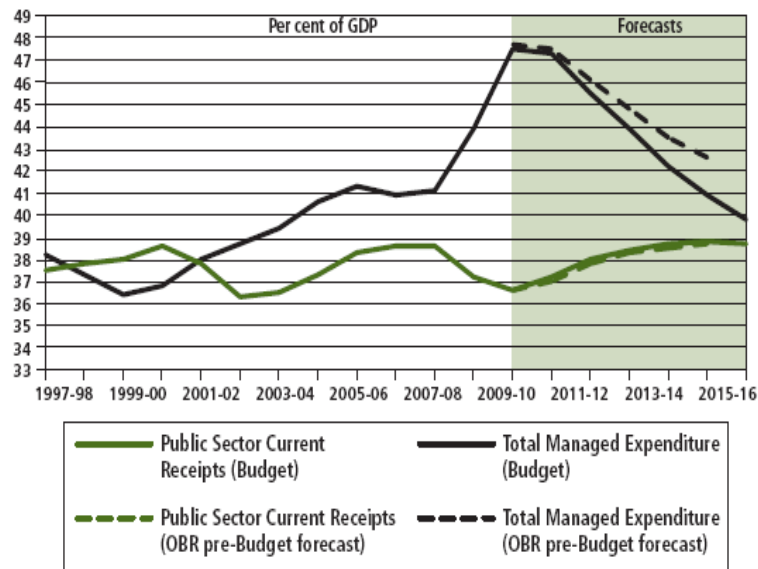
FISCAL MANDATE

- A forward-looking deficit target, to achieve **cyclically-adjusted current balance** by the end of the rolling, five-year forecast horizon. At Budget 2010 the end of the forecast horizon is 2015-16.
- The fiscal mandate will be supplemented by a target for **net debt as a share of GDP** to be falling at a fixed date of 2015-16, ensuring that the public finances are restored to a sustainable path.



THE WIDER ECONOMIC AND FINANCIAL

Chart 1.2: Receipts and expenditure



Source: Office for Budget Responsibility and Office for National Statistics.

- Following the additional consolidation announced at June Budget 2010, spending is projected to fall to 40% of GDP by 2015-16.
- Non-protected depts will need to make average real cuts of c25% over the period to 2014-15.
- Priority on supporting economic

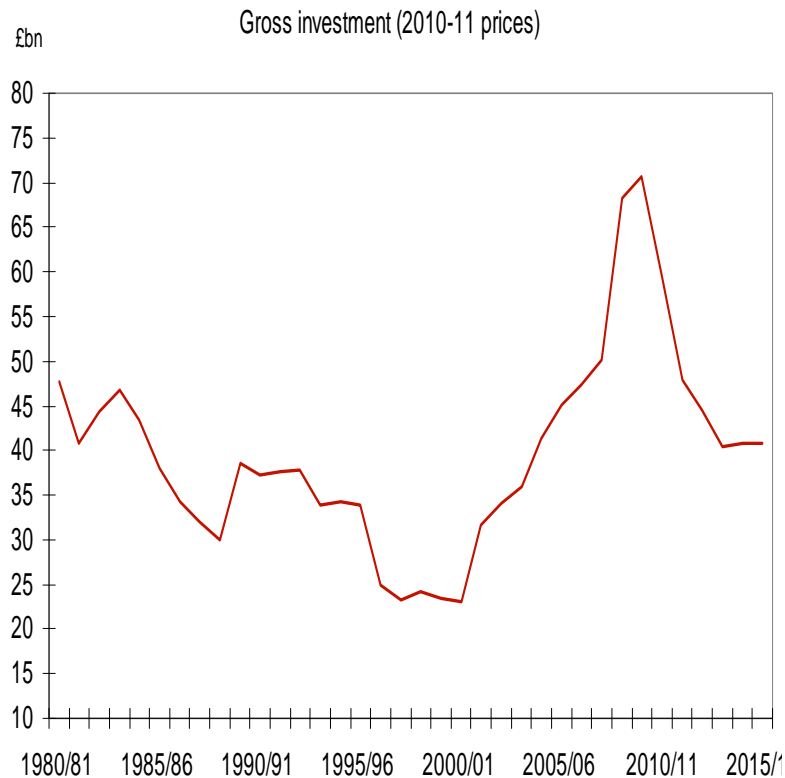
Table 1.2: Summary of OBR's Budget central economic forecast¹

	Percentage change on a year earlier, unless otherwise stated						
	2009	Forecasts					
		2010	2011	2012	2013	2014	2015
Gross domestic product (GDP)	-4.9	1.2	2.3	2.8	2.9	2.7	2.7
CPI inflation (Q4)	2.1	2.7	2.4	1.9	2.0	2.0	2.0

¹ All growth rates in this table are rounded to the nearest 1 decimal place. This is not intended to convey a degree of unwarranted accuracy.



PUBLIC SECTOR INVESTMENT FALLING



- Capital spending has been at historically high levels over recent years.
- Gross investment will be scaled back in line with historic averages, falling from £59.5bn in 2010-11 to £43bn in 2013-14.



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ZERO-BASED APPROACH TO CDEL

ALLOCATIONS

The Budget announced that no further cuts would be made in public sector investment compared with the previous Government's plans – with the exception of £2bn towards the £6.2bn savings this year.

- Investment going forward will be focussed on capital spending plans that generate high economic return to get the best value from taxpayers' money.
- A fundamental review of all capital spending plans will take place at the Spending Review to identify areas of high economic return.



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PROJECT APPRAISAL METRIC

- The **Green Book** sets out the methodology for investment appraisal in central government projects.
- The Treasury will work with Departments to prioritise capital projects and programmes line by line, using analysis of their **costs and benefits**.
- The Treasury will convene an expert group to **ensure quality and consistency** of analysis across Departments. OGC will help inform on the deliverability and value for money of major projects.



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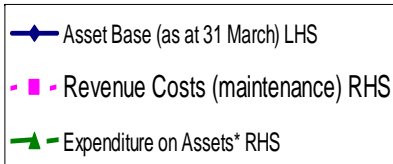
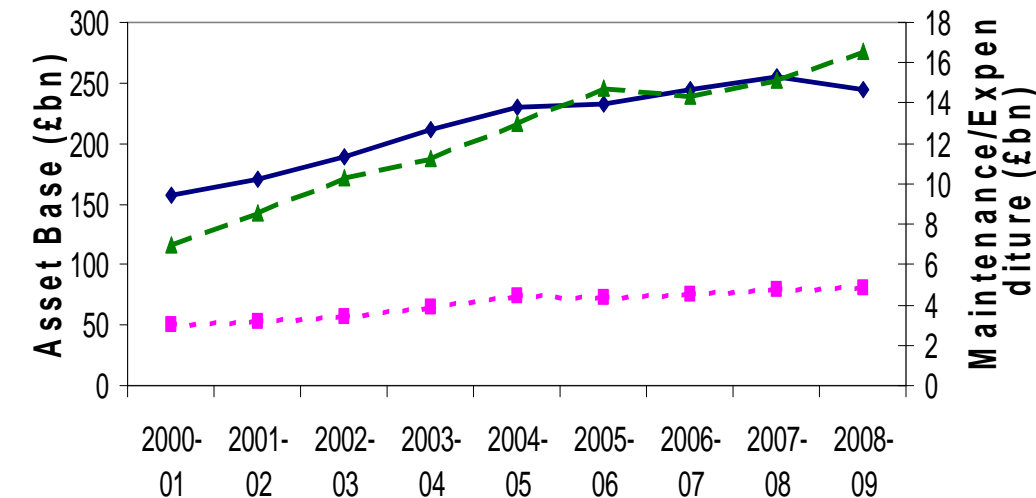
MAINTENANCE AND LOW LEVEL CAPITAL

- Analysis of maintenance and low level capital spend is particularly important because we think it is **often high value**.
- The maintenance and low-level capital public value programme was set up to address this cross-cutting area, aimed at maximising the value of public spending and more specifically to understand what value is generated by spending on maintenance.
- The results will be used to inform funding allocations in the Spending Review, to ensure **funding is provided to maintain the current asset base**.



THE LOCAL AUTHORITY PICTURE

Local Authority Assets 2000-01 to 08-09 (England)



* Acquisition of land and existing buildings and new construction, conversion and renovation.
Source: LGFS (England) no's 13 - 20

- Local authorities have a large asset base, £240bn in 2008-09 compared to £157bn in 2000-01.
- Ongoing maintenance costs £4.8bn in 2008-09.
- Rising capital expenditure on assets*, £14.9bn in 2008-09 compared to c£7bn in 2000-01.



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WHY IT MATTERS AND QUESTIONS

- Maintenance budget, both resource and capital facing significant pressure.
- Better asset management supports:
 - Targeting resource on areas with the highest value for money
 - Targeting spend when it needs to be done – better decision about when assets need to be replaced
- How do we meet the challenge of doing it at lower cost:
 - Where is there scope for collaboration across Local Authority boundaries to reduce cost and efficiency?
 - For example, the Midlands Highways Alliance, a partnership of thirteen councils and the Highways Agency, to deliver common procurement of small and medium works. This has brought savings through common specification, economies of scale, and reduced tendering overheads.
 - Continuing focus on information sharing for good practice, such as through the Local Transport Planning Network and the Transport Advice Portal.