AUDIT AND GOVERNANCE COMMITTEE

DATE 21 April 2022

REPORT OF Sharon Wroot - Executive Director - Environment, Economy and Resources

SUBJECT Corporate governance arrangements for developing and delivery of the Capital Programme

STATUS Open

1. CONTRIBUTION TO OUR AIMS

Effective corporate governance arrangements provide a framework to support the management and delivery of the Council's strategic aims.

2. EXECUTIVE SUMMARY

This report provides the Audit and Governance Committee with detail of the governance processes in place for the management and oversight of the Capital Programme.

3. RECOMMENDATIONS

It is recommended that the Audit and Governance Committee:

notes the governance processes in place for managing the Capital programme and the additional mitigating actions for managing slippage on the programme.

4. REASONS FOR DECISION

The Committee's responsibilities include monitoring the effectiveness of the Council's governance arrangements and related controlled environment. As part of discharging its responsibilities this report advises on governance arrangements for managing the Capital Programme.

5. BACKGROUND AND ISSUES

5.1. Following the reporting of quarter 3 figures on delivery of the Capital Programme a report to detail the processes for managing Capital Programme governance was requested. The position at quarter 3 is detailed below;

Opening programme	**Adjusted for slippage/year end allocations**	**Quarter 3 – Original Forecast**	**Quarter - Forecast Adjusted for slippage**
£54m	**£63m**	**£44m**	**£42m**

Therefore at Q3 forecasted spend is 70% of the original budget, plus adjustments for slippage (P2), or 95% of the latest quarter 3 proposed budget.

5.2. The Business Development Framework (BDF) is the Council's approach to recommending approval for all financial projects. It is mandatory and is now embedded in the organisation across all service areas. The Council's Intranet explains the process and gives access to the forms and guidance papers.

The Estates and Business Development Team administers the BDF process and is available to advise throughout. The process is based on the HM Treasury Five Case Model for assessing projects, including a Strategic Case, Economic Case, Commercial Case, Financial Case and Management approach, and ensures there is alignment to the Council Plan and other key priorities and strategies. Below gives a high-level guide to the process.

Why must you follow the process?

- To gain approval for a Business Case that requires Capital, Revenue or External funding. A Business Case must receive approval prior to project commencements
- If there is a total ask of below £50k for revenue, or below £50k for external funding with no match contribution required, then Director approval should be sought and funds should be found from within current budgets, meaning the process does not need to be followed. If a Capital contribution is required, then there is no minimum value for the process to be used
- To follow an effective route from idea generation through to the development of a thorough business case and project delivery
- To ensure that projects receive a healthy level of challenge throughout their lifecycle
- To ensure all ideas are subject to the correct governance processes
- To ensure project sponsors are aware of ideas in the pipeline

An overview of the process (step by step)

1. Development of an Intention to Submit (ITS) and submission to the Business Development Group (BDG) as soon as the idea is on the table. You should allow 2 months for the full process to be followed from start to finish. Please note that submissions can be withdrawn if unable to progress.
2. BDG review the ITS, raise any early concerns/advice to the author and to the Assistant Director's Working Group where necessary, and keep a track of schemes that are on the horizon.
3. With confirmation from the BDG, the author can now develop their Business Case Service Statement (BCSS) and submit to BDG.
4. BDG will review and challenge the BCSS with the author, before making recommendations to Assistant Directors.
5. Assistant Directors will raise any concerns or provide approval of the project/submission of a funding bid.

6. It is the project lead's/author's responsibility to ensure the relevant decision is in place. This could be through existing delegation, an ODR or Cabinet Report. Advice can be sought from Legal colleagues.
7. Once any external funding has been approved by the funder, and where appropriate Cabinet approval has been gained, Finance should be informed by the author/project manager.
8. Project delivery should commence in accordance with the Council's Project Management Frameworks.

The process ensures that challenge can be given from the outset as to whether the project's phasing is realistic. The BDF does evolve as and when it needs to; many improvements have been made to the process to ensure it is as effective as it can be.

5.3 On a quarterly basis Capital Challenge meetings are held with Estates and Business Development, Finance, and all Capital Project leads. The purpose is to assess the financial position at the end of the quarter and discuss whether there is a need for any in-year adjustments. If we know in-year that there is an evidenced need for slippage, we can make the adjustment and ensure that we are not borrowing for something unlikely to be delivered and improve the revenue position accordingly.

Following the challenge sessions, a Highlight Report is taken to Corporate Governance Group; this report advises of the actions taken at the end of the quarter including any adjustments requested and the reason/evidence for the slippage. This report is also shared at Operations Board and Major Projects Group to advise of the position. Operations Board have recently adopted a new group to look at fees at project inception (Equans projects) and have agreed that phasing of projects at the inception stage should be added to this new group for additional assurance. CCG escalate to Assurance Board if they wish to highlight matters of concern.

5.4 Audit and Governance Committee should be aware that during Covid a financial planning exercise was undertaken to consider if schemes could be reprofiled. The budget challenges at that time were such that any support from reduction of the impact of external borrowing provided some assistance. Therefore, the outcome of such an exercise resulted in the overall percentage of delivery being affected.

5.5 Some of the issues currently being provided as evidence for slippage relate to the short-term inflationary pressures, workforce shortages and the supply chain. The first Covid 19 lockdown, which started in March 2020 had a major impact on the overall resilience and capacity of the construction industry.

This has resulted in major schemes being delayed due to staffing shortages and shortages in the supply chain. At the start of the lockdown, Technical Design frameworks saw a shortage of plaster, plasterboard, sand, and bricks. Although, the supply of plaster and plasterboard is returning to normal, it has been reported that there is still a continuing shortage of bricks, sand, timber, plumbing materials, and steel. As a result, this has the potential to push prices up on capital schemes.

Research has suggested that the shortages are caused by the following reasons:

- Factory closures during the first UK lockdown leading to pent up demand, coupled with reduced output since due to new, safer processes allowing for social distancing.
- Local coronavirus restrictions affecting output of overseas manufacturers.
- The impact of Brexit, be those issues with paperwork or a hesitance to trade with the UK due to perceived ongoing issues.
- A shortage of shipping containers because of congestion at the ports, leading to a significant increase in the price of shipping. While this was beginning to ease, the blockage of the Suez Canal has placed renewed pressure on this supply.
- Large infrastructure projects, particularly HS2, monopolising supply that is available.
- Certain materials, such as timber, are simply experiencing a global lack of supply

These matters have been documented by EQUANS and added to the corporate risk register.

5.6 The final stage of the Business Development Framework is to ensure that project management principles are applied to deliver a project - different project management approaches will be in place depending on the size of a project. A recent decision has been taken to bring the Project Management Office (PMO) from EQUANS back into the Council. This will ensure there is the opportunity to ensure these principles are consistently applied for all projects

5.7 An element of Project Management is post project review, evaluation and sharing of any lessons learned. This has been identified as a matter needing to be more robust. The Councils Project Management Framework is due to be reviewed by the transformation team in the Commissioning and Strategic Support Unit CSSU, however, to ensure we don't have a gap the Business Development Group are currently spot-checking projects for review against the outcomes originally identified at the business planning stage, and sharing any lessons learned with all project leads across the Council and EQUANS.

6. RISKS AND OPPORTUNITIES

6.1 Ineffective corporate governance arrangements have several inherent risks in the context of organisational management. The mandatory use of the Business Development Framework and other measures as set out in this report minimises risk and gives assurance.

6.2 Risk of slippage will always be part of the delivery of the Capital Programme, however the process in place gives us the tools to monitor slippage, understand any reasons given, and make in-year adjustments where applicable. It also gives the opportunity to challenge schemes at the conceptual stages to ensure the phasing is realistic.

6.3 There has recently been an opportunity during Covid to do a temporary slowing down of some schemes using a managed process that mitigated budgetary pressures and assisted to address other financial risks.

6.4 An opportunity has been identified for additional assessment of project phasing at the project conception stage for schemes managed by EQUANS. This is a subgroup of Operations Board looking at fee charges and will provide a further opportunity to robustly assess the financial case, including phasing.

7 OTHER OPTIONS CONSIDERED

Not applicable – The Business Development Framework replaced an ad hoc process where in some cases projects, particularly externally funded projects, were not being captured to make an assessment that they fit with the Council's priorities. This process allows a 'one stop shop' approach and is used for capital, revenue, and external funding.

8 REPUTATION AND COMMUNICATIONS CONSIDERATIONS

Ineffective governance arrangements could lead to failures in internal control which in turn could lead to reputational, financial, and service impacts.

9 FINANCIAL CONSIDERATIONS

As detailed within the report.

10 CHILDREN AND YOUNG PEOPLE IMPLICATIONS

There are no direct implications for Children and Young People arising from this report

11 CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

None directly arising from the recommendations in this report. However the BDF does have a section in the business case template linking back to the Council's carbon Roadmap

12 FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

13 LEGAL IMPLICATIONS

There are no specific legal implications raised in this report which are not considered within the text of the report. References are made within the report to best practice guidelines and principles aimed at enabling the Council to discharge its functions within an appropriate governance framework.

14 HUMAN RESOURCES IMPLICATIONS

Whilst there are no direct HR implications arising from the contents of this report, the ongoing governance of the framework and principles may lead to matters being dealt with through appropriate HR procedures if required.

15 WARD IMPLICATIONS

Applicable to all wards.

16 BACKGROUND PAPERS

None

17 CONTACT OFFICER(S)

Guy Lonsdale, Head of Finance and Accountancy (Deputy S151 Officer)
Wendy Fisher, Head of Estates and Business Development

Sharon Wroot
Executive Director - Environment, Economy and Resources