Resources and Fire & Rescue Overview and Scrutiny Committee

22 February 2023

Update on Capital Financial Management project

Recommendation

That the Committee:

1.   Considers and comments upon the progress made to date in delivering the Capital Financial Management project and the plans to offer a Member briefing session on updated capital financial management.

2.   Considers and comments upon any specific areas it would like to see covered in the briefing session.

1.   Executive Summary

1.1   Capital investment in the County is a vital responsibility of the County Council which supports growth, develops key infrastructure and attracts external investment into the County. The context for capital projects has become significantly more challenging in recent years as a result of numerous factors, in particular high levels of inflation, rising borrowing costs and supply chain and workforce challenges/shortages.

1.2   The Capital Financial Management project was established to improve financial management for major capital schemes in light of perceived and actual cost increases and slippage in the Council's capital programme.

1.3   The Capital Financial Management project has reviewed, with key stakeholders, end-to-end arrangements for planning, costing, monitoring and reviewing delivery of the capital programme. It has identified, and is now implementing, changes to systems, processes and culture which will deliver better allocation and management of capital resources to meet the Council's strategic objectives.

1.4   This report updates the Committee on progress, and gives an overview of the changes, the timescales for delivery, and the anticipated benefits.

1.5   This report also sets out plans to engage Members more widely in the project through a briefing session in Spring 2023 to provide a more detailed update and in particular what these changes mean for elected members.

2.   Financial Implications

2.1   The project was allocated £125,000 from the Council Change Fund. Of this, around £19,000 has been spent on securing additional project resources, as the Council's core team did not have the full capacity to deliver this work. The remainder will be used towards the cost of making changes to the Council's Agresso accounting system, to deliver significant improvements to the Council's capital financial planning, budgeting, management and reporting capability.

2.2   The project will deliver benefits through improved resource management, a reduction in capital slippage, a reduction in scheme costs increases, and greater assurance regarding financial management of the capital programme.

2.3   It is anticipated that these benefits will start to be realised from April 2023 onwards, as changes across the capital system and associated processes become embedded.

3.   Environmental Implications

3.1   New governance arrangements for strategic oversight of the capital programme will help to ensure that the balance of the Council's capital investment aligns with its corporate objectives. This includes ensuring that sufficient priority is given to projects which help to deliver the Council's Sustainable Futures strategy, which currently exists in draft and is going through a period of stakeholder engagement.

4.   Project Objectives and Findings

4.1   The Capital Financial Management project was set up in response to Member concerns around the Council's effective management of its capital programme.

4.2   In considering what improvements were needed, the project team consulted widely with stakeholders across all Services, and with the Deputy Leader and Portfolio Holder for Finance and Property to identify both strengths and areas for improvement. It also considered "Best Practice", as set out by the National Audit Office, government departments and third parties including the Chartered Institute of Public Finance and Accountancy (CIPFA).

4.3   During its "Discovery" phase, the project established that the Council successfully delivers a programme of around £100m to £120m every year, with the majority of capital schemes being completed on time and within budget. However, it also identified a number of areas where there is scope for improvement. These included:

- The need for more accurate costings at the point of project approval.
- More effective monitoring and reporting, supported by fit-for-purpose systems and processes.
- Improved risk management.
- The need for skills and knowledge development supported by appropriate training.
- A better understanding of the link between financial performance and operational delivery.
- A culture which supports all of these changes.

4.4   In order to make these improvements, in February 2022 Corporate Board approved a number of recommendations, which are shown in Appendix A. In essence, the recommendations introduce a new Target Operating Model for capital (Appendix B) and set out the changes that need to take place for it to be implemented.

5.   Progress to Date

5.1   Over the past twelve months significant progress has been made in delivering these recommendations. The Capital Strategy Group has been in operation for six months, chaired by the Assistant Director, Finance. As well as acting as the "owner" of the capital strategy at officer level, the group will be the point of escalation for any early warnings on major scheme risks. The intention being to identify any cross-cutting risks in order to manage them before they materialise into issues. In addition, the key remit of the Group will include assessing capital pipeline projects seeking new funding and identify and drive continuous improvement opportunities in the capital system.

5.2   A new £4m fund is being proposed, as part of the refresh of the Capital Strategy, top-sliced from the Capital Investment Fund, which appropriate projects will be able to draw down from when they need funding to undertake early investigation design work. This was identified from the review as being key to producing more accurate capital budgets for high value, high complexity schemes at an earlier stage. This could be, for example, to undertake ground condition investigations, ecological or archaeological surveys or land ownership surveys, where the outcomes could have a significant impact on scheme costs. This will help to ensure the accuracy of scheme estimates before they seek approval for addition to the capital programme and reduce the risk of increased costs after a scheme has been approved. This will not increase the cost of a project overall but will help to give greater cost certainty at the outset.

5.3   For those projects where this fund is required but the additional exploration of costing determines that the business case should not be progressed, those abortive costs will need to be written off to revenue, as an asset has not been created or enhanced. In these instances, an existing revenue reserve (the Capital Fund) will be used, with £1m set aside to absorb any abortive costs.

5.4   On 9 December 2022, Portfolio Holder approval was granted to move the Council's Agresso financial system into the virtual Cloud[1], and thus be able to take advantage of a number of software improvements which will enhance the management of capital spend. These include a new tool for capital budget planning, monitoring and reporting. The tool replaces the existing mechanism which requires a high degree of manual intervention, allowing officers to focus more time on accurate forecasting and reporting, in turn giving better insights and greater assurance to Members.

5.5   A number of changes have been designed around the approval process for capital projects seeking to use Capital Investment Fund (CIF) monies. A new three stage approval process, comprising a Project Proposal Document, an Outline Business Case and a Full Business Case, will be introduced for those projects deemed to be high in value, highly complex and with large financial, operational and/or reputational risk attached. This will provide more rigour to ensure the Council's limited funds are directed to the 'right' projects. This is being supplemented with improvements to the way we record and manage the use of contingency budgets and guidance on managing project risks.

5.6   For 2022/23, three new Key Business Measures (KBMs) were introduced to show how the capital programme is performing. These measures are:

- The percentage of capital schemes completed on time and to budget;

- The number of projects seeking member approval to changes in cost, time, scope or risk; and

- The proportion of the capital programme total spend allocated to Sustainable Futures.

5.7   The KBM's are currently being reviewed to identify how useful they have been. Further work is also now underway to develop supporting Key Business Indicators to give further insights into the performance of the capital programme and provide early warnings where action needs to be taken.

5.8   Finally, the project has focused on embedding the required cultural change across the organisation to ensure the proposals are incorporated across all stakeholders and those directly involved in the capital process. This will result in a refreshed training offer, a communications plan to promote the changes and a relaunch of the Intranet pages to ensure relevant guidance documentation is easily accessible and understandable.

5.9   It would be beneficial to extend this training offer to all Members, given their role in the formation and scrutiny of capital schemes. The Committee is therefore asked to provide feedback on particular areas they would wish to see included in the briefing.

---

[1] The cloud refers to web-connected servers and software that users can access and use over the internet. As a result, you don't have to host and manage your own hardware and software. It also means that you can access these systems anywhere that you have access to the internet. The particular improvements required to our systems are only supported via the cloud

6.   Timescales associated with the decision and next steps

6.1   A number of actions have already been taken to implement the necessary improvements identified by the project. Most of the remaining changes are due to be implemented from April 2023 to align with the start of the new financial year. Changes to the Agresso financial system, to support improved capital forecasting and budgeting, are expected to be in place from Summer 2023. The revised training offering, and Intranet pages will start to roll out from August 2023.

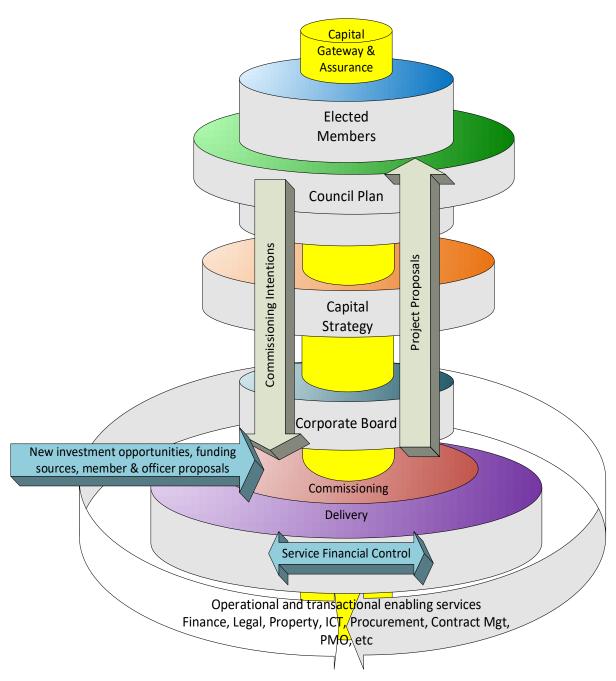6.2   The all Member briefing session will be scheduled for Summer 2023.

	Name	Contact Information
Report Author	Liz Firmstone, Steve Robbins	lizfirmstone@warwickshire.gov.uk, stephenrobbins@warwickshire.gov.uk
Assistant Director	Andy Felton, Assistant Director, Finance	andrewfelton@warwickshire.gov.uk
Strategic Director	Rob Powell, Strategic Director for Resources	robpowell@warwickshire.gov.uk
Portfolio Holder	Cllr Peter Butlin, Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): not applicable as county wide report
Other members:

Project Proposals Approved by Corporate Board February 2022

No.	Proposal	Deliverability RAG
1	New operating model where capital commissioning decisions are driven by strategic priorities	In Place
2	Capital Strategy Group to fill missing oversight / governance role	In Place
3	Investment at Outline Business Case stage to ensure accurate project costing	Approved
4	Simplified budget and forecasting for greater transparency, accuracy and ease of use	In development
5	Proactive management of contingencies	In development
6	Clear change management principles and proportionate escalation thresholds and routes for managing project variances	In development
7	Technical systems development to support the recommendations	In development
8	Consistent risk management approach aligned to Strategic Risk Management Framework	In development
9	Capital performance measures integrated into Corporate Performance Framework	Partially implemented, further measures being developed
10	Changes supported by Skills Competency Framework, Training Needs Analysis and refreshed capital Learning & Development offer	In development
11	Launch, annual event and annual report	In development
12	Use existing systems to record, share and use Lessons Learned	In development

New Operating Model