

Report of Director of Resources

Report to Corporate Governance and Audit Committee

Date: 22nd April 2013

Subject: Capital Programme Approvals Framework

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The Capital Programme approvals framework is set out in the Council's Financial Regulations. Some changes to delegations were implemented during 2012 and these are reviewed in this report.
2. A new approach to the way capital programme resources and overprogramming are managed together with changes to how capital programme management staff are organised, have provided a further opportunity to review capital processes.
3. The report sets out some proposed changes to the Capital Approvals framework which, if put in place, will strengthen accountability for capital decisions and streamline the decision making process. As the capital programme is now fully funded, checks previously required to control capital expenditure within resources available are no longer required.
4. Support will be provided for Directors taking capital decisions through provision of financial information and the development of a checklist to support the capital decision making process.

Recommendations

5. Members are asked to note:
 - the impact of the changes made to the Capital Approvals process in April 2012
 - the structural improvements that have been made.
6. Members are asked for comments on the new additional proposed changes

1 Purpose of this report

- 1.1 On 23rd January 2012, Corporate Governance and Audit Committee considered some proposed changes to the capital programme approvals framework which were consequently introduced in April 2012. This report provides an update for the Committee as to how the revised framework has operated since then.
- 1.2 The report also sets out proposals for further changes to the process which will give Directors more responsibility and accountability for decision making on capital schemes.

2 Background information

- 2.1 The capital approvals framework is made up of a number of stages which are designed to ensure that:

- Authorisation is given before schemes are injected into the capital programme
- The Council's own resources are prioritised and controlled
- The Director of Resources has assurance that resources are available to finance schemes
- Authority to progress a scheme is sought at the appropriate stage of its development
- The relevant checks have been made before tenders are invited on a scheme

- 2.2 The capital approvals framework sets different approval requirements and limits depending on the nature and value of the capital scheme. Schemes are classified depending on the nature of the works.

- 2.3 Within the current financial constraints, staffing numbers within the Council are reducing leading to a reduction in capacity across service areas. There is a wish to remove unnecessary duplication and bureaucracy to ensure that staff can be as effective and productive as possible. The approvals framework was reviewed and amended in 2012 to streamline the process but also to improve accountability whilst maintaining an adequate level of control and assurance regarding capital expenditure.

3 Changes Implemented in April 2012

- 3.1 The changes made to the approvals process are set out below together with comments on how the changes have operated during the last year.
- 3.2 **Authority to Spend** – The process was changed to allow Service Directors to give Authority to Spend on capital schemes up to £500k, the limit previously given to the Director of Resources. In order to ensure that resources are available for schemes, the Director of Resources is now a mandatory consultee and is required to sign off “funding approval” prior to a Service Director taking the Authority to Spend decision.
- 3.3 This new process was introduced in April 2012. During the last year 46 approvals were given by Service Directors that would previously have been given by the

Director of Resources. No issues have arisen as a result of Service Directors taking these decisions.

- 3.4 **Increased delegation for injections for corporate resources** – the delegated limit for the Director of Resources to make an injection to the capital programme, funded by the Council, was increased from £100k to £250k. During the review period no approvals were given.
- 3.5 **Injections to the capital programme funded by borrowing** – the process was changed to allow the Director of Resources to approve injections to the capital programme funded by borrowing, up to £500k, for the following types of schemes:
- Vehicle and equipment replacement
 - Demolition of property
 - Asbestos removal and other health and safety works
 - Energy Efficiency projects (where capital investment is funded by savings on energy costs)
 - Any other spend to save/operate where a business case has been approved
- 3.6 Since April 2012 two approvals have been given which fall into these categories. This increased delegation has allowed a more streamlined process for enable these schemes to progress, thereby minimising delay.
- 3.7 **Increased delegation for injection of ringfenced grants** – the delegated limit of £100k for Directors to inject ringfenced grants to the capital programme was removed giving Directors full delegation. During the review period this delegation was used 13 times by Directors. No issues have arisen as a result of Service Directors taking these decisions.
- 3.8 **Full delegation to directors for authority to tender** – for schemes exceeding £500k, authority to tender was previously approved by the Director of Resources. Full delegation was given to Service Directors from April 2012. During the review period up to December 2012, 56 tenders were sought that would previously have needed the approval of the Director of Resources.
- 4. Proposed changes for 2013**
- 4.1 Since the changes were made to the approvals process in 2012, two key changes have occurred; firstly, a new approach to the way the capital programme is financed and presented has been introduced and secondly changes in how capital programme management staff are organised.
- 4.2 **New approach to presenting capital programme resources** - The capital programme has always included a level of overprogramming (in the form of anticipated capital programme slippage) whilst the Treasury Management statement also includes overprogramming in the form of use of reserves and

balances. As far as the Council is concerned, the cost of the capital programme ends up in the revenue budget as debt costs and therefore it is the management of debt costs that is the key financial control.

- 4.3 In preparing the February 2013 capital programme and debt costs, overprogramming has been eliminated from the capital resources statement by introducing additional borrowing. The capital programme is fully funded and all overprogramming is now held on the Treasury Management statement. Monitoring, checking and review of the capital programme is in place to ensure that the capital programme remains affordable.
- 4.4 **Capital Programme Management Arrangements** - Previously, capital programme staff based within Service Directorates were supporting services in the delivery of their capital programmes. The corporate capital team within the Financial Development division of Resources Directorate carried out a checking, compliance and advisory role. With the reduction in capital resources available generally, the opportunity was taken to review the way the capital programme is managed.
- 4.5 With a view to standardising the service provided, sharing best practice and harnessing staffing capacity, all capital programme management staff have been brought together within the Financial Development division of the Resources Directorate. A standard approach to supporting the delivery of capital programmes has been introduced which focusses on ensuring accuracy of financial information. By involving capital programme staff at an earlier stage in the reporting process, the corporate capital team checking role on financial information in capital reports can be reduced.
- 4.6 The changes referred to above have allowed a further review of the capital approvals procedures to take place with a view to reducing the corporate capital team checking and compliance role. The proposals are set out below.
- 4.7 **Funding Approval** – This financial check was introduced in April 2012 at the same time as increased delegated authority was given to Directors to approve Authority to Spend. It was introduced to ensure control of the overall capital programme funding and is carried out on all schemes regardless of value. The check makes sure the funding is in place before an Authority to Spend decision is taken. On the basis that all schemes are now funded, it is proposed that this check will only remain for reports being scheduled for Executive Board, to ensure that Executive Board reports are accurate. For ATS decisions on Category A schemes up to £500k and all Category B schemes Directors will be accountable for decisions and for seeking the appropriate professional advice (Financial, Legal, Procurement etc.) The Directorate capital programme teams will support this process where required to ensure financial information in delegated decision reports is correct.
- 4.8 **Chief Officer Approval (COA)** – All schemes currently require a COA before a contract can be awarded. This acts as the final affordability check and is the stage at which a scheme moves from being contractually uncommitted to committed. On the basis that the capital programme is fully funded and that Directors have sought the professional advice they need, it is proposed to remove

this process entirely, giving Directors full accountability for the award of capital contracts. In doing this it is imperative that the capital programme system is kept up to date on the status of schemes so that capital programme monitoring and the Council's financial accounts are accurate. In order to do this, other existing governance reporting arrangements will be used to supply the necessary information instead of the COA.

- 4.9 As well as making financial checks on schemes, the corporate capital team could also pick up other capital scheme or governance issues which may need further consideration. To ensure these aspects continue to be addressed sufficiently, a decision making checklist is being developed to support Directors in their decision making role.
- 4.10 The proposed changes do not impact on members existing roles in the decision making process, rather the changes will provide greater clarity for Members on formal decision points, thereby providing greater consistency in terms of pre-notification of key decisions and recording of significant operational decisions. This will be of benefit to Executive Members in respect of their decision making oversight responsibilities and to Members in Scrutiny and Area Committees roles.

5 Corporate Considerations

5.1 Consultation and Engagement

- 5.1.1 The proposed changes have been considered by Service Directors and no issues have been raised. This report forms part of the consultation process.

5.2 Equality and Diversity / Cohesion and Integration

- 5.2.1 This report concerns a change to financial processes and therefore there are no equality, diversity, cohesion and integration issues arising from the report.

5.3 Council policies and City Priorities

- 5.3.1 Schemes within the capital programme support the Council's priorities. The proposed changes to the capital approvals process will mean that schemes within the programme can be delivered within a more streamlined governance process.

5.4 Resources and value for money

- 5.4.1 Under the new approach to presenting capital programme resources, the capital programme is funded, with overprogramming reflected in the Treasury Management statement. As such, the changes proposed will not impact on the resources available to fund the capital programme.

5.5 Legal Implications, Access to Information and Call In

- 5.5.1 The capital programme approvals form part of the Council's Financial Regulations and any changes made will be reflected within the Financial Regulations. The report sets out proposed changes to Financial Regulations and in advance of taking a decision, the Director of Resources seeks the view of the Corporate Governance and Audit Committee.

5.5.2 The report sets out the position on the governance of decision making in relation to the various approvals described. The Monitoring Officer has authority to amend the Constitution for the purposes of clarification and will consider whether any amendments are necessary as a result of this statement of position.

5.5.3 There are no other Legal or Access to information issues.

5.6 Risk Management

5.6.1 As all capital schemes are now funded within the capital programme, there is no risk that the programme will be unaffordable. Mechanisms are in place to control new injections to the capital programme which are funded by borrowing. The source of funding for borrowing costs needs to be identified within the revenue budget when a new scheme is proposed.

5.6.2 Support will be provided to Directorates by the capital programme team to ensure they have the necessary information to take decisions on capital schemes.

6 Conclusions

6.1 Changes to the way capital overprogramming is managed and changes to the organisation of capital programme staff have provided the opportunity to review the capital approvals process.

6.2 Changes proposed in this report will enable the capital programme to be delivered within a streamlined governance framework and will make clear where accountability for decisions rests.

7 Recommendations

7.3 Members are asked to note:

- the impact of the changes made to the Capital Approvals process in April 2012
- the structural improvements that have been made.

7.4 Members are asked for comments on the new additional proposed changes

8 Background documents¹

8.1 None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.