SURREY
COUNTY COUNCIL

Audit & Governance Committee
28 November 2022

Capital Programme Governance

Purpose of the report:

The purpose of this report is to provide an overview of governance arrangements around the planning and development of the Council's Capital Programme, the measures that are in place to monitor progress and the work undertaken to deliver continuous improvement to governance structures, processes and procedures.

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Recommendations:

It is recommended that the Committee notes the content of this report.

Introduction:

1. Capital expenditure refers to Local Authority spending on assets such as infrastructure, property or vehicles that will be used for more than one year. In Local Government this includes spending on assets owned by other bodies and loans and grants to other bodies, enabling them to buy assets.

2. Over the last two years the Council's capital ambition and delivery has grown significantly. We continue to invest in the County, aligned to the corporate priorities of the Council and in the areas of most importance to our residents.

Governance Arrangements

3. The Council incurs two types of capital expenditure:

   a) the service delivery capital programme
   b) the commercial capital investment programme

4. Service delivery capital is agreed via approval of the capital programme by Full Council in February each year, as part of the annual budget setting process. Decisions in respect of individual projects within the overall approved programme are taken by Cabinet throughout the year. Oversight of the capital programme is governed by the Capital Programme Panel (CPP); a group of senior officers from across the organisation, including the Director of Finance – Corporate and Commercial and senior service representatives. Underpinning CPP are three Strategic Capital Groups (SCGs) for Infrastructure, Property and IT. CPP and the SCGs are supported by Finance and regularly engage with relevant Cabinet Members.

5. Capital Investment requirements and their alignment to overarching asset management plans are determined through work that SCGs carry out with services across the Council. CPP and SCGs are also responsible for proposing the capital programme, for formal approval by Cabinet and Full Council and for providing, reviewing and challenging the budget monitoring position throughout the year.

Fig 1: Capital Governance

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	Strategic Mandate	Business Case	Delivery
Capital Strategy Groups	Strategic Mandates are developed and submitted to CPP	Approve Low Governance Schemes already in the budget where: Up to £1m and already been to Cabinet OR Up to 250k if not already been to Cabinet	Approve variations in scheme cost up to 10% and £250k
Capital Programme Panel	CPP approve Strategic Mandates	Approve Medium Governance Schemes where: Been to Cabinet and already in budget OR Up to £1m	Approve variations in scheme cost up to 10% and £500k
Cabinet		Approve High Governance Schemes or over £1m	Approve variations in scheme cost over 10% and £500k

6. Commercial Investments are taken through a rigorous Officer and Member led process to ensure that decisions are taken with an adequate level of scrutiny. The diagram, below (Fig 2), shows the governance groups charged with delivering commercial investments.

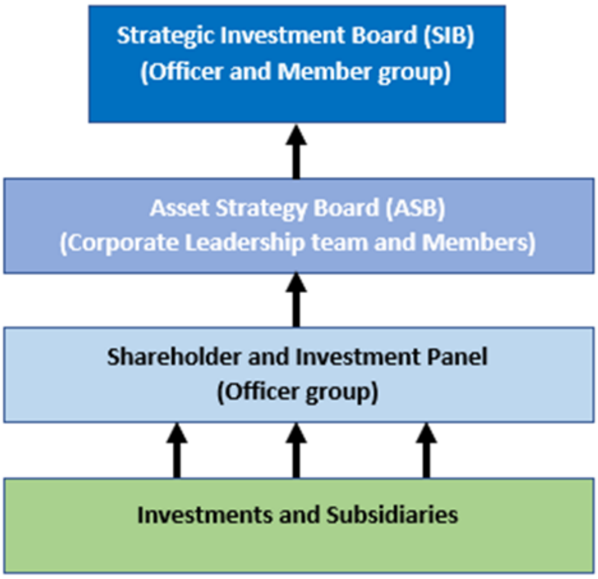
7. At officer level, oversight is provided by the Shareholder Investment Panel (SHIP) with representation from Finance (Chair), Land & Property and Legal.

8. The Member led Strategic Investment Board (SIB) monitors the Council's investment properties and subsidiary companies to ensure satisfactory performance and effective risk management. The financial returns delivered by trading and investment help to ensure that we continue to deliver quality services to our residents.

9. SIB provides effective oversight, ensuring alignment with the strategic objectives and values of the Council. SIB safeguards the Council's

interests and takes decisions in matters that require the approval of the Council as owner or as a shareholder of a company.

Fig 2: Commercial Governance



Capital Programme – Budget Planning

10. The SCGs are tasked with developing the Capital Programme based on an asset planning approach to ensure that affordable, value for money capital solutions are identified to meet the needs of residents.

11. CPP provides additional assurance that capital plans fit in with corporate priorities and that deliverability and benefits can be achieved. In collaboration with Finance, the impact of the Capital Programme on financial resources is assessed with each new iteration to ensure it is sustainable, with particular focus on overall borrowing levels and borrowing costs in the medium to long term.

12. The Capital Programme planning process began in June this year. This maintains the trend of starting the process earlier each year as part of a continual drive to improve governance, deliverability and accountability in capital.

13. Fundamentally, capital projects are approved on the principles of strategic fit, value for money, generation of ongoing revenue efficiencies, affordability and deliverability. Projects need to demonstrate value for money and that they are capable of being delivered within expected timescales.

14. The SCGs develop projects throughout the budget setting process which are scrutinised and approved by CPP. CPP ensures that the framework for setting the Capital Programme continues to focus on outcomes for residents, deliverability and affordability and contributes to the Community Vision for Surrey 2030 and aligning with the organisation's

priorities. In collaboration with Finance, the impact of the Capital Programme on financial resources is assessed with each new iteration to ensure it is sustainable, with particular focus on overall borrowing levels and borrowing costs in the medium to long term.

15. The Capital Programme is split between approved budget and capital pipeline. Pipeline schemes act as a placeholder for schemes in early stage of development. These are moved into the approved budget only when their benefits and deliverability are adequately demonstrated to CPP and Cabinet through robust business cases that can be scrutinised for funding, deliverability and benefits. The nature of the pipeline is to be a flexible portfolio of schemes that contribute to the Council's strategic objectives. As a result, SCGs may update the pipeline accordingly to adapt to changing circumstances, emerging priorities and financial constraints.

16. The major areas of focus on funding assumptions are programmes or projects whose investment deliver a revenue stream, and overall borrowing levels and borrowing costs in the medium to long term, given the impact this has on the revenue budget.

Capital Budget Monitoring

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17. Budget managers are responsible for monitoring expenditure throughout the financial year and provide forecasts against budget, commentary on variances and an assessment of deliverability and risk as part of the monthly capital monitoring process. Finance support budget holders to provide robust information that can be relied upon to take actions to mitigate overspends and make best use of Council resources to deliver intended outcomes.

18. Each month, CPP scrutinises the latest iteration of the capital position with particular focus on deliverability (both in the programme itself and against the pipeline), benefits and funding assumptions.

19. Reporting is carried out in accordance with an agreed monthly timetable. A 'flash report' report is produced for informal reporting to Leadership which provides a summary of the position and broad drivers for variances by SCG, in advance of formal, more detailed monthly reporting to CLT and Cabinet, including a breakdown of the value of variances driven by over/under-spends, and those driven by the acceleration of budgets into the current year and slippage into future years.

Continuous Improvement

20. Governance structures, processes and procedures of the Capital Programme are continually assessed to strengthen financial management, decision making, and accountability. This includes internal audit, external reviews and work led by CPP and SCGs in collaboration with Finance.

21. There has been increased focus on deliverability and benefits realisation of the Capital Programme (particularly those programmes or projects whose investment deliver a revenue stream), aligning with the corporate approach to benefits delivery. The work has been driven through CPP as part of an action plan to improve capital governance and provide better value for money. As a result of this ongoing work, there have been a number of improvements:

- The development of a new business case template (based on the Treasury's Five Case/Green Book Model) to improve understanding of the benefits of the Capital Programme across individual projects and across the programme as a whole;

- An updated financial model to ensure accurate data is captured for self-financing projects, ie those that cover the ongoing revenue costs of capital;

- Work is underway to ensure reporting into the Benefits Board, ensuring clear benefit governance, with benefit profiles identified at the inception of a project and benefit owners identified;

22. In addition to the above, Infrastructure and Property SCGs have set up Project Management Offices (PMOs) to further develop project management capacity and improve timely production of robust business cases for pipeline projects and accelerate the conversion of approved business cases to project delivery. The PMOs will also be key in benefit realisation and post completion reviews and will work collaboratively with the Benefits Board.

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23. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiatives).

24. Due to the growing size of the Capital Programme, additional work has been undertaken to assess the impact of borrowing costs on the revenue budget in the short, medium and long-term. As a result of this work the following have been used as the foundations for establishing the Draft Capital Programme:

- Clear identification and prioritisation of schemes that will be self-funded, with borrowing costs directly met from the operating model through income and efficiencies. These schemes are not a burden on the revenue budget;

- Establishing a borrowing limit /affordability cap for schemes that will be funded centrally and setting out an improved framework to ensure prudent decisions are taken in the approval of capital schemes with "unfunded" borrowing, to prioritise those that provide the best value for money;

25. The above measures have strengthened governance in the Capital Programme at all levels, with regular updates taken to CPP. Further work is required to embed new processes and to develop further measures to continue to improve capital forecasting and deliverability.

Next steps:

26. The Capital, Investment and Treasury Management Strategy provides an overview of the three main components of capital planning. We have chosen to amalgamate the strategies into a single document because the Capital Programme, our Investment Strategy and our approach to Treasury Management cannot operate independently of one another. They are parts of an overall approach:

- Capital expenditure and investments: the Capital Programme; supporting Corporate and Directorate priorities and the Investment Programme; generating income and supporting economic growth;

- Financing our capital plans, and maintaining liquidity: the Treasury Management Strategy; setting out how the capital programme will be financed and how cash investments will be managed; and

- Repaying our debt in a prudent way: the Minimum Revenue Provision (MRP) Policy, setting out how we use the revenue budget to repay debt.

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27. The Capital, Investment and Treasury Management Strategy for 2023/24 – 2027/28 will be presented to this Committee in January 2023 in advance of forming part Final Budget Report to Cabinet in January 2023 and Full Council in February 2023.

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