

Resources and Fire & Rescue Overview and Scrutiny Committee

13 December 2023

Capital Financial Management Project - Closure Report

Recommendations

That the Committee:

1. Notes the changes implemented as a result of the project and the outputs and benefits delivered.
2. Endorses that this project has now been completed and any further continuous improvement activity becomes part of “business as usual”.

1. Executive Summary

- 1.1 The County Council has a vital responsibility to support growth, develop key infrastructure, enable service delivery, and attract external investment into the County. Capital investment is one of the ways in which it delivers this.
- 1.2 The context for capital projects has become significantly more challenging in recent years because of numerous factors, in particular high levels of inflation, rising borrowing costs, and supply chain and workforce challenges/shortages.
- 1.3 The Capital Financial Management project was established to improve financial management for capital investment and maintenance in light of perceived and actual cost increases and delays in the delivery of the Council’s approved capital programme.
- 1.4 The recommendations from this project have now been implemented, and this report summarises the changes that have been made and the benefits that have been delivered.

2. Financial Implications

- 2.1 The project was allocated £125,000 from the Council Change Fund. Of this, around £19,000 was used to secure additional project resource. The remainder has funded key changes to the Council’s Unit4 accounting system, to deliver significant improvements in capital financial planning, budgeting, management and reporting capability.

3. Environmental Implications

- 3.1 The introduction of the Capital Strategy Group has enabled better strategic oversight of the capital programme, 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.

4. Project Objectives and Findings

- 4.1 The Capital Financial Management project was set up to respond to Members' concerns around the Council's effective management of its capital programme.
- 4.2 The project team engaged in extensive consultation with stakeholders and consideration of sector best practice in the development and implementation of its recommendations.
- 4.3 While the Council successfully delivers a programme of £100m to £120m every year, with the majority of capital schemes being completed on time and within budget, the project identified a number of areas for improvement:
- 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; and
 - a culture which supports all of these changes.
- 4.4 In February 2022 Corporate Board approved a number of recommendations, as set out in Appendix 1. In essence, the recommendations introduced a new Target Operating Model for capital and set out the changes that needed to take place for it to be implemented.

5. Changes Implemented and Benefits Delivered

- 5.1 Following approval of the recommendations by Corporate Board, the proposed changes have now been implemented. At the 2022/23 outturn, when the project recommendations had been partially implemented, capital delays compared to Quarter 3 forecasts were low and significantly improved on previous years, at 2%. This suggests that the changes implemented are

starting to have the desired effect, and this will be kept under active review. The changes made and benefits delivered are set out in more detail below.

Capital Strategy Group

- 5.2 The Capital Strategy Group was established over 12 months ago, chaired by the Director of Finance, to take a corporate overview of the capital programme, provide a steer on key issues, and approve additions to the Capital Investment Fund pipeline in a way that ensures the overall mix of investments is best placed to deliver on the Council's priorities.
- 5.3 Examples of work undertaken by the Capital Strategy Group since its inception include:
- approval of new investment proposals funded by the Capital Investment Fund to be taken forward to Corporate Board before going on to Members for approval;
 - providing advice on approaches to managing capital resources through the Medium-Term Financial Strategy;
 - leading early discussion of potential issues, such as the funding of the increase in school places needed across Warwickshire, and the need to maximise developer contributions, to ensure they are being proactively managed before problems arise;
 - agreeing a suite of Key Business Measures and Indicators by which we can better measure the performance of the capital programme; and
 - agreeing a new Capital Annual Report to give greater visibility of the achievements and challenges faced in delivering the capital programme.

Investigation Design Fund

- 5.4 A new £4m Investigation Design Fund (IDF) has been set up, top-sliced from the Capital Investment Fund, to enable complex, high value and higher risk projects to access resources to carry out investigation works. The IDF could be used, 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.
- 5.5 In this way, services will be able to estimate project costs more accurately and manage risks better before submitting funding bids for approval. In turn, this should reduce the number of schemes experiencing significant cost increases or delays.
- 5.6 This fund has been available since April 2023 and to date, £44,000 of IDF has been awarded, to undertake surveys of public buildings relating to access for disabled persons, and decarbonisation, with further bids pending. As more large-scale schemes come through the CIF it is anticipated that take-up will increase.

New Financial Planning and Analysis (FP&A) System

- 5.7 The use of Financial Planning and Analysis (FP&A) software for capital monitoring and forecasting was implemented in time for 2023/24 Quarter 2.
- 5.8 FP&A holds more information about capital schemes, at a greater level of granularity, than was previously possible, providing a much-improved means of forecasting and reporting insights. It also replaces the previous capital forecasting process which required a high degree of manual intervention and maintenance, thus allowing officers to focus time on better quality forecasting and reporting.

Capital Approval Processes

- 5.9 Improvements have been made to the approval process for projects seeking to use Capital Investment Fund (CIF) monies. A new, three stage approval process (Project Proposal, Outline Business Case and Full Business Case), is in place for high value, high complexity projects which have significant financial, operational and/or reputational risk. 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 so that there is greater visibility and monitoring of how contingency funding is being used.
- 5.10 All new project proposals are scrutinised by the Capital Strategy Group to ensure the Council's resources are being allocated in a way that most efficiently and effectively contributes to its priorities.

Performance Measures

- 5.11 Three new Key Business Measures (KBMs) have been introduced to show how the capital programme is performing. These measures are:
 - a) the percentage of capital schemes completed on time;
 - b) the percentage of capital schemes completed on budget; and
 - c) the number of projects seeking member approval to changes in cost, time, scope or risk.
- 5.12 KBMs (a) and (b) are being measured from April 2023 and will be reported at the end of the year. Performance against KBM (c) is expected to improve over time, as a result of other changes implemented through this project.
- 5.13 In addition, three Key Business Indicators (KBIs) have recently been agreed, to assist officers in managing the overall performance of the capital programme:
 - d) Number of live Capital Investment Fund funded Capital Projects currently classified as 'at risk'.
 - e) Number of live capital projects that are forecasting a need for additional funding.

- f) The value of gross forecasted additional funding requests across the capital programme.

Managing Culture Change

- 5.14 Throughout the project there has been a focus on embedding the required cultural change across the organisation to support the practical changes that have been made. Through regular engagement and discussion, different stakeholder groups have a greater awareness of the impact their behaviours and actions have on the effectiveness of financial management of the capital programme. This has been and continues to be supported by:
- a communications plan, incorporating staff briefings, attendance at officer meetings and distribution of written updates;
 - briefings for key members, directly with the Portfolio Holder, through the Budget Working Group, and via Resources and Fire Overview and Scrutiny Committee;
 - training and drop-in sessions for all project managers on the new FP&A forecasting system;
 - a new Capital Hub on the Council's intranet, containing all relevant information and guidance;
 - a new Capital Induction e-learning course which is mandatory for all new capital project managers; and
 - a refreshed Capital Financial Management suite of e-learning to provide more detailed training.

6. Outstanding actions

- 6.1 There are now two specific actions outstanding, both of which are in progress:
- Production of a video tutorial to support project managers with capital forecasting on the FP&A system. Now that Quarter 2 capital monitoring has been finalised, the project team will look to produce a video tutorial ahead of Quarter 3, to ensure there is continued support for project managers as they embed usage of the new forecasting tool.
 - Completion and publication of the first Capital Annual Report for 2022/23. A draft report has been considered by the Capital Strategy Group and reviewed by the Executive Director for Resources, and final changes are being made. This report will be made available electronically, via the Council's internet, in order that it can be shared with elected members, partners, staff, business and other stakeholders, to promote achievements, highlight challenges, and recognise lessons learned.

7. Timescales associated with the decision and next steps

- 7.1 Following the implementation of the recommendations, it is proposed that this project is now closed, and that all further continuous improvement activity becomes part of “business as usual”. This includes, for example, ongoing production of an annual report, and maintenance of learning and development resources. The new performance measures will allow the impact of the new framework to be reported transparently to Councillors.

Appendices

Appendix 1 – Summary of project recommendations

Background Papers

Report to Resources and Fire Overview and Scrutiny Committee, 22 February 2023:
Update on Capital Financial Management Project

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

Local Member(s):

Other members:

Appendix 1: Project Proposals Approved by Corporate Board, February 2022

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