



AUDIT COMMITTEE

Monday, 27th July, 2020

at 6.30 pm

Supplementary Report

Committee Membership

Cllr Nick Sharman (Chair)
Cllr Michelle Gregory (Vice-Chair)
Cllr Brian Bell
Cllr Clare Pottere
Cllr Patrick Spence
Cllr Anna Lynch
Cllr Harvey Odze

Tim Shields
Chief Executive

Contact:
Peter Gray
Governance Services
Tel: 020 8356 3503
Email: Peter.Gray@hackney.gov.uk

The press and public are welcome to attend this meeting

AGENDA

Monday, 27th July, 2020

ORDER OF BUSINESS

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Capital Budget Deep Dive

**AUDIT COMMITTEE MEETING
DATE 2020/21**

27 July 2020

CLASSIFICATION:

Open

WARD(S) AFFECTED

All Wards

Ian Williams, Group Director Finance and Corporate Resources

1. GROUP DIRECTOR'S INTRODUCTION

- 1.1. This report introduces the next in a series of focused "deep-dives" carried out by the Audit Committee, this time focusing on the development of the capital budget, its monitoring and the profiling across financial years.
- 1.2. It follows on from various discussions at previous Committee meetings regarding the potential impact of significant reprofiling of the programme during each financial year

2. RECOMMENDATION(S)

2.1 The Audit Committee is recommended to:

Consider the contents of the attached appendix and agree the Terms of Reference for the Capital Budget Deep Dive

3. REASONS FOR DECISION

- 3.1 The Audit Committee are “those charged with governance” in respect of the Council’s annual statement of accounts and other financial matters. The Committee have carried out a number of deep dives into specific areas in order to consider specific issues in detail.
- 3.2 The Committee has expressed concern at the significant reprofiling that occurs within the capital programme each year and wish to better understand the processes and methods used by services to forecast expenditure.

4. BACKGROUND

4.1 Policy Context

The attached Terms of Reference set out proposed specific work to be carried out by officers and Committee members

4.2 Equality Impact Assessment

This report does not require an equality impact assessment.

4.3. Sustainability

Not Applicable.

4.4 Consultations

Not applicable.

4.5 Risk Assessment

The risks associated with the delivery of the capital programme are set out in various reports to the Committee throughout the financial year.

4.6 Capital Budget Deep Dive

- 4.6.1 The attached appendix sets out the proposed terms of reference for the forthcoming “deep-dive” re the capital programme.
- 4.6.2 It sets out the areas of focus, timelines for the deep-dive and who will be involved (key stakeholders) in the work over the summer, with a view to reporting the findings to the Committee at its October meeting.

5. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

- 5.1 The contents of this report have no direct financial consequence, although it is obviously important that the profiling of the capital programme going forward is as close to actual delivery as possible in order that decisions regarding the schemes to be included can be optimised.
- 5.2 Inaccurate forecasting and profiling could result in suboptimal decisions being taken in respect of the financing of the programme, particularly regarding when and if any external borrowing is required.

6. COMMENTS OF THE DIRECTOR, LEGAL

- 6.1 The contents of this report have no significant direct legal consequences, and as advised by the Group Director Finance, the profiling of the capital programme going forward is as close to actual delivery as possible in order that decisions regarding the schemes to be included can be optimised.

The terms of reference of the Audit Committee allow for, as part of its key role in the London Borough of Hackney’s corporate governance, an independent high level focus on audit, and assurance in reporting on good governance and financial standards. The proposed capital deep dive will serve to examine the delivery of the capital programme, as detailed in the proposed terms of reference and report its finding accordingly, as advised by the Group Director Finance and Administration.

APPENDICES

Appendix 1 - Proposed ToR - Capital Programme Deep Dive Review

BACKGROUND PAPERS

None

Report Author	Michael Honeysett ☎20-8356 3332 michael.honeysett@hackney.gov.uk
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Comments of the Group Director, Finance and Corporate Resources	Michael Honeysett ☎20-8356 3332 michael.honeysett@hackney.gov.uk
Comments of Director, Legal	Dawn Carter-McDonald ☎20-8356 2029 dawn.carter-mcdonald@hackney.gov.uk

Terms of Reference

Audit Committee Capital Budget Deep Dive

Introduction

Over the past 2-3 years, the Audit Committee has been receiving enhanced reports on the Council's performance management, including extracts from OFP in relation to the Capital Programme. These have shown that consistently the profiling of the capital budget by the service spending departments has often required significant adjustments throughout the financial year as schemes evolve. This has led the Committee to express concern regarding the accuracy of the forecasts that underlie the capital programme and support the Finance function in the overall management of capital resources at a time when our ambition in relation to capital expenditure is growing.

At the same time, the Committee has consistently received the usual Treasury Management reports that have indicated the increasing need and likelihood for further borrowing in order to support the delivery of the capital programme going forward, particularly in respect of the regeneration and mixed-use schemes where upfront borrowing is required ahead of the sale of built units. The proceeds from the sale of units are then to be used to repay the borrowing required.

In relation to the Treasury Management reporting arrangements the Audit Committee has consistently received very comprehensive and transparent reports and the Committee has undertaken training.

Officers have consistently stated that they are very much alive to the fact that the forecast profiling of expenditure in the capital programme could lead to suboptimal decisions in respect of related borrowing requirements, particularly regarding the timing and amount of any external borrowing required at any one time.

Purpose of Deep Dive

As set out above, there is concern that the forecasting of capital expenditure by service departments each year and the profiling of the budgets across financial years is inaccurate and that this might lead to suboptimal decisions both in respect of financing of the programme and in terms of which schemes are prioritised for resource approval each year.

The deep dive will consider:

1. How best practice is applied to the development and forecasts for the programme
2. Budget monitoring process of the programme

3. An understanding of the process at Departmental level for capital monitoring and programming.

Participants/Contributors

There will be a variety of contributors to the work underlying the deep dive, as follows:

- Director, Financial Management - corporate responsibility for management of overall programme
- Accountancy/Chief Accountant - Corporate responsibility for development and financing of programme and then subsequent monitoring
- Cllr Rebecca Rennison - Finance Lead Cabinet Member
- David Padfield/Chris Trowell/Simon Theobald - Housing Planned Maintenance / Estate Regeneration
- Andy Cunningham/Aled Richards - Highways/Public Realm
- Steve Anstee / Jackie Moylan - Education Programme
- Other LA's - relevant best practice

It is intended that service departments will be asked to provide detail of the methods they use to develop costings and profiling of resource required to deliver the programme

Timescales

July	Agree brief and ToR at July Committee meeting
August	Desktop work to provide detailed analysis for consideration at drop in sessions
September	Member drop-in sessions to consider analysis/evidence
October	Findings to October Audit Committee meeting

Background Information

The following provides a brief analysis of how the budget for the 2019/20 capital budget moved during the year from original budget setting to final outturn`

	£m
Opening approved budget February 2019	304.382
Slippage from 2018/19	7.749
1st reprofile to later years	(87.186)
2nd reprofile to later years	(42.440)
New approvals and adjustments during the year	64.054
Final approved budget end March 2020	246.559
2019/20 Final Outturn	230.466
Variance Final Budget vs Outturn	(16.093)

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