MIDDLESBROUGH COUNCIL	Middlesbrough moving forward

Report of:	Director of Finance (S151 Officer)

Relevant Executive Member:	Executive Member for Finance & Governance

Submitted to:	Executive

Date:	13 November 2024

Title:	Capital Programme Governance Improvement

Report for:	Decision

Status:	Public

Council Plan priority:	Delivering Best Value

Key decision:	No
Why:	Decision does not reach the threshold to be a key decision

Subject to call in?:	Yes
Why:	Report to Executive

Proposed decision(s)
That the Executive: • Approve the proposed arrangements for improving the effectiveness of capital programme governance, monitoring, and reporting including the terms of reference for the Strategic Capital Board and Corporate Capital Board.

Executive summary
Effective investment in capital assets and infrastructure that are used to deliver all Council services, is critical to achieving affordability and value for money in the delivery of Council Plan objectives. The Council has a track record of significant under delivery against its approved capital investment plans over several years, underspending. Failure to deliver such plans: - has adverse consequences for the quality of service delivery and outcomes for the community.

- exposes the Council to avoidable financial risks in terms of potential loss of external funding, inflation eroding affordability of schemes and the revenue costs of borrowing required to finance planned investment.

The key areas of required improvement are in the organisation's ability to:

- Develop a prioritised and affordable medium to long term capital investment plan that is clearly linked to the delivery of the Council's objectives
- Deliver projects to agreed timescales and approved budgets and funding streams
- Produce more informative financial reports and forecasts.

The report proposes the establishment of a member led board that is supported and advised by an officer board, that will collectively work to strengthen the governance arrangements to deliver the improvement required to secure more effective strategic decision making.

1. Purpose

1.1 The purpose of this report is to propose revised arrangements for improvements to the Council's governance arrangements for planning, managing, delivering and reporting its capital investment programme.

2. Recommendations

2.1 That the Executive:

- Approve the proposed arrangements for improving the effectiveness of capital programme governance, monitoring and reporting including the terms of reference for the Strategic Capital Board and Corporate Capital Board.

3. Rationale for the recommended decision(s)

3.1 To establish more robust arrangements to address weaknesses in current arrangements and to secure value for money in the use of capital resources.

4. Background and relevant information

4.1 The Council has a sound Capital Financing Strategy that is approved annually by the Council as part of the Medium-Term Financial Plan and should be read together with the Treasury Management Strategy that is fundamentally important to securing long term affordability of capital investment and the wider cash management of the Council. The 2024/25 Capital Programme & Capital Strategy can be viewed here and was approved by Council on 8 March 2024.

4.2 The Council's performance in the effective deployment of its capital investment plans should be measured by the delivery of capital programmes and projects on time and within budget and the delivery of planned outputs and outcomes that are clearly linked to the Council plan objectives. However, this is difficult to achieve based upon the current working practices and reporting arrangements.

4.3 The Capital Programme is the Council's investment plan in long term assets that is essential to support the delivery of operational services and to enable the transformation of service delivery models across the organisation. The scale of annual capital expenditure is significant (£50m - £100m). These financial resources are limited, valuable, and must be managed effectively and accounted for and reported appropriately in order to achieve good value for money in the use of Council resources.

4.4 Capital investment is funded from a combination of:

- external resources (such as grants and partner contributions) which are often allocated for specific purposes and have a variety of conditions. Often this funding may be used only for specific purposes and its use is subject to time constraints, with risk of claw back or loss of funding for the council if conditions are not met.

- internal resources (capital receipts from asset sales and borrowing). Capital investment funded through borrowing impacts the revenue budget through capital financing costs arising from borrowing (loan principal repayment and interest) and is substantial. In 2024/25, the capital financing budget is c£11.5m. Capital receipts from sale of assets provide a finite source of financing for investment assets required to deliver future servicers.

4.5 It is therefore important that capital resources are used appropriately and effectively, and that key milestones for capital schemes are achieved on time and within budget in order to ensure overall affordability and best use of valuable and limited resources.

4.6 The need for improvement in this area was highlighted in the 2024/25 Budget report approved by Council on 8 March 2024 and forms an element of Culture and Governance Improvement Plan (CGIP) approved by Council in September 2023. Further, the requirement to improve the capital programme governance arrangements was noted in the CIPFA FM report and also in the MIIAB's report to Executive in July 2024 in which they said:

'The Council also had a significant under achievement in its capital expenditure for the 2023/24 financial year. The inability to adequately programme manage this expenditure has an impact on the Council's ability to accurately predict future costs. The Council should consider ways of improving the financial and programme management of this key area.'

4.7 The key areas of required improvement are in the organisation's ability to:
- Develop a prioritised and affordable medium to long term capital investment plan that is clearly linked to the delivery of the Council's objectives
- Deliver projects to agreed timescales and approved budgets and funding streams
- Produce more informative financial reports and forecasts.

4.8 During the period 2021/22 to 2023/24, the Council underachieved against its overall planned capital expenditure by between 13% and 53% of the original approved budget as summarised in the table below. This represents a combination of project underspending and slippage. It is common for substantial increases to investment to be made during the financial year for new projects that are externally funded and subject to Executive approval. The Council's capacity to deliver its ambitious plans needs to be reviewed and reassessed.

	Original Capital Programme Approved by Council £m	Revised Capital Programme at Q1 £m	Revised Capital Programme at Q3 £m	Final Outturn £m	Variance vs original budget £m	Variance %
2021/22	59.035			51.551	-7.484	-13%
2022/23	124.825		62.167	58.962	-65.863	-53%
2023/24	71.211	80.474	67.631	47.714	-23.497	-33%
2024/25	88.549	106.188				

4.9 The Council's capital programme is funded by a combination of internal Council resources, external grants, and third-party contributions. The Council's own resources to fund capital investment may include the following forms:

- Capital receipts from sale of its owned assets.
- Borrowing (which has a long-term revenue cost)
- Direct revenue financing from the General Fund (subject to revenue affordability).

4.10 The financing of the capital programme is determined by the s151 Officer and recommended for approval by full Council in accordance with the Budget and Policy Framework and Financial regulations. The Executive does not have delegation from Council to increase expenditure in year that will result in an increase in the Council resources required.

4.11 The full revenue cost of borrowing for planned capital investment to be funded by borrowing must be included in the revenue budget approved by Council each year to comply with capital financing regulations. The total planned Capital programme must be fully financed from the total of approved internal and external funding streams.

4.12 The Council has a track record of setting capital investment plans that it is unable to deliver in the planned timelines as illustrated above. This results in slippage of expenditure from one financial year to the next. This may have several unintended consequences including:

- The increased cost of delayed projects that are subject to contractual inflation provisions, meaning that schemes need to be de-scoped or re-specified to be affordable within the available budget, or other schemes need to be stopped/ revised to release funding to meet increased costs.

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- The risk of losing external funding which is often subject to time restrictions within grant conditions relating to backstop dates for spend to be eligible for approved grant. This may put project delivery at risk or result in other projects being stopped / reduced to utilise council funding to make up the funding shortfall.

- Where projects funded by borrowing slip, this affects the financial year in which revenue costs of principal and interest payments need to be met. Therefore, if the Council sets plans that are over ambitious and funded by borrowing, this puts unnecessary and avoidable pressure upon the revenue budget. Given the Council faces significant challenges in balancing its annual revenue budget, it must be more realistic and modest in setting its capital investment plans going forward.

- The Council's annual cost of borrowing to fund historical capital investment is forecast in the region of £11m per annum for 2024/25. Based upon approved and existing capital plans, it is also forecast to approach 10% of the Net Revenue budget over the term of the MTFP. It is therefore approaching the limit which is advised as a prudent level for affordability of borrowing.

- In the future, the Council's capital programme will need to become more dependent upon the generation of capital receipts from asset sales and/or external contributions and grants or deliver substantial savings in revenue expenditure to remain affordable.

- Decisions taken in 2021/22 regarding the adopted methodology for calculating principal repayments in relation to capital borrowing assisted the Council's ability to balance the budget over the medium term. Whilst they were compliant with government regulations, they have resulted in a commitment of the Council to more acute escalation in principal repayments over the long term than the previous methodology. The long-term revenue impact of borrowing must be carefully considered in determining the affordability of further borrowing for future capital investment.

4.13 Prior to 2023/24 outturn reporting, the distinction between underspending/ overspending and project slippage was not routinely reported and so there is a lack of transparency of financial performance of historical projects.

4.14 The structure and format of monitoring reports does not currently present transparently the total budget at project level over the life of the project (if over more than one financial year). It is therefore not possible to determine from current reports whether a project has over/underspent over or has been subject to delivery slippage over the project life.

4.15 The presentation of the programme does not clearly distinguish between discrete projects those service areas that receive block allocations of funding which are then applied to fund investment programmes arising from comprehensive professionally informed asset management plans e.g. for highways and building assets.

4.16 Capital programme reporting does not currently include any qualitative information in relation to the approved objectives of capital programmes and projects in terms of their link to the Council plan. Also, no measurement of outputs and outcomes arising from the investment is included in capital programme reports.

4.17 The ability to monitor and report project delivery and outcomes together with financial performance to members is fundamental to achieving transparency and accountability and the ability to demonstrate affordability and delivery of value for money from such investment.

4.18 There is no established corporate approach to reviewing performance of the capital programme. Whilst quarterly financial forecasts are prepared and considered at a high level by LMT and the Executive, there is little time currently dedicated to understanding the capital programme financial performance and its delivery against objectives in the Council Plan.

4.19 There is a need to consider capital investment priorities in a structured way involving relevant professionals and members of the Executive to ensure that available capital resources are deployed in accordance with agreed priorities and within limited Council resources. Ensuring that the Council meets its statutory responsibilities such as for health and safety as well as investment via Transformation projects that will deliver longer term revenue cost savings or income generation are fundamental to the Council's financial sustainability in the long term.

Proposed arrangements for improvement

4.20 It is proposed that the issues identified above are addressed through a Corporate Capital Board comprising officer representation from across the organisation. The work to establish and embed the revised arrangements is likely to take several months over the remainder of the 2024/25 financial year. The key focus being on the following key deliverables:

- Improving the reliability of financial forecasting of the capital programme through regular CCB meetings.
- Aligning programme delivery performance of outputs and outcomes with financial performance reporting.
- Establishing a methodical framework for assessing bids for capital investment against available capital resources which is aligned with the Transformation Portfolio and Directorate BAU requirements.
- Fully engaging Executive members in understanding the relationships between capital investment, funding streams and the revenue implications of borrowing, together with prioritisation of investment ambitions and council plan objectives with available resources. This work will support more effective strategic decision making in the future.

4.21 The terms of reference for the proposed Corporate Capital Board of officers are set out at **Appendix 1** for consideration. This will by led by the Director of Finance as chair of the CCB, with the Director of Regeneration as Vice Chair and will meet monthly.

4.22 The CCB will then provide further information and recommendations on the overall programme position and on individual schemes to the Strategic Capital Board (SCB) and this will meet on a quarterly basis. The role of this Board will be to provide strategic oversight of the Governance and Control Framework established to manage the Capital Programme. The SCB will in turn provide enhanced assurance to the Executive in its decision making and in the development of the future Capital Investment Plans to be presented for consideration and approval by Council.

4.23 The SCB will also oversee the delivery of the actions and recommendations set out in improvement plans relating to capital. The Board represents the interests of the residents of Middlesbrough and for ensuring that the Capital Programme delivers the objectives of the Council Plan.

4.24 The terms of reference for the proposed Strategic Capital Board comprising members of the Executive is set out at **Appendix 2**. This will be chaired by the Executive Member for Finance, with the Vice Chair, Executive Member for Regeneration, with appropriate support being provided by the Director of Finance, Director of Regeneration and a core group of council officers with the relevant capital programme and financing experience. The SCB will meet on a quarterly basis and will provide assurance to Executive and Sub Committee for Property as appropriate.

Timetable for Implementation

4.25 The revised arrangements for capital governance, management and reporting will be implemented by the Director of Finance and Director of Regeneration as soon as possible following executive approval. The CCB and SCB need to be created and operational for Quarter 3 monitoring for the 2024/25 financial year (so by the end of the calendar year).

4.26 The CCB will need to be in place quicker than the SCB due to its need to meet monthly. The aim will be to hold the first meeting of this by the end of November.

5. Other potential alternative(s) and why these have not been recommended.

5.1 The option recommended (with separate capital boards) is viewed as the best way forward given the current weaknesses in the capital governance structure. The only other feasible option would be to merge this activity with the existing revenue budget monitoring processes. However, there is a need for a cross directorate collaborative approach to capital governance and there are a range of issues that require dedicated attention of officers and members in a forum that is not distracted by operational revenue budget matters.

6. Impact(s) of the recommended decision(s)

Financial (including procurement and Social Value)

6.1 The establishment of robust arrangements for planning, managing, monitoring, and reporting capital investment are fundamental to ensuring that the Council achieves good value for money in its use of resources and long-term affordability of its capital investment plans.

6.2 Any short-term increase in staff resources to deliver within the current financial year will considered under the delegation of the s151 Officer for funding from the Change Fund with any permanent increase in resources to be considered as part of the 2025/26 budget to be considered for approval by Council in February 2025.

Legal

6.3 There are no direct legal implications of this report. All activities outlined are managed within the remit of S151 of the Local Government Act 1972 and the powers of the responsible financial officer to manage the financial affairs of the Council.

Risk

6.4 Risk management is an integral part of the Council’s capital investment strategy, and these are considered at both corporate and scheme level when managing the overall capital programme.

Human Rights, Public Sector Equality Duty and Community Cohesion

6.5 There are no applicable issues to consider within this report.

Climate Change / Environmental

6.6 There are no applicable issues to consider within this report.

Children and Young People Cared for by the Authority and Care Leavers

6.7 There are no applicable issues to consider within this report.

Data Protection

6.8 There are no applicable issues to consider within this report.

Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
Not applicable		

Appendices

1	Corporate Capital Board – Terms of Reference
2	Strategic Capital Board – Terms of Reference

Background papers

Body	Report title	Date
Council	2024/25 Revenue Budget, Medium Term Financial Plan, Council Tax setting and Treasury Management Strategy	8 March 2024
Executive	Third Progress Report of the MIIAB	24 July 2024
Executive	CIPFA Review of Council's Financial Management Arrangements	24 July 2024

Contact: Debbie Middleton, Director of Finance
Email: Debbie_middleton@middlesbrough.gov.uk