Chapter 2  The Planning and Control of Capital Expenditure: Preparing Capital Estimates

Introduction

In Chapter 1 it was pointed out that the UK government prepared plans for its activities, and differentiated between 'capital' spending and 'current' spending. Capital is a term which is widely used, and indicates that the purpose of the spending is long term: the benefits of acquiring a capital item, such as a health centre, will spread over future years, and the initial cost represents an investment which enables the authority making that investment to continue to function and extend its services. This chapter looks at the way capital spending is planned, co-ordinated, and judged, in the competitive environment of different schemes competing for scarce resources.

Current Expenditure

'Current expenditure' is a term which is used in central government planning; it means the day-to-day expenditure which pays for items such as salaries, wages, supplies, costs of running a service, including office costs, telephones, stationery, and so on.
Preparing Capital Estimates

'Current' is treated separately from 'capital' because traditionally in the planning of governments, current spending represented the on-going commitments and had to be financed each year; capital was more problematic, and needed different considerations.

Planning for Capital

Planning for capital expenditure is usually done at a high level within an organisation, and requires a multidisciplinary approach. The product of planning remains for a long time; for example, district general hospitals may have been planned 20 years ago, or longer: the buildings were planned on the requirements and procedures followed at that time; medical practice will have changed in the intervening period. The length of stay may have shortened due to advances in clinical or diagnostic practice. Care may be outside the hospital, in the community, or under the supervision of the GP, with supporting practice-based staff, rather than hospital-based staff, and consequently the buildings which were ‘inherited’ may not fully reflect the present needs, work loads, or present day case mix. So many proposals for capital expenditure arise from service needs, to amend, to alter, to adapt buildings. A scheme will probably start as a suggestion from a department, if changes in current practice are needed. Architects or planners will be invited to do a ‘space utilisation’ survey or report, and some proposals will be made to alter or adapt the layout of the floor, the position of entrances, the siting of partitions, and equipment. Planners will design a number of alternative layouts or solutions, commonly called ‘options’, and these will be costed. This is not an exercise in precision, but rather an estimate in rough terms of what money might be needed to be set aside to complete the envisaged scheme.

Contract Terms

Some of the terms used at the estimate stage may already be familiar to readers.