



Service Quality



Participation



Finance



Management



Structure

LOCAL AND REGIONAL
GOVERNMENT RESEARCH
PROGRAMME



Research Summary

Evaluation of the Capital Challenge Pilot Scheme

York Consulting Ltd

Introduction

1 In May 1996, the then Government announced proposals to pilot the Capital Challenge Fund. The objective of the pilot was to explore how best the challenge fund concept could be applied to the distribution of government support for the capital expenditure of local authorities.

2 Capital Challenge had three aims:

- to foster **local choice** and **local decision-making** and provide a clear incentive to the development of **local partnerships**;
- to give positive encouragement to those local authorities which take a **strategic approach** to the planning of capital investment;
- to provide a basis for the lifting of some of the **controls** which central government exercises over the investment decisions of local authorities.

3 Capital Challenge also had seven objectives:

- to reflect an authority's own local capital spending **priorities**;
- to set out **innovative** approaches to the delivery of services;

- to address **themes** of local relevance and build on local **strengths**;
- to contribute to work programmes undertaken by broad **partnerships**;
- to attract **complementary support**;
- to seek to protect and enhance the quality of the **environment**;
- to promote local **competitiveness**.

4 The Pilot Scheme was based on a single bidding round and was administered on a regional basis. Local authorities were able to submit bids for any capital expenditure that was eligible for support under the capital finance system. Support, in the form of credit approvals, was available over a period of a maximum of three years commencing in 1997/98. There were 189 successful bids, in whole or part, which received total credit approvals of around £600 million over the three-year period.

5 The methodology for the study involved four elements: case studies of 13 local authorities in England; a postal questionnaire survey of all local authorities involved in successful bids under the Pilot Scheme; discussions with staff in the 10 Government Offices responsible for the administration and monitoring of Capital

Challenge; and a telephone survey of the lead authorities responsible for unsuccessful bids under Capital Challenge.

Pilot Scheme Objectives

*“To reflect an authority’s **local capital spending priorities**.”*

6 The impact of Capital Challenge was, in many cases, to skew the capital spending priorities of local authorities. Local authorities selected projects from amongst their priorities, although not necessarily their top priorities, in order to maximise their chances in the bidding process. To the extent that the bidding guidance did not state that authorities necessarily had to bid for their top priority, this objective was achieved. However, one of the impacts of Capital Challenge is likely to have been a delay in the implementation of at least some of the highest priority schemes of local authorities.

7 At the time of the bidding round, most authorities were at a very early stage in developing a corporate view of capital expenditure. This made it difficult for them, as it still does today in many cases, to identify their corporate priorities. It also made it more likely that project selection to meet the Capital Challenge objectives would drive the outline capital strategy included in the bid, rather than vice versa. Capital Challenge was, at most, a factor of secondary importance in relation to local authorities taking a more strategic and corporate approach to capital expenditure.

*“To set out **innovative** approaches to the delivery of services, including statutory obligations which maximise the benefits from capital expenditure.”*

8 The absence of a precise definition of “innovation” meant that many authorities were able to claim that at least some element of their Capital Challenge projects met this objective. However, it is difficult to conclude that the Pilot Scheme as a whole achieved its objective of introducing innovative approaches to the delivery of services.

9 One of the reasons is that there was a conflict between the innovation objective and both the tight deadlines of the bidding round and the three-year timescale for the Pilot Scheme. Local authorities responded to this context by putting forward projects

that were already “on the stocks”, rather than developing innovative new proposals. This was underlined by the emphasis placed on deliverability in the assessment of bids by Government Offices.

*“To draw together spending priorities in a way which addresses a broad theme or **themes of local relevance** and builds on particular **local strengths**, and on proven excellence in service delivery or in other areas.”*

10 Local authorities and Government Offices did not have a clear view of what was meant by this objective or, in particular, how it was to be distinguished from the link to capital spending priorities.

11 The extent to which this objective was achieved is constrained by the limited number of genuinely cross-service schemes that were supported. This is especially disappointing given that one of, if not the, key aims of the Pilot Scheme was to give positive encouragement to local authorities to take a more corporate approach to capital investment.

*“To allow the authority to contribute to work programmes undertaken by **broadly-based partnerships**.”*

12 As with a number of the other objectives, the absence of a precise definition has raised issues for the evaluation of the Pilot Scheme. Where partnerships already existed they provided a framework within which the Capital Challenge schemes could be delivered. As with innovation, the tight deadlines of the bidding round and the three-year period of the Pilot Scheme were in conflict with the objective of encouraging the development of partnership working.

*“To combine support from the Capital Challenge Fund with **complementary support** from private sector or public sector sources to achieve best value for money.”*

13 Respondents to the survey of successful bidders projected a leverage ratio between complementary support and Capital Challenge credit approvals of 1:1.6 in their bids, but actually achieved a ratio of 1:2.1. However, most of the increase in complementary support came from local authority main programmes in order to make up for the shortfall in the credit approvals secured.

14 Whilst local authorities successfully combined support from Capital Challenge with complementary

support from private sector/non-public sector and public sector sources, there was nothing unusual about the Pilot Scheme. Local authorities were already quite accustomed to seeking such support in order to undertake projects.

“To seek to protect and enhance the quality of the environment.”

15 As in relation to innovation, the absence of a precise definition of this objective meant that most authorities were able to claim that at least some element of their Capital Challenge projects protected and enhanced the environment. However, sustainability was no more (or less) of a theme in Capital Challenge than it would have been in the absence of this objective, or than it already was in the context of other projects and programmes.

“To promote local competitiveness.”

16 The promotion of local competitiveness was an important theme of many Capital Challenge projects. The evidence from the discussions with Government Offices and the case studies suggests that this objective of the Pilot Scheme was achieved. However, as with many of the other objectives, the case studies did not suggest that there was a greater (or lesser) focus on local competitiveness in Capital Challenge than there would have been in the absence of this objective, or than there already was in the context of other projects and programmes.

Overall Assessment

17 We have assessed the overall success of the Capital Challenge in terms of the four aims of the Pilot Scheme outlined earlier. On this basis, Capital Challenge cannot be said to have been successful in its own terms:

- **local choice/decision-making** – whilst authorities were encouraged to identify their capital spending priorities and to put them forward for support under Capital Challenge, the inclusion of six other objectives operated in such a way as to skew the project selection decisions of many authorities. The result was not a fostering of local choice and local decision-making, but widespread second guessing by local authorities of what projects central government would want to see

implemented. In this sense, if anything Capital Challenge further strengthened central choice and decision-making;

- **partnership development** – there is no evidence either that the Pilot Scheme provided an effective incentive to the development of local partnerships. The speed with which the bidding round was conducted and the three-year project implementation period meant that local authorities largely relied on existing partners and partnership structures. “Real” partnership development is an organic process that stems from joint working over a prolonged period and is unlikely to be influenced by the short term requirements of a specific funding stream;
- **strategic approach to investment** – the election of a new Government with a new agenda of reform for local government within one month of the start of the Pilot Scheme meant that the achievement of this aim was never really tested. If the bidding guidance had given at least the larger authorities (counties, metropolitan boroughs, London boroughs and unitaries) a firmer steer towards multi-service schemes, the Pilot Scheme could have been a more significant factor in stimulating greater corporate working;
- **lifting of some central controls** – again, the achievement of this aim was never really tested. However, to the extent that Capital Challenge had provided a basis for the lifting of some controls, this would have been in the context of a Scheme that, if anything, further strengthened central choice and decision-making.

18 The fundamental problem of the Pilot Scheme, and hence the reason why it was not successful, was the multi-targeting expressed in the seven objectives. The key objective was the first one (“to reflect an authority’s local capital spending priorities”) because this addressed directly the aims of encouraging a more strategic approach to the planning of capital investment and fostering local choice and local decision-making. However, the addition of six other objectives effectively compromised the achievement of the first by skewing project selection.

19 The seven objectives of the Pilot Scheme had little or no impact on the implementation of the Capital Challenge projects. The objectives had a significant impact on the selection of these projects, but once they had been included in the bid and the bid had been successful, the projects were implemented like any other local authority capital scheme.

20 Capital Challenge was not a “brand” whose projects were, for example, more innovative, levered in more funding and involved more partnership working than other comparable schemes. In effect, Capital Challenge became just another funding regime.

21 The policy agenda has now moved away from targeted funding regimes like Capital Challenge. However, the lesson from the Pilot Scheme is that any future targeted funding should not seek to achieve multiple targets because the interaction of, and conflicts between, such objectives can easily lead to unintended and dysfunctional results.

Implications for the Single Capital Pot

22 We have identified the following implications of the Capital Challenge Pilot Scheme for the Single Capital Pot (and the proposed prudential system of capital finance):

- local authorities should be left to develop corporate capital strategies and asset management plans within the broad policy parameters set by Government, and not be constrained by a long list of objectives that can easily lead to unintended and dysfunctional results;
- the key to the achievement of the objectives of the Capital Challenge Pilot Scheme was project selection. Many local authorities already possess effective project management skills. What they are not nearly so good at is planning and acting corporately and strategically;
- the assessment of corporate capital strategies and asset management plans by Government Offices should ensure that local authorities are encouraged to integrate the delivery of priorities across different service areas;

- Government Offices need to establish closer relationships with the local authorities in their regions;
- there is also a need for Government Offices to be more integrated. It will not be credible indefinitely to put in place a series of initiatives designed to encourage local authorities to be more corporate and strategic about the way in which they plan and act if those administering the initiatives continue to operate in the “old way”;
- the decision to introduce mechanisms to facilitate co-operation and liaison between Government Offices on the implementation of the Single Capital Pot is to be welcomed.

Further information

‘Evaluation of the Capital Challenge Pilot Scheme’ by York Consulting Limited priced at £26, is available from:

Department for Transport, Local Government and the Regions

Publications Sales Centre
Unit 21, Goldthorpe Industrial Estate
Goldthorpe, Rotherham S63 9BL

Tel: 01709 891318

Fax: 01709 881673

For further information on this research or extra copies of this summary contact:

David Purdy
Local and Regional Government Research Unit
Department for Transport, Local Government and the Regions

Eland House
Bressenden Place
London SW1E 5DU

Tel: 0207 944 4122

Fax: 0207 944 4099

Email: david.purdy@dtlr.gsi.gov.uk