

**Manchester City Council
Report for Information**

Report to: Resources and Governance Scrutiny Committee – 20 July 2017
Subject: Capital Strategy Governance and Approval Process
Report of: City Treasurer

Summary

This reports sets out the revised process for the approval of capital schemes. It details the proposed new governance arrangements with the establishment of a Capital Board to oversee the programme from pipeline to post completion review, as well as the strengthening and expansion of the role of portfolio boards in the assurance and approval process.

The report also details the various stages of scheme approval from evaluation through to the authority to spend. It emphasises the need to identify the intended outcomes at the outset of the project and regularly monitor against the achievement of objectives as well as the financial position.

The arrangements are currently being finalised prior to full implementation and the views of the committee are welcome.

Recommendation

That Members note and comment on the proposals within the report.

Wards Affected: All

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Background documents (available for public inspection)

The following documents disclose important facts on which the Report is based and have been relied upon in preparing the Report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the officers above.

There are none.

1. Introduction and Background

1.1 The Capital Strategy was revised as part of establishing the Capital Programme approved by Executive at its meeting on 17 February 2017. It recognised the need for a longer term programme which would continue the investment to define Manchester as an attractive place to live and further improve the quality of life for its residents; to increase their overall social and economic prospects and enable them to fully participate in the life of the City. Important to the delivery of these aspirations will be:

- to support, promote and drive the role and continuing growth of the city as a major regional, national and international economic driver; as the main focus for employment growth through a strengthening and diversification of its economic base and through the efficient use of land;
- to support investment in transport infrastructure the City Centre which will lay the foundations for continuing success by 'future proofing' the city's transport infrastructure including; the Second City Crossing, The Northern Hub, Cross City, Bus Corridor and the redevelopment of Victoria Station;
- to drive forward the City Council's Residential Growth Strategy and associated policy frameworks such as Housing Affordability and the Residential Quality Guidance, all of which seek to provide the city with an expanded, diverse, high quality housing offer that is attractive to and helps retain economically active residents in the city, ensuring that the growth is in sustainable locations supported by local services, good public transport infrastructure, and core lifestyle assets such as parks, other green and blue infrastructure, and leisure facilities. This will include maximising the opportunities through Manchester Place, Manchester Life and the Housing Investment Fund and to be able to react flexibly to deliver an attractive housing offer for the City;
- to deliver a Schools Capital Programme that will support new and expanded high quality primary and secondary school facilities for a growing population;
- to support businesses and residents to create thriving district centres with appropriate retail, amenities and public service offer; and
- to continue to promote investment to secure an internationally competitive cultural and sporting offer and sustaining core lifestyle assets such as parks, leisure facilities and libraries within the City.

1.2 The process for the development and operation of the capital programme from project pipeline to post completion review is also being changed. The new arrangements, as set out in the report, are currently being finalised prior to full implementation and the views of the committee are welcome.

2. Capital Programme 2017/18 to 2021/22

2.1 The capital programme has been developed in line with the priorities for the City as set out within the Our Manchester strategy, and, importantly, recognises the need to plan for investment over the longer term. The programme approved by February Executive and since revised for approved increases and re-profiling of budget at outturn (as reported to June Executive¹) totalled around £1.7bn over the five-year period to 2021/22, of which c£1.4bn related to City Council projects, with the remainder being projects carried out on behalf of Greater Manchester. The breakdown is summarised in the table below:

	2017/18 budget £m	2018/19 budget £m	2019/20 budget £m	2020/21 budget £m	2021/22 budget £m	Total £m
Highways	42.9	36.5	26.6	22.5	16.4	144.9
Growth and Neighbourhoods	63.5	34.4	22.9	1.7	-	122.5
Strategic Development	153.1	129.0	105.4	62.2	234.5	684.2
Housing – General Fund	31.1	25.1	20.3	9.9	6.2	92.6
Housing – HRA	46.2	40.8	18.1	19.5	18.9	143.5
Children’s Services (Schools)	79.2	56.9	3.0	3.0	3.0	145.1
ICT	14.9	18.6	10.4	9.0	9.0	61.9
Adults and Children’s Services	4.4	15.0	4.8	-	-	24.2
MCC TOTAL	435.3	356.3	211.5	127.8	288.0	1,418.9
Projects carried out on behalf of Greater Manchester	115.6	130.3	3.9	-	-	249.8
TOTAL	550.9	486.6	215.4	127.8	288.0	1,668.7

2.2 Significant projects are planned over the next five years which include improvement to the City’s highways and housing, investment in schools and leisure facilities as well as the refurbishment of the Town Hall.

3. Revised Capital Approval Process

3.1 Capital project approvals relating to new schemes commencing from 2017/18 onwards will be progressed through a revised Capital Approval Process (CAP) which will replace the existing Capital Gateway arrangements.

¹ Report to Executive, 28 June 2017.

- 3.2 Schemes requesting capital investment are assessed for their ability to meet the City Council's priorities around growth, reform and place as part of a revised evaluation framework which takes place at the outset of building up the business case for each scheme.
- 3.3 The new schemes approved as part of the Capital Programme 2017/18 to 2021/22 have been further categorised in terms of *priority* schemes, which will move forward subject to certain conditions being met, and *in principle* schemes which, although meeting the requirement for strategic fit, require further detail on the financial implications and/or deliverability to support the anticipated outcome. In these cases the overall funding will be earmarked as part of the Capital Budget but further submissions will be required as part of the revised Capital Approval Process before this is released.
- 3.4 This new approach to scheme assessment, prioritisation and subsequent measurement of achievement will enable the Council to make more informed decisions based on business cases brought forward.

Governance

- 3.5 The governance arrangements are currently being finalised and will ensure that the relevant Executive Member is supportive of any proposal being developed. No scheme will enter the programme without the support of the Executive leadership.
- 3.6 The new approval process oversees the arrangements from project pipeline to post implementation review and is based around five *checkpoints* listed below and in the diagram attached as Appendix 1:
- **Checkpoint 1** – initial business case drawn up to detail the case for the scheme and assessed against the evaluation criteria of strategic fit, economic value, risk and deliverability and financial implications.
 - **Checkpoint 2** – updated detailed business case firming up on deliverable, costs/benefits, outcomes and timelines.
 - **Checkpoint 3** – funding review - financial approvals including confirmation of funding streams. Allows for the formal key decision process to complete and entry to the capital budget. Once complete the project can progress to checkpoint 4.
 - **Checkpoint 4** – capital expenditure approval to enable spend to commence (subject to approval at checkpoints 2 and 3).
 - **Checkpoint 5** – project review
- 3.7 The programme will be overseen by a Capital Board with agreed terms of reference.

3.8 The aim of the new process is to improve the information upon which capital investment decisions are made, and to improve transparency and strengthen accountability in the delivery and monitoring of the capital programme at the appropriate level by requiring Portfolio Boards to oversee delivery of projects and to undertake a monitoring/challenge role.

3.9 In the context of the capital programme governance the Portfolio Boards include:

- Estates/Heritage Board
- Highways Board
- ICT Board
- Town Hall Strategic Board
- HRA Board
- Sport and Leisure Strategy Board
- Parks Strategy Board
- Heaton Park
- Strategic Acquisitions
- Education Board
- Health and Social Care related
- Factory Board

3.10 Monitoring will take place following checkpoint 4 and will be ongoing during delivery to check progress against intention including investment case, procurement, social value, programme, risk and available resources. This should be supported by technical assurance and challenge from the Capital Programmes Team or other independent source.

Checkpoint 1 – Initial Business Case

3.11 At checkpoint 1, the business case for a scheme/project or programme is submitted to an officer-led group for assessment, along with any supporting evidence. The proposals must have the support of the relevant Executive Member and Portfolio Board before submission. There is an evaluation framework for the business cases in order for the assessment to be undertaken on a consistent basis and form part of the submission at checkpoint 1. The framework ensures that each business case is reviewed for:

- Strategic fit - including contribution to support priorities around growth, reform and place. This will have an initial 'yes/no' threshold before schemes progress any further (although it is unlikely that many schemes will progress that do not pass this threshold as they will have already been reviewed by the Portfolio holder).
- Economic value - a quantitative economic, social and fiscal assessment
- Risk and Deliverability; and
- Financial Implications

3.12 It is recognised that there may be statutory requirements for schemes which will automatically support its inclusion. However there will still be a requirement for information to be provided around the four basic principles above and the outcomes expected in order that the level of investment is understood, and appropriate, with ongoing monitoring against the outcomes expected.

- 3.13 Social Impact is a critical aspect of any investment by the City Council and will feature highly when considering whether a scheme should be approved for investment. Procurement routes will also take in to account Social Value.
- 3.14 Provision will also exist for political prioritisation of a scheme in order to meet strategic priorities.
- 3.15 The evaluated business cases are submitted to the Capital Board for approval at checkpoint 1. At present schemes cannot progress past this stage without the support of the portfolio holder and the Executive Member for Finance and Leader /Deputy Leader. This arrangement will continue.
- 3.16 Once approved, officers may apply for feasibility funding to help develop the scheme further. Feasibility funding will only be granted if the scheme is very likely to progress to implementation.

Checkpoint 2 – Detailed Business Case Approval

- 3.17 At checkpoint 2 the business cases should be refreshed ensuring more detail can be included, based on feasibility and/or design works which have taken place, and the risk and deliverability and financial implications should be supported by clear evidence, for example a detailed cost plan. Where projects are identified as “invest to save”, details of any financial returns which can be used to finance the scheme and/or support the Council’s resource base should be included. Identified benefits will be allocated to the project at the outset.
- 3.18 At this stage, the intended outcomes of the scheme and the benefits to the Council should be clear and evidenced, and these will be used to benchmark the scheme throughout its life. These detailed business cases must be agreed by the relevant Portfolio Board, including their Executive Member, before submission.
- 3.19 The Capital Board will review the refreshed business cases, and decide whether the scheme should proceed, whether further information is required, or whether the scheme should be deferred. Where spend is related to a wider programme of activity such as Highways improvements, it is the responsibility of the appropriate Portfolio Board² to specify and approve the detailed individual projects within the overarching approved programme (in this example, the Highways Board to specify and approve the individual road improvement schemes).

² Membership of the Portfolio Boards must include the relevant Executive Member

Checkpoint 3 – Funding Review

3.20 To ensure effective scrutiny of capital expenditure decision making, it is imperative that the creation of capital budgets and approvals to spend meet the terms of the Council's Constitution. Checkpoint 3 has two aims, the first is to ensure that evidence of funding sources is available and the second is to progress the required budget approvals and key decisions before approval to spend can be granted

Checkpoint 4 – Approval to Spend

3.21 Once approval is granted by the Capital Board at checkpoint 2, and the relevant budget approvals are agreed at checkpoint 3, approval to spend on the scheme can be granted. This is a final checkpoint for challenge for both the Executive Member for Finance and Human Resources and the City Treasurer, as they must both approve the scheme at this stage.

Checkpoint 5

3.22 Once a project is complete officers will be asked to complete a project review, to confirm the outcome against plan and highlight the reasons behind successful delivery or to evaluate any lessons which could be learnt. These can then be fed back into the approval and evaluation process, and be applied to new schemes being developed.

Monitoring

3.23 The Portfolio Boards play a critical role in agreeing the submission of capital proposals to the Capital Board, and it is therefore appropriate that the boards are responsible for oversight of the projects and providing the Capital Board with regular updates on the relevant part of the capital programme. Such monitoring reports will include progress against the forecast outcomes and benefits from the schemes, as well as risks to progress alongside financial and programme information.

3.24 These reports will form the basis of the quarterly reporting to Executive.

Benefits of the new Checkpoint Process

3.25 It is recognised that whilst the previous Gateway process had worked comparatively successfully over a number of years it had become very bureaucratic and focussed on the financial governance of schemes rather than considering the scheme as a whole, and consequently did not adequately represent the intended outcomes and benefits of investments.

3.26 The new Checkpoint process reduces bureaucracy and has a more streamlined approach, with the approval of schemes essentially taking place at checkpoint 2, subject to final confirmation of funding which is undertaken by the Financial Management team (checkpoint 3).

- 3.27 Importantly the new arrangements require that greater detail is provided at the outset as part of the business case submissions; with the emphasis on strategic fit and the deliverability of clear outcomes within a resource envelope and across a specified timeline. It is these which then form the basis against which the scheme is monitored and reported over its lifetime. There is also a post completion review to confirm outcomes and identify best practice and lessons learnt.
- 3.28 The revised governance arrangements ensure the involvement and approval of Executive Members at a very early stage and throughout the process. There is a clear line of accountability for the Portfolio Boards in the development and delivery of schemes and holding project sponsors to account. The Capital Board will provide the strategic overview, support and challenge at each stage.

4. Role of the Capital Programmes Team

- 4.1 The Capital Programmes team has a crucial role in the governance and delivery of the City Council's capital investment strategy.
- 4.2 The Capital Programmes Project Management Office (PMO) will take responsibility for project reporting which will be fully aligned to the financial reports.
- 4.3 The increased involvement of Capital Programmes (notably QS assessment) at the outset and throughout the process will provide robust checks on risks and deliverability in terms of costs, timescale and assessment of benefits and other outcome measures. This should ensure that the risk of needing to *value engineer* out elements of a scheme at a later stage is significantly reduced; such changes in design may impact on a) the key reasons for which the scheme was originally approved; b) benefits/outcomes and c) may result in further costs in the future.

5. Conclusions

- 5.1 The revised capital strategy investment process is designed to ensure that the budget is fully aligned to the City's priorities within the Our Manchester strategy.
- 5.2 The new capital approval process is designed to provide greater scheme detail at the beginning of the process to ensure that the rationale for intended investment is robust and it meets the strategic priorities of the Council; and that this can be evidenced on a consistent basis against an agreed assessment framework. The process acknowledges that resources are finite and that there must be clear evidence that the investment is not only a strategic fit but that it enables the City to maximise the potential benefits that can be achieved for each pound spent.
- 5.3 Executive Members must be supportive of the proposals being developed and no scheme will be included in the Programme without the support of the Executive leadership.

- 5.4 The Capital Board will provide the overarching governance of the programme.
- 5.5 The role of Portfolio Boards is crucial from the beginning of the process when formulating the submissions, through to detailed planning and delivery of investments and, where relevant, financial returns. The Boards will monitor and report on the achievements of the investment against the intended outcomes and spend profile.
- 5.6 The revised process will also hold project sponsors to account, not only for the delivery of schemes to time, quality and budget but also for the achievement of benefits and outcomes as proposed.
- 5.7 Capital Programmes will play a critical role in the development of the Capital Programme, operation of the approval process and subsequent monitoring and reporting of scheme progress and outcomes including lessons learnt. The Director of Capital Programmes will undertake stakeholder engagement and ensure, through support and critical challenge, that the capital investment strategy and associated programme continues to meet the priorities of the Council.

6. Recommendations

- 6.1 Members are asked to comment on the proposals within the report.

Capital Approval Process and Governance

Appendix 1

