

**Manchester City Council
Report for Information**

Report to: Resources and Governance Scrutiny Committee –
4 January 2018

Subject: Capital Strategy Governance and Approval Process Update

Report of: City Treasurer

Summary

This reports sets out the progress made in the establishment of a revised process for the approval of capital schemes, and how the governance arrangements have been implemented.

The report also highlights the next steps required to support the approval process and change the manner in which the capital programme is reported to members and the public, and details two consultations on capital financing which will be informed by the revised process.

Recommendation

Members are requested to note 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.

Resources and Governance Scrutiny Committee, Capital Strategy Governance and Approval Process, 20 July 2017

1. Introduction and Background

1.1 A five-year Capital Investment Strategy was established as part of the Capital Programme approved by Executive at its meeting on 17 February 2017. This 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, including:

- continuing growth of the city centre as a major regional, national and international economic driver;
- employment growth through a strengthening and diversification of economic base and efficient use of land;
- to support investment in the transport and highways
- to drive forward the City Council's Residential Growth Strategy;
- 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 promote investment to secure a cultural and sporting offer and sustain key lifestyle assets such as parks, leisure facilities and libraries.

2. Capital Programme 2017/18 to 2022/23

2.1 The capital programme has been developed in line with the strategic priorities for the City within Our Manchester and importantly recognises the need to plan the investment over the longer term. The programme approved by November Executive totalled around £1.7bn over the six-year period to 2022/23, of which £1.4bn related to City Council projects with the remainder being projects carried out on behalf of Greater Manchester. The latest breakdown of the City Council programme 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	2022/23 budget £m	Total £m
Highways	39.2	47.0	47.6	30.3	22.4		186.5
Growth and Neighbourhoods	15.4	45.5	23.9	5.5			90.3
Strategic Development	141.3	133.1	120.1	62.5	229.5		686.5
Housing – General Fund	18.0	28.2	27.9	10.6	6.2		90.9
Housing – HRA	20.9	39.3	37.1	24.2	18.9	3.1	143.5
Children's Services (Schools)	73.8	61.5	3.2	3.0	3.0		144.5
ICT	8.4	19.7	10.4	9.0	9.0		56.5
Adults and Children's Services	2.2	17.9	5.2	0.4	0.4		26.1
MCC TOTAL	319.2	392.2	275.4	145.5	289.4	3.1	1,424.8

2.2 The budget for the next five years contains significant investment across each Directorate, to support the strategic priorities of the Council and the City; examples include:

- The Highways Maintenance Investment programme will implement longer term preventative measures to improve the highways network and reduce maintenance costs.
- The new leisure centre at Abraham Moss, and a refurbishment of the leisure centre at Moss Side, will reduce revenue costs associated with the upkeep of the buildings and provide long-term savings to the Council. Similarly, the Carbon Reduction Programme will seek to install energy saving solutions across the Council's estate to support the carbon reduction aims of the organisation.
- A programme of school builds are planned, to create new school places and to provide permanent accommodation on some sites.
- There is substantial investment in the Town Hall and Albert Square to fully refurbish the building and upgrade to modern standards.
- Communication, operational and process infrastructure will be improved through the ICT programme of development.

3. Capital Approval Process

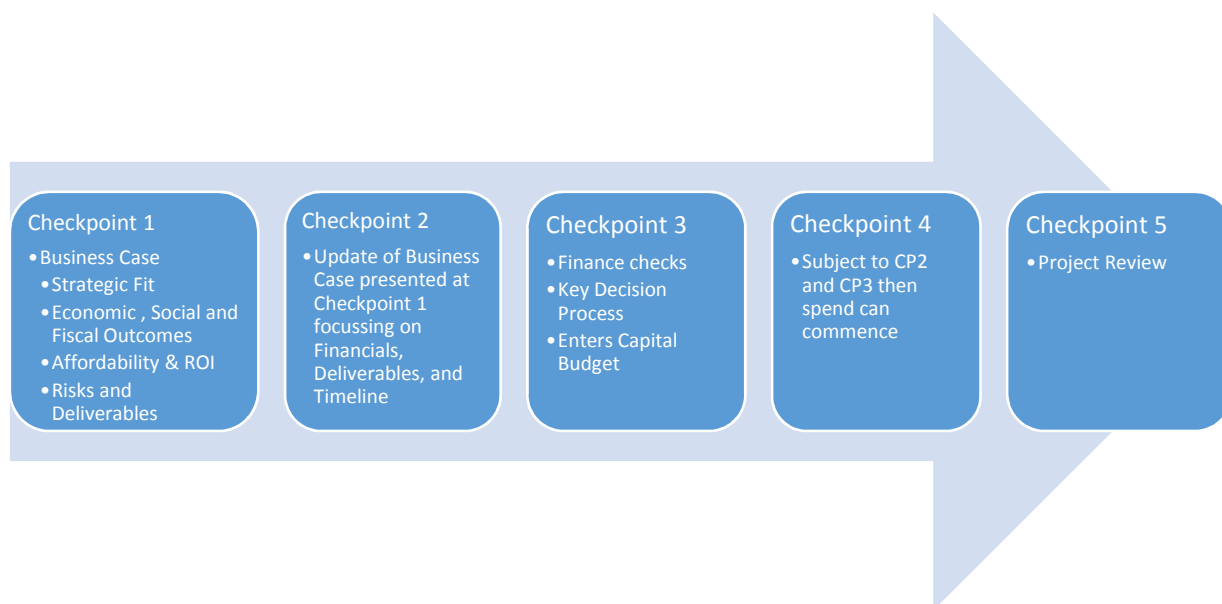
3.1 To support the delivery of the Capital Strategy a new governance and approval process was put in place, which provided greater emphasis on the link to strategic priorities and achievement of benefits and outcomes. The new process was reported to this Committee at its meeting on 20 July 2017 and a diagrammatic summary is attached at Appendix 1.

3.2 The aim of the new approach to scheme assessment, prioritisation and subsequent performance is to enable the Council to make more informed decisions based on business cases brought forward to articulate scheme proposals, including strategic fit, financing, benefits and expected outcomes.

Governance and Approvals

3.3 As reported previously to this Committee, a Strategic Capital Board has been established, chaired by the Chief Executive and membership consisting of the City Treasurer and Strategic Directors as portfolio holder. The Board meets monthly to consider and provide officer challenge and approval to projects and developments within the process. The Board will oversee the overall Capital Programme and develop the strategy moving forward as well as consider the impact of external drivers such as changes to Government policy.

- 3.4 The new approval process which consists of five Checkpoints as shown below has been formally adopted, and all capital projects now have to be progressed under the new process (see also Appendix 1). A business case template has been developed, which requests project-specific information on strategic fit, economic value, financial implications, risk and deliverability, and the expected outcomes.



- 3.5 The majority of capital schemes are governed through Portfolio Boards, which have specific terms of reference in relation to their role. There are a limited number of schemes for which there is no allocation to a Portfolio Board (generally these are either small schemes or those nearing completion) and these will be directly overseen by the relevant Strategic Director. The current Portfolio Boards are listed below:

- Business Units
- Civic Quarter Heat Network
- Eastern Gateway
- Estates Transformation
- Factory
- Highways
- Housing
- ICT
- Leisure Strategy
- Local Care Organisation (MCC LCO)
- Libraries
- Manchester Creative Digital Assets
- Northern Gateway
- Schools Strategy
- Strategic Acquisitions
- Town Hall Strategic
- Waste Performance

- 3.6 The Portfolio Boards will bring forward projects for the Strategic Capital Board for consideration, consultant with relevant Members in the development of capital plans including seeking the approval of the relevant Executive Member, keep Executive Members informed, and provide overall management of the projects under their control.
- 3.7 It is expected that the regular updates to the Strategic Capital Board from the Portfolio Boards will include progress against the forecast outcomes and benefits from the schemes, as well as risks to progress alongside financial and programme information.
- 3.8 From a financial perspective the main areas which the process seeks to strengthen include:
- a) clear identification of financial implications at the start and throughout the process, including benefits, to support the decision making process and prevent the need to request further capital increases or alternatively reduce project scope;
 - b) An robust assessment of resourcing needs and realistic profiling of likely spend to support Council financing arrangements

Role of Members

- 3.9 Throughout the design of the new approval process the ability for Members to inform and be kept informed of the programme and the individual projects has been vitally important.
- 3.10 To achieve this, a number of measures have been included with the Capital Approval Process to ensure Member involvement. It is expected that, where appropriate, consultation will take place with the relevant Ward Member(s) on scheme proposals prior to a business case being put forward.
- 3.11 All business cases must be approved by the relevant Executive Member before being submitted to the Strategic Capital Board. This will ensure that Executive Members are fully briefed on the capital plans for their portfolio.
- 3.12 A Checkpoint 1 Member review group has been established, attended by the Deputy Leader and the Executive Member for Finance and Human Resources to review and approve those capital projects that the Strategic Capital Board has approved.
- 3.13 The Executive Member for Finance and Human Resources, alongside the City Treasurer, will continue to provide the final approval to spend before a project can incur expenditure.
- 3.14 Alongside these measures, the capital spend position against all projects together with request for capital budget increases and virements will be reported to Executive. Where required, projects will be included on the forward plan and listed as part of the Key Decision process.

The Role of the Project Management Office (PMO)

- 3.15 The Capital Programmes team provides a crucial role in the governance and delivery of the City Council's capital investment strategy. The PMO reviews and challenges project/ programme detail with Portfolio leads prior to each Strategic Capital Board meeting.
- 3.16 The PMO requests each Portfolio lead to demonstrate key metrics on commercial data, procurement methodology, risk analysis and governance arrangements for each programme/project in order for the PMO to advise the Strategic Capital Board on the deliverability of the schemes and associated benefits aligned with the capital investment.
- 3.17 The PMO meet Portfolio leads together with colleagues from Corporate Finance to review the project/programme data and track the intentions of the investment decision aligned with the approved business cases.
- 3.18 The PMO has developed a reporting dashboard for each Portfolio Board to complete within the project reporting timelines which are fully aligned to the financial reports.
- 3.19 Within the Portfolio dashboards, project specific information is captured, articulating original budget, financial performance over the period, forecast spend both in year and over financial years where appropriate, benefits realisations linked to original business cases, key risks and mitigation together with project/programme deliverability across the respective portfolio areas.
- 3.20 These portfolio level dashboards are then used to populate the overarching performance position for the Council's capital investment which is reviewed on a monthly basis by the Strategic Capital Board.
- 3.21 Through the information provided by the PMO together with Corporate Finance, the Strategic Capital Board are able to review the financial performance, risk analysis, investment benefits/outcomes, and financial profiling for the Councils Capital Investment Strategy on a monthly basis.

Systems Development

- 3.22 The previous capital spend approval process, Capital Gateway, relied heavily on a separate online submission system which ensured that projects only progressed once the relevant officers and members had scrutinised it.
- 3.23 To facilitate the new process there is a need to consider a different, more holistic approach which brings together both the finances and the project management. The Strategic Capital Board will consider options for project management tools which could record projects from initiation to conclusion, and which could aid the management of the programme including reporting tools and approval processes, supporting effective assurance processes including risk management.

Reporting

- 3.24 The establishment of the Strategic Capital Board and the input required from Portfolio Boards are key elements of the Capital Approval Process, but the information provided to the Board also allows for robust monitoring of financial information, risks to the Council's capital programme, and on outcomes.
- 3.25 The monitoring reports received by the Strategic Capital Board from the Portfolio Boards will be consolidated, and this information will begin to inform the quarterly reporting to Executive.
- 3.26 It is intended that this will support the content of the capital reports to Executive to move from being predominantly finance focused to provide greater information on the progress of the capital scheme and its achievement against planned outcomes and original resource assumptions.

4. Reviewing and Revising the Capital Strategy from 2018/19

- 4.1 Although a five-year investment plan has been established for the City Council it is important that this is reviewed and refreshed each year to assess whether any changes are required. The review will be led through the Strategic Capital Board in conjunction with the Portfolio Boards and Executive Members.
- 4.2 The final recommendations will be presented to Executive for approval on 7 February 2018 and to Resources and Governance Budget Scrutiny on 20 February.

5. Further Considerations for the City Council's Capital Strategy Moving Forward

Revisions to CIPFA's Prudential and Treasury Management Codes

- 5.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to publish revised versions of the Prudential and Treasury Management Codes, which are the frameworks through which the Council can fund capital projects.
- 5.2 CIPFA have consulted on the proposed changes, and although the final details are yet to be published, the Council does expect there to be a new requirement to create, publish and maintain a Capital Strategy, which must be approved by the statutory Section 151 Officer (City Treasurer).
- 5.3 The indications are that the Capital Strategy will need to detail the principals by which the Council conducts capital decision making, and the governance arrangements for the capital programme and the assets the Council owns.

- 5.4 The Capital Strategy will form a key part of the Council's annual budget, and will link to the capital budget and treasury management strategy documents. The revised Capital Approval Process and the governance, review and monitoring associated with it will form a substantial part of the Capital Strategy as the Process details the principles the Council considers when reviewing potential capital projects.
- 5.5 It is anticipated that CIPFA will publish the revised Codes by early 2018, although implementation may be delayed until the 19/20 budget.

DCLG Consultation on Prudential Framework of Capital Finance

- 5.6 The Department for Communities and Local Government (DCLG) have published a consultation on proposed changes to the prudential framework of capital finance, specifically changes to investment guidance for local authorities and guidance on the Minimum Revenue Provision (MRP), which is the funding set aside from the City Council's revenue account to meet the financing costs of capital.
- 5.7 The consultation on the investment guidance predominantly focusses on extending the investment principles currently applied to treasury management, security, liquidity and yield, to all of an Authority's investment decisions including those classed as capital expenditure, and seeks to increase transparency around those investments for members and the public.
- 5.8 The MRP proposals are aimed at defining how local authorities can change their MRP policy, and the impact of any such changes on the revenue budget. It also seeks to set maximum asset lives for the application of MRP, such that if authorities adhere to the guidance they have to calculate MRP below or at the maximum asset life. Where Local Authorities wish to depart from the DCLG guidance (it is considered guidance rather than regulation at this stage) then it is likely that they will be required to justify this decision.
- 5.9 The Council will respond to both the CIPFA and DCLG consultations.

6. Conclusions

- 6.1 Since the last report the revised capital approval process has been implemented, and the Strategic Capital Board have met monthly to review capital expenditure proposals.
- 6.2 The PMO has also been established, and has begun the process of widening monitoring information to include risks, delivery issues and outcomes. This has involved stakeholder mapping, and establishing working relationships across all portfolios.
- 6.3 Further work is required regarding developing IT systems to support the delivery of the capital programme and the approval process, which will be undertaken in the coming months.

6.4 There are also two consultations on capital finance which will have a material impact on how the Council manages its capital finances and how the capital programme and associated financing is reported. The Council will respond to both consultations.

7. Recommendations

7.1 The recommendations appear at the front of this report.

Capital Approval Process and Governance

Appendix 1

