

**REPORT FOR: GOVERNANCE, AUDIT &  
RISK MANAGEMENT  
COMMITTEE**

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**Date of Meeting:** 28 June 2011

**Subject:** **INFORMATION REPORT –  
Capital Governance and  
Implementation Plan**

**Responsible Officer:** Julie Alderson – Interim Director of  
Finance  
Hugh Peart – Director of Legal &  
Governance Services

**Exempt:** No

**Enclosures:** Appendix 1 – Approved  
Projects/Business Cases

Appendix 2 – Capital Implementation  
Plan

## **Section 1 - Summary**

This report provides an update on capital governance and sets out the progress against the Capital Implementation Plan.

**FOR INFORMATION**

## **Section 2 - Report**

### **Background**

- 2.1 Following the investigation into the overspend in the Children's Services capital programme Cabinet received a report in December 2010 setting out issues and the outcomes of two investigations, one focussing on project management, one on financial management.
- 2.2 The investigations made a series of specific detailed recommendations, to avoid any recurrence of the issues which had affected the programme. Key staff within Finance, Children's Services and Community & Environment have been working together on implementing these recommendations and in addition on a fundamental review of process to ensure that the Council has robust and holistic arrangements in place for both the development and implementation of its capital programme. The key actions being taken to mitigate the immediate risks and develop a robust framework for the future are outlined below:-

### **Key Actions Implemented**

- 2.3 The following key actions have been implemented to mitigate the immediate risk to the Council:

### **Approval Process**

- 2.4 A clear and comprehensive approvals process for capital schemes has been developed and put into place for the 2011/12 Capital Programme. Approvals required include the relevant Corporate Director, the Portfolio Holder, the Finance Business Partner, any relevant consultative group, the Capital Forum and the Leader of the Council.

### **Capital Forum**

- 2.5 The role of the Capital Forum has been reviewed and reinvigorated. The Chairmanship has been passed from Community and Environment to the Interim Director of Finance providing greater emphasis on financial control. All new schemes on the current Capital Programme are now required to submit a business case (using an improved standard format) which have to be agreed with the relevant Corporate Director, Portfolio Holder and Finance Business Partner before submission to the Capital Forum. A robust challenge process takes place at the Forum before business cases are approved or rejected with the challenge process and the decision being clearly minuted. At this stage the scheme is set up on SAP and the budget released and the Interim Director of Finance presents all approved business cases to the Leader for final approval. Thus a much more robust process is now in place ensuring that capital schemes are well planned, fully approved and financially viable before any money is spent. Appendix 1 provides a summary of the business cases approved by the Capital Forum so far this financial year.

## **Interim Capital Project Manager**

- 2.6 An interim Capital Project Manager, who is an accountant with capital accounting experience, has been appointed to oversee and drive the capital monitoring process and to implement the agreed capital recommendations within Finance. This officer logs all business cases onto a spreadsheet as they are approved by the Finance Business Partners and records the Capital Forum decision to approve or reject the case. Once approved the officer is responsible for setting the scheme up on SAP and releasing the budget.

## **In-year and Year-end Processes**

- 2.7 The Finance Business Partners have undertaken test checking on capital codes throughout the year to ensure that expenditure has been coded correctly. At year-end a through review of in-year capital additions and a review of work-in progress has been undertaken leading to the write-off of costs arising on prior year capital projects not now going ahead due to the current economic climate, in accordance with proper financial accounting practice.

## **Key Actions in Development**

- 2.8 The following key actions are currently in development to mitigate risk to the Council in the longer-term and to establish a robust end to end process:

## **Capital Forum Monitoring**

- 2.9 The Capital Forum will, from the end of Period 2 (to be reported to the June Capital Forum meeting), be monitoring monthly expenditure on all approved capital schemes against the agreed budgets and progress against the project plan. This will, alongside the control over the initial release of the budget described above, ensure that the level of expenditure is in line with progress made on the delivery of the project.

## **Capital Strategy**

- 2.10 A capital strategy is being developed for 2012/13 onwards to provide an objective framework for decision making and robust arrangements for managing the overall delivery of the Council's capital programme. The development of the strategy and supporting asset management plan will be overseen by the Capital Forum with input from Cabinet Members to provide a robust framework for capital bids to be made in the quarter 3 of 2011/12 for the 2012/13 Capital Programme. The strategy and capital bids will be taken into account in the refresh of the MTFs and approved alongside the revenue budget.

## **Financial Regulations**

- 2.11 A review of the Council's Financial Regulations is underway with the intention of providing more robust and clearer rules governing capital expenditure. These will sit alongside detailed procedure notes also

being developed/in draft covering the management and reporting of capital projects. Training will be provided to key staff across the Council who are also involved/being consulted in the review and development process to secure “ownership” of the updated governance arrangements.

## **Project Management**

2.12 On the 18/05/11 CSB agreed:

- that a single mandatory process for project management across the council should be developed, within which a project risk evaluation process will decide to what extent it is applied;
- that the Project Management Office (PMO) will provide compulsory project management training for those managing large high risk projects;
- that the PMO will provide professional support for the initiation of new projects, and the review of in-flight projects;
- that the PMO will develop an approach with Internal Audit to support compliance;
- that the council's approach to project management will reflect the proposals for governance and process for the Capital Programme; and
- that an informal user group will be set up to test new proposals and help with improvement.

## **Internal Audit**

2.13 Cabinet requested that the GARM Committee monitor and report on implementation of the recommendations made in the investigation reports, supported by Internal Audit, who have been instructed to independently verify the process.

2.14 An initial report was made to GARM Committee in January 2011 outlining the recommendations and suggested action against each recommendation and an update on progress was reported to the last GARM meeting on 29<sup>th</sup> March 2011. Since then two meetings have taken place with the new Chair of GARM Committee and the previous Vice-chair to provide updates on the progress against the agreed implementation plan.

2.15 Progress against the detailed implementation plan is shown in Appendix 2. 50% of actions are reported as implemented by management and Internal Audit is in the process of reviewing evidence to support this assertion; 43% of actions are not yet due/are in progress; 3.5% of actions are incomplete and the implementation date is imminent or has been extended and 3.5% of actions are incomplete and the implementation date has passed.

2.16 Whilst significant progress has been made to implement the specific recommendations in the short term to mitigate the risks identified it is recognised that management have also been working on the longer term

objective of a developing a holistic end to end process as detailed above.

2.17 Internal audit will continue to monitor the progress of the implementation of the planned actions, seeking evidence of action taken and reviewing proposed processes as they are developed with time allocated for this being included in the 2011/12 Internal Audit Plan.

2.18 Progress of the planned actions, with particular emphasis on those that may impact on the Value for Money (VFM) assessment, and evidence obtained will be shared with the External Auditors to support their work.

### **Section 3 – Further Information**

3.1 A further update of this work will be reported to GARM Committee as part of the Internal Audit Mid-year Report.

### **Section 4 - Financial Implications**

4.1 The processes set out in this report can be supported within existing resources.

### **Risk Management Implications**

5.1 As considerable progress has been made in the implementation of the recommendations the Council's risk exposure has decreased significantly.

### **Section 5 – Corporate Priorities**

6.1 This report does not incorporate any of the specific priorities.

Name: Julie Alderson



Chief Financial Officer

Date: 13 June 2011

Name: Hugh Peart



Director of Legal &  
Governance Services

Date: 10 June 2011

## **Section 6 - Contact Details and Background Papers**

**Contact:** Susan Dixson, Service Manager Internal Audit, 020  
8424 1420

**Background Papers:** None