AGENDA ITEM 12

Capital Deep Dive Review

AUDIT COMMITTEE MEETING DATE 2020/21 13th January 2021	CLASSIFICATION: Open
WARD(S) AFFECTED All Wards	
Ian Williams, Group Director Finance and Corporate Resources	

1. INTRODUCTION AND PURPOSE

1.1 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.

1.2 As a consequence of these concerns the Audit Committee have led a deep dive review of the capital budget setting and monitoring process. The terms of reference of this review are set out in Appendix 1. The review was undertaken during October and November 2020 reporting to two deep dive workshops led by the Chair of the Audit Committee. This report summarises the work undertaken and sets out the conclusions and recommendations arising from it.

2. CONTEXT

2.1 Capital strategy, programme, monitoring and re-profiling

All local authorities were statutorily required, from 2019/20, to produce an annual high level capital strategy setting out an approach to capital, where we spend our money, and how we pay for it. Hackney's Capital Strategy forms part of the Annual Budget and Council Tax report approved by Full Council. The strategy encompasses other key documents, notably the capital programme, the treasury strategy and the investment strategy. It also provides a commentary on our approach to commercial property, and how associated risk within the overall capital programme is managed.

The capital programme itself is a rolling programme, updated by bids via the capital programme review panel (CPRP) process which are subject to review by finance teams and then require sign off by the relevant Group Director and Cabinet Member. CPRP bids are then reviewed by the corporate capital team before they are included in the capital update report for Cabinet approval.

The overall capital budget along with the funding proposed is submitted to Full Council for approval in the Annual Budget Report. At the end of September and again in December capital budgets are reviewed and re-profiled. The project managers in the relevant service areas are responsible for monitoring and managing capital budgets supported by the finance team.

2.2 Comparative performance

The Audit Committee were cognisant of the need to understand the performance of the Council in the context of its near neighbours and other London boroughs to establish comparative performance. Table one summarises this information.

Table one: comparison with other London boroughs

	Budget	Outturn	Variance	% Variance
	£m	£m	£m	
Hackney (19/20 budget report)	*304*	*230*	*74*	*24%*
At July (with prior year slippage which is re-profiled during Q1)	*357*	*230*	*127*	*36%*
Authority A	249	180	70	28%
Authority B	154	118	36	24%
Authority C	248	132	116	47%
Authority D	455	259	196	43%
Authority E	87	34	53	61%
Authority F	224	173	51	22%

As can be seen from the above capital profiling is undertaken with various degrees of success, although it is emphasised that, as with any benchmarking, it is difficult to determine that we are comparing like with like. For example, compared against our original budget the Council compares quite favourably to the other boroughs - although recognising that 24% is still significant slippage. However, if we take our budget at July 2019, when it was reported to Audit Committee, which was before prior year slippage was reprofiled, our performance is mid range.

The complexity and size of the capital programme may also be a factor in performance - note authorities C and D, both with significant programmes have the highest level of slippage at 47% and 43% respectively. Conversely, Authority E with the lowest capital programme has the biggest variance of all at 61%. What is clear is the commonality of challenge around ‘optimism bias’ on when monies will be spent and potentially a prioritisation of revenue forecasting over capital - because capital budgets can slip into future years where revenue can’t.

Conversations with near neighbour London boroughs have confirmed that the challenges of capital budget management are relatively consistent. Of particular challenge are the larger project based schemes (rather than cyclical works such as highways planned maintenance), where inherent parts of the project timeline such as OJEU, planning and even identifying protected species of animal within the initial stages of a regeneration project, can significantly shift spend profiles.

Other common challenges include maintaining the ongoing dialogue between finance staff and budget holders/ project managers, providing appropriate challenges to timelines and the adjusting of profiling as soon as is necessary. One borough was on a journey of embedding a stronger culture of review and challenge between finance and service colleagues, plus also greater harnessing of technology to make management of the capital budgets more seamless (both in terms of a front end for budget holders and also for the technical capital financing side done by corporate finance). This borough also mentioned the impact and challenges that its wholly owned subsidiaries have had on borough-side capital budget management, though our range of subsidiaries is far narrower and less complex, meaning this is not a comparable issue for Hackney.

Another borough we engaged with was keen to emphasise the need for a culture that treats capital budget management as equally important to revenue budget management (which links to the point made earlier regarding the ability to profile and reprofile capital budgets between years, whereas this can’t happen with revenue).

The optimism bias referred to above is ultimately where the tension lies in profiling of spend and this was referenced consistently by boroughs we spoke to. There is undoubtedly every good intention in terms of staff wanting projects to be completed as soon as is practicable. However profiling forecasts must be accurate, and this becomes ever more resonant as our capital financing strategy becomes more heavily weighted towards external borrowing.

3.0 OVERVIEW OF 2019/20 CAPITAL BUDGETS

At the first workshop in October, the Audit Committee reviewed how capital budgets changed over the course of the reprofiling exercises undertaken in 2019/20.

Table two: Reprofiling results in substantial movement in budgets throughout the year

Directorate	Budget at July 2019	Slippage, New Bids & Capital Adjs	Re-profiled Phase 1	New Bids & Capital Adjs	Re-profiled Phase 2	New Bids & Capital Adjs	Revised Budget at March 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Children, Adults & Community Health	28,267	(8)	(14,258)	0	(4,201)	16	9,816
Finance & Corporate Resources	22,142	15,936	(5,741)	(15,035)	(6,714)	0	10,588
Mixed Use Development	96,339	16,001	(17,710)	0	(15,034)	0	79,596
Neighbourhoods & Housing (Non)	38,831	1,348	(6,696)	169	(14,398)	940	20,194
Total Non-Housing	**185,579**	**33,277**	**(44,405)**	**(14,866)**	**(40,347)**	**956**	**120,194**
AMP Capital Schemes HRA	87,976	(511)	(17,857)	0	(8,714)	0	60,894
Council Capital Schemes GF	797	1,494	244	0	441	0	2,976
Private Sector Housing	2,717	(1,022)	0	0	(241)	0	1,454
Estate Renewal	59,669	1	(25,002)	0	4,188	0	38,856
Housing Supply Programme	16,922	0	(8,634)	0	(1,694)	0	6,594
Other Council Regeneration	3,197	0	8,467	0	3,927	0	15,591
Total Housing	**171,279**	**(38)**	**(42,782)**	**0**	**(2,093)**	**0**	**126,365**
Total Capital Expenditure	**356,858**	**33,239**	**(87,187)**	**(14,866)**	**(42,440)**	**956**	**246,559**

As can be seen the most significant re-profiling occurs in phase 1, this is due to the substantial re-profiling required following the carry over of slippage from the previous year. Proportionately the highest level of re-profiling occurred in respect of CACH and Housing projects.

Table three then illustrates how the revised budget compares to the final capital forecast of the year and then the capital outturn.

Table three: Unsurprisingly towards the year end forecast is more accurate

Directorate	Revised Budget Position	Q4 Forecast	Final Outturn 19/20	Final Outturn v Forecast	% Over / Under
	£'000	**£'000**	**£'000**	**£'000**	**%**
Children, Adults & Community Health	9,816	9,865	9,646	(219)	-2%
Finance & Corporate Resources	10,588	9,414	7,290	(2,124)	-23%
Mixed Use Development	79,596	81,575	84,724	3,149	4%
Neighbourhoods & Housing (Non)	20,193	19,258	20,459	1,201	6%
Total Non-Housing	**120,194**	**120,112**	**122,120**	**2,008**	**2%**
AMP Capital Schemes HRA	60,894	49,971	48,047	(1,924)	-4%
Council Capital Schemes GF	2,976	2,602	2,776	174	7%
Private Sector Housing	1,454	1,325	1,311	(14)	-1%
Estate Renewal	38,856	41,092	39,178	(1,914)	-5%
Housing Supply Programme	6,594	5,001	4,480	(521)	-10%
Other Council Regeneration	15,591	13,758	12,553	(1,205)	-9%
Total Housing	**126,365**	**113,748**	**108,346**	**(5,402)**	**-5%**
Total Capital Expenditure	**246,559**	**233,861**	**230,466**	**(3,395)**	**-1%**

Comparing the outturn against the revised budget position established after reprofiling occurring in December the variance is 6.5% and then just 1% when we compare the forecast to the outturn.

4.0 DEPARTMENT REVIEWS

Following the review of data at the October workshop, the Audit Committee determined that a more detailed review should be undertaken in respect of the Education Capital Programme, Highways and Housing. The relevant officers were invited to a November workshop. The officers presented on the programmes they managed and reasons for slippage. They were also asked to reflect on improvements that can be made within their teams to improve capital forecasting. The following paragraphs summarise this departmental input to the review.

4.1 Education Property

The Education Property Team are responsible for supporting the Council in delivering its duty to ensure there are sufficient school places in the borough, for developing and delivering the asset management programme for maintained community primary schools and lifecycle works for secondary and special schools. The main elements of the current programme are:

- *Asset management programme primary for schools (£4m average per year)*: The prioritisation of the asset management programme is informed by condition surveys. There are limited government funds (which Council tops up with discretionary funds) for this work which leads to a focus on health and safety works and those to ensure that school buildings remain operational. The responsibility for the maintenance of school buildings for local authority maintained schools (i.e what is a LA responsibility or school responsibility) is set out in Schemes for Financing Schools (and is different for voluntary aided schools)
- *Lifecycle programme for Building Schools for the Future (BSF) Programme (£1.2m average per year):* Council commitment to maintain the secondary and special schools rebuilt and refurbished under the BSF programme.
- *New school places:* The Council is responsible for sufficiency of school places, which is funded through basic needs grant. This is zero now due to reduction in numbers, but the basic needs grant from previous years is funding the expansion of Urswick by 1FE.
- *Facades programme (£18m programme over 5 years):* A significant programme of work to address masonry deterioration on the older primary school estate - largely S106 funded.
- *SEND programme (£3.375m grant funding):* Programme to increase in-borough SEN provision. The current programme includes projects at the Garden, Queensbridge and Gainsborough.

There was a material re-profiling of budgets throughout 2019/20 for a range of reasons:

- Contractor (from framework) on Urswick expansion went into administration resulting in one-year delay (£3.9m -reprofiled)
- Facades work, delay in agreeing scope of works (and some performance issues) led to works being re-profiled in line with a delayed start date. Major specialist programme of works (£3.4m re-profiled in two stages)
- Budgets rolled forward due to delays in agreeing final accounts (£450k)
- Planning delay (£450K)
- Contractor proposals lower than pre-procurement estimates (£650k).

Although some of these events were unavoidable, for example the contractor going into administration, and some desirable (favourable procurement exercise) there are others where a greater level of attention to profiling on a project by project basis may have resulted in less variation throughout the year.

The Head of Education Property and the Group Manager for the Project Managers and Finance in the team are committed to further local challenge of profiled capital spend at the outset of capital projects focussing on procurement and planning timescales ensuring these are realistic and deliverable within reasonable tolerances. The profiling will be revisited in line with the corporate timetable for capital monitoring. However, the team is also of the view that a review of the scheduling of the corporate capital monitoring processes will assist in ensuring that budgets are not artificially inflated by the carry forward of slippage from the previous year into the current year. They also feel that the team would benefit from corporate training around the Council's corporate capital monitoring processes.

Education property team committed to:

- *Increased challenge of profiled capital spend at the outset of the capital projects focussing on procurement and planning timescales.*
- *Further challenge of profiled capital spend in line with corporate capital monitoring timeline across the lifespan of the project.*

Education property team would support:

- *A review of the scheduling of the Council's corporate capital monitoring processes.*
- *Corporate training on the Council's capital monitoring processes.*

4.2 Highways

The Streetscene service is responsible for the design, maintenance and repair of highways, drainage, footways, bridges, street lighting and street furniture on public roads as set out in our statutory duties. The service has a firm commitment to tackling air pollution, investing in our green space, supporting public transport and creating more liveable neighbourhoods and aims for Hackney's streets to be the most walking and cycle-friendly in London, leading the push to build people focussed neighbourhoods. The service also delivers Transport for London (TfL) funded Local Implementation Plan programmes.

In 2019 the highways capital budget as at July 2016 was £16.2m with an outturn of £12.7m. The capital budget increases in the first part of the year to reflect slippage brought forward from the previous year.

There is a lot of change to the HIghways capital budget in year and this reflects additional Tfl programmes which the service constantly seek to maximise and section 106/278 funding which is applied for as developments triggers are reached so that we are ready to deliver schemes as the developers complete schemes. Broadly the slippage for 2019/20 was made up of:

- **£1m** Council funded infrastructure schemes - including LED Street lighting, Cycle Super highway
- **£1.8m** Tfl funded schemes - Traffic corridors
- **£2.5m** Section 106 schemes - including Shoreditch, The Stage, Pembury Circus

The highways capital budget for 2020/21 is £16.6m which includes slippage from 2019/20.

There are number of issues which impact on profiling of capital spend for the current year these include:

- Impact of Covid19 on the programme and delays to spend approval whilst the review of capital spend was underway
- Removal of TFL LIP funding early in the year, TfL has paused all of its active investment while they assess the new situation. This also involves all work on the existing LIP funded programme and other TfL funded programmes. The total loss for Hackney from LIP and other TfL funded programmes was £4.4m for 2021.
- Responding to the refocus of transport funding - Both the Government and TfL are promoting schemes to improve walking and cycling and to ensure that the recovery from the emergency is a green one not a car dominated one.
- TfL have introduced a new programme called London Streetspace Plan, designed to radically reallocate road space to walking and cycling, and improve bus efficiency - £2m. Cabinet approved the Emergency Transport Plan to take these schemes forward
- Reinstatement of LIP funding on the 5th November - £804K to be added to Programme - for which we have up to Summer 2021 to spend - this is likely to be profiled into 2021/22
- The continual Section 106 funded schemes coming forward throughout the year which are dependent on the delivery of the developments in order to progress.

Streetscene team is committed to:

- *Ensuring that we are getting the TfL carry forwards right and not carrying forward scheme amounts that do not represent actual scheme budgets.*
- *Improve the delivery of the TfL programme delivered and funded within year*
- *Get the Capital Programme Review Panel spend approval bids in earlier than happens at present to allow the full year to deliver projects*
- *Get better and more realistic with profiling on CPRP bids. We are probably over optimistic about what will get delivered in any financial year.*
- *Where projects are completed in year undertake a robust review and release underspent budgets rather than roll forward into the following year.*
- *In reprofiling schemes, particularly large Section 106 schemes be more realistic on whether they will be delivered next year eg Pembury Circus etc*
- *Increased challenge of profiled capital spend at the outset of the capital projects focussing on procurement and planning timescales.*
- *Further challenge of profiled capital spend in line with corporate capital monitoring timeline across the lifespan of the project.*

Streetscene team would support:

- *A review of the way we schedule externally funded capital schemes in capital monitoring to reflect the fluid nature of the funding regimes to enable maximisation of external funding.*

4.3 Housing Asset Management

The Council is responsible for the homes of a significant proportion of residents living in the borough, representing approximately 23,000 tenant and 9,000 leasehold properties. We have pledged to continue to invest in these homes and blocks, and to manage and maintain them efficiently and sustainably.

The Property and Asset Management (PAM) team has the responsibility for delivery of the Housing Planned Maintenance capital programme which is informed by the Housing Asset Management Strategy (AMS) approved by Council in March 2019. The AMS provides an overarching framework for investment decision-making across the Council's homes and estates. It will consider the values we have as an organisation, the relevant local and national policy context, set out the ambitions that Hackney has for the quality of its homes and the priorities that will be established to ensure that the limited available resources are directed appropriately.

The HRA Business Plan, approved as part of the AMS sets out the resources required to ensure the effective and sustainable management of the Council's housing stock (including leasehold properties) and other assets held in the HRA. Over the first five years of the AMS the annual Asset Management Plan budget averages in excess of £50m per annum.

2019/20 outturn

- Spend of £48m against an Q1 budget of £88m - A £38m variance
- The Q1 capital budget included 2018/19 slippage of £19m.

The main reason for the slippage is the commissioning process for the Housing planned maintenance projects. They take time to get on site as they have to follow a number of pre-start processes including:

- Surveying and pricing
- Planning and detailed design work
- Section 20 leaseholder consultation
- Formal internal approvals and legal sealing of Sectional Commencement Agreements SCAs. These are formal contracts under the Housing Maintenance partnership contracts.

The Section 20 leaseholder consultation element of the commissioning process can also add significant amounts of time to the process as it is dependent on the capacity within the leaseholder team to carry out these consultations.

The 2020/21 Capital Budget as at quarter 1 this year was £94m which included £38m of slippage from 2019/10. The quarter 2 forecast against this budget was £46m and we have already reprofiled budget into 2021/22. The delivery of the Housing Planned Maintenance programmes has been significantly impacted by Covid19, the lockdown has halted Section 20 leaseholder consultations and working on capital projects on homes in occupation carries a lot of risks and it is necessary to make contingency for issues affecting delivery. In addition we have had to delay the reprocurement of the Housing Maintenance contracts due to the pandemic and other uncertainties in the market at the moment. As part of setting the 2021/22 HRA budget a review of the capital plan will be undertaken and the capital budget from this year will be reprofiled into future years in the HRA business plan model.

Improvements to Commissioning process
The PAM team have, over the last 2 years, been working on improving the management of the Housing capital programme and key to this is the commissioning process.

Generally new capital projects have been commissioned as part of the annual budget setting Cabinet report in January of each year. However, it usually takes 6-9 months to start a capital project, and therefore most projects that are commissioned in January of a particular year will not see all or most spend occur within the upcoming financial year.

The Asset Management Strategy has set up a new 7-year programme to allow greater long term sight of the capital programmes. It includes a HRA business plan which allows a long term approach to capital works budget setting. In general it is envisaged that projects will be commissioned separately to the annual budget setting process, to take account of the fact that they are not usually delivered within the financial year.

To this end the following is proposed:

- A report to commission new projects for pre-start processes will go to Cabinet in June of each year. This will contain results of annual surveys based on blocks in the 7 year programme and make recommendations on which blocks need works at this time, and which do not.
  (Note: This was scheduled to happen this year, but was delayed as lockdown has put non-essential surveys on hold; surveying is now expected to resume in January, and the report is scheduled for April Cabinet)
- In the following January, as part of the budget setting process, a budget for capital works will be set taking into account the progress of all projects, and the estimated values of new projects, which following surveys and initial pricing will be more accurate.

The overall financial position in addition to being reported to Cabinet will also be reported quarterly to Housing Capital Monitoring Board.

Introduction of Cash Flow Forecasting

As a further development to improve the quality of capital programme budget monitoring a new cashflow forecasting process has been introduced used in Property and Asset Management from April 2020.

The process involves a consideration of an array of information on individual Sectional Commencement Agreements (SCA's) which include, contract value, programme dates. expected monthly spend, Section 20 risks around leaseholder challenge, planning consideration and expected access rates. This information is assessed by management giving consideration to wider strategic issues such as contractor team and capacity and then a cashflow forecast for the SCA is set.

The cashflow is updated quarterly reflecting the latest position for each project (spend, forecast total cost, programme dates and risk), and this is shared with, and challenged by finance.

The total of all of the SCA cash flow forecasts informs the forecast spend for the year and is reported to the Housing Capital Monitoring Board and Members through the OFP report to Cabinet.

PAM also has developed a Performance Indicator to report on how accurately this forecast is. We expect that it will take a few iterations of the process to more finely tune our forecasting, using performance against it as a guide.

The PAM team is committed to:

- *Continuing to improve the capital project commissioning process; building on the improvements already put in place and learning from what works well and what needs to change. The AMS is key to this process.*
- *Introducing the cash flow forecasting model and performance indicator to improve profiling of the capital programme.*
- *Robustly challenging optimism bias in capital forecasting.*
- *Reporting to Cabinet on Housing Capital programme delivery and commissioning intentions on an annual basis - this will inform the capital programme budget approval for the following year*
- *Robustly review the slippage on the capital programme as part of the HRA budget setting process.*

The PAM team would support:

- *An increased focus on the following years capital budget at an earlier stage in the current year's processes with a move away from focus on annuality to a 3 year rolling programme.*

4.4 Housing Regeneration

The strategic vision for the Regeneration Programme is 'Council led housing regeneration which promotes mixed tenure sustainable communities with quality new homes in well designed neighbourhoods'. The vision statement and 6 objectives are embedded in programme delivery and provide strategic guidance across all projects at every phase.

The programme vision also identifies the ways in which housing regeneration contributes to wider place shaping and sustainable community objectives to maximise benefits beyond the delivery of new homes.

The programme contributes to a key Manifesto Commitment:

During the next 5 years we will directly deliver, or enable with our partners, over 3,000 new homes across the borough including 800 new council and social rented homes and 700 council shared ownership homes.

2019/20 outturn

Spend of £56m against a Q1 budget of £80m - a £24m variance

The key areas of variance were as follows:

- Marian Court - £13m there was a delay in securing vacant possession of the site and procurement issues which required value engineering; planning approval for design changes and satisfactory tender negotiations for construction work. Note that additional GLA funding was sought to help close the viability gap on this project. This is a very complex project and the viability of the project was impacted by higher than expected construction costs and plateauing of sales values. These issues required action that took time to resolve.

- Colville phase 2 - £3.7m - projected start on site delayed due to need to respond to resident feedback and cost of the design exceeding budget provisions. Planning approval was required for design changes following resident feedback from earlier phases and satisfactory tender returns for construction work.

- Nightingale - £2m - start on site delayed due to the need to revise energy and fire safety strategy and to seek planning approval for design changes.

- Housing Supply Programme - £12m was reprofiled into 2021/22 across a number of schemes. These delays to the programme reflect the complexity of the programme and the need to ensure financial viability across the whole programme.

- Woodberry Down Regeneration - £9m over the budget for the year - this was due to the timing of the leaseholder buybacks. Timings are not possible to predict as it is dependent on residents selling their homes. Therefore there is always volatility on this budget.

Profiling issues

In summary:

- Regeneration is profiled over many years - many factors can impact the cash flow and profiling of spend such as planning issues, stakeholder feedback, contract prices and sales values.
- Focus remains on each project budget over their life and the contribution (positive or negative) to programme viability
- Decants, resident engagement, design, planning and procurement all impact project profiling and ultimately starts on site

- More certainty on profiling of spend exists once contracts are awarded

We need to look at a longer time horizon and outturn position for regeneration projects and where reprofiling has occurred look further out than one year and look to reprofile as part of the Council's budget setting process so that we do not continually re profile the same budget year on year slippages.

We also need more robustly challenge optimism bias of the delivery teams to meet programme requirements

The Regeneration delivery team is committed to:

- *Increase challenge of initial capital budget profile*
- *Robustly challenging delivery team to eliminate optimism bias in capital forecasting.*
- *Robustly review the slippage on the capital programme as part of the capital budget budget setting process.*

The Regeneration delivery team would support:

- *An acceptance there will be some movement within reasonable tolerances particularly in highly complex areas (e.g. Regen programme) and this needs to be built into the process*
- *An increase the focus on the following years capital budget at an earlier stage in the current year's processes with a move away from focus on an annual budget to a multi-year rolling programme.*

5. CONCLUSIONS

The Audit Committee deep dive has identified a range of issues which lead to variations in the forecasting of spend on capital projects. Primarily there is considerable optimism bias which leads to significant re-profiling of spend into future years. While some of the issues may not be foreseeable there is a general acceptance in spending departments of the need for more robust challenge at the outset and during the lifespan of projects and there is a commitment to addressing this need.

A review of data from other authorities and follow-up discussions has identified that programme slippage is a common challenge with some authorities more successful than others - although even the best have a high level of slippage. The main learning that can be taken from neighbouring boroughs is around maintaining the ongoing dialogue between finance staff and budget holders/ project managers, providing appropriate challenge to timelines and the adjusting of profiling as soon as necessary.

At a corporate level, there is clearly a need to review the scheduling of the Council's corporate capital monitoring processes and consider how the processes can better take account of the longer-term nature of capital projects and their inherent complexity in some areas. Following the Chief Executive's recent restructure, a council-wide capital management review is due to kick off in early 2020 and this should take account of the findings from this deep dive. Changes to processes and procedures resulting from this review should be supported by an appropriate training programme. In the meantime the corporate team needs to step up its oversight of spending departments submissions and challenge these where they appear unrealistic.

The Corporate Team will:

- *Continue to challenge directorate submissions in regard to capital budget profiling and highlight significant slippage where it occurs (immediate).*
- *Reschedule the first capital re-profiling of 2021/22 (early summer 2021)*
- *Ensure feedback from directorates and findings from discussions with other boroughs feeds into the capital management review (January 2021)*
- *Develop training programme to support any changes in processes and procedures following the capital management review (summer 2021)*
- *As part of the capital budget setting process, agree an improved 'target' outturn against budget for 2021/22 with each department. These may vary across departments and will feed into an overall Council-wide improvement.*

6 COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

6.1 There are no direct financial consequences arising from this report as it reflects past performance through 2019/20. It is noted that the actions identified at corporate and departmental level represent positive steps in improving the profiling of capital expenditure which will assist in our cash flow forecasting and treasury management going forward.

7. COMMENTS OF THE DIRECTOR OF LEGAL

7.1 The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk.

7.2 There are no immediate legal implications arising from the report.

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Appendix one

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 Rennisson - 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