Capital Programme Management – Monmouthshire County Council

Audit year: 2022-23

Date issued: April 2024

Document reference: 4208A2024

Contents

Summary report

Summary

What we reviewed and why

1 We reviewed the Council's arrangements for managing its capital programme. We looked at how the Council designs its capital programme, how it monitors delivery of the programme and how it reviews and evaluates the effectiveness of its arrangements. We also considered the risks and challenges the Council faces in relation to the design and delivery of the capital programme.

2 Capital expenditure relates to investments in assets such as buildings and transport infrastructure. It can include buying or building assets, but also maintaining and improving them. Capital expenditure makes up a significant proportion of local government expenditure: across Wales, councils forecasted capital expenditure of just under £2.2 billion during 2022-23[1] and capital outturn expenditure for 2022-23 was around £1.5 billion[2].

3 In Monmouthshire, the Council forecast capital expenditure of around £44 million during 2023-24 and it spent £45.7 million on capital projects in 2022-23. **Exhibit 1** below shows the Council's capital expenditure between 2012-13 and 2022-23 totalled nearly £350 million[3].

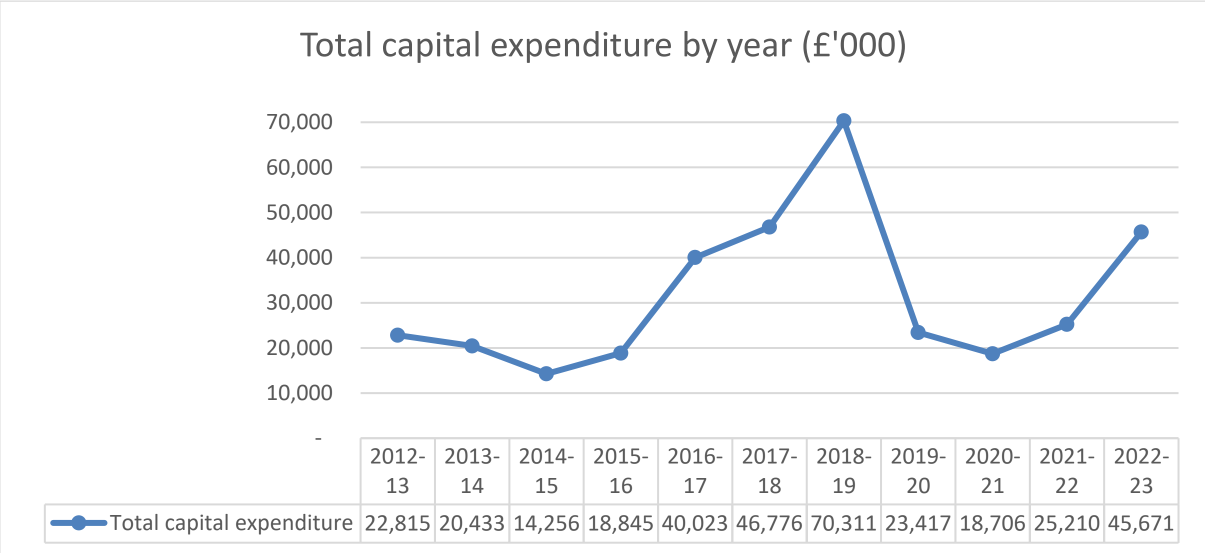
[1] Capital Forecast, by service (gov.wales)

[2] Capital outturn expenditure, by authority (gov.wales)

[3] The Council's capital expenditure was higher than usual in 2016-17, 2017-18 and 2022-23, due to investment in school buildings as part of the 21st Century Schools project. It also purchased Newport Leisure Park and Castlegate Business Park as investment properties during 2018-19.

Exhibit 1: capital expenditure 2012-13 to 2022-23[4]

The chart below sets out how much the Council spent on capital projects between 2012-13 and 2022-23.

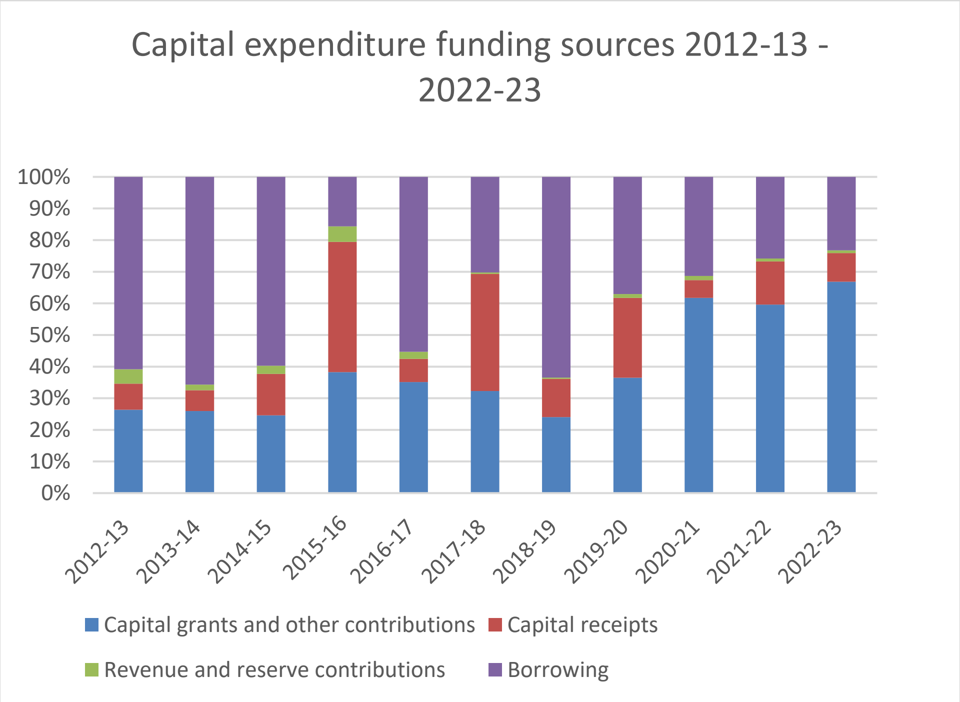


4 Most capital expenditure is funded by grants, capital receipts (from the sale of other assets) and prudential borrowing. **Exhibit 2** shows that the way capital projects are funded varies between years according to the availability of different funding sources. In recent years, grants have been the main source of funding, accounting for 67% (£30.5 million) of total funding in 2022-23. This reflects the timing and value of available grant schemes in those years. In contrast, only 26% (£6 million) of capital spending was funded by grants in 2012-13, when borrowing was the main source of income: 61% (£13.9 million).

[4] Capital outturn expenditure, by authority (£ thousand) (gov.wales)

Exhibit 2: capital expenditure funding sources 2012-13 to 2022-23[5]

The chart below sets out how the Council funded its capital projects between 2012-13 and 2022-23.



5 Funding from borrowing and capital receipts affords the Council more control over its capital programme, as grant funding often has strict criteria on what capital projects can be funded. But borrowing and capital receipts are limited by their affordability and availability. The current Capital Strategy reports that the Council has £188.1 million of borrowing and £38.3 million of treasury investments[6] resulting from historic capital expenditure. Financing this borrowing has long-term implications for the revenue budget and the Council is mindful of limiting further borrowing to ensure repayments are affordable.

6 Capital receipts are generated from the sale of existing assets and so the availability of funding will vary. Over recent years, the Council has made significant use of the Welsh Government's directive on flexible use of capital receipts. This allows it to use capital receipts to fund revenue expenditure that will generate ongoing savings or reduce revenue costs over the medium to long term. We noted in our 2021 Financial Sustainability Assessment that although use of the directive has helped relieve pressure on revenue budgets in the short term, it impacts on the Council's ability to fund capital projects over the medium to long term.

[5] Capital outturn financing, by source of funding (£ thousand) (gov.wales)

[6] As at December 2022.

7 Given the short and long-term financial impact of the capital programme, it is important that the Council has appropriate arrangements to ensure that its capital expenditure secures value for money. And, as capital projects are often designed to realise benefits over a long timescale, it is equally important that the Council applies the sustainable development principle when planning and delivering its capital programmes.

8 We undertook the review during the period November to December 2023. We used three capital projects as tracer areas to explore the arrangements in place. These were:

- Magor and Undy Community Hall build;
- Crick Road care home build; and
- Chepstow School planned maintenance work (window replacement).

What we found

9 Our review sought to answer the question: Does the Council have proper arrangements in place to secure value for money in the design and delivery of its capital programme?

10 Overall, we found that: Capital programme management arrangements demonstrate some strengths but lack focus on outcomes and impact. We reached this conclusion because:

- planning arrangements are generally robust, but the capital programme lacks clear outcomes; and
- monitoring arrangements focus on budget and timescales with limited consideration of impact or learning.

Recommendations

Exhibit 3: recommendations

The table below sets out the recommendations that we have identified following this review.

Setting and reporting on outcomes

R1 The Council should clearly articulate in its Capital Strategy:

- the outcomes it is seeking to achieve from its capital programme and how individual projects can contribute towards these;
- what success will look like; and
- how it will measure this.

This will provide a clearer structure for monitoring, and help the Council to demonstrate if its capital programme provides value for money.

R2 The Council should report on progress against the capital programme's planned outcomes so that members can scrutinise and gain assurance.

Detailed report

Capital programme management arrangements demonstrate some strengths, but lack focus on outcomes and impact

Planning arrangements are generally robust, but the capital programme lacks clear outcomes

11 In reaching this conclusion we found that:

12 **Involvement of stakeholders is appropriate and proportionate**. The annual budget consultation gives the public, staff, and elected members the opportunity to share their views on the draft capital budget. We also saw examples of the Council adapting the capital programme in response to that feedback, eg increasing funding for pothole repairs in 2023-24.

13 At project level, we found strong examples of involving stakeholders. For example, extensive public engagement, led by a local community group, took place to inform the community hall build. During the care home project, the Council also engaged regularly with residents' families and staff helped shape the design of the building. Although there was limited involvement of stakeholders in relation to the Chepstow School window replacements, this was proportionate to the project.

14 **There are robust arrangements to prioritise capital projects**. A priority matrix sets out the criteria against which the Council considers potential capital projects. The matrix prioritises spending on schemes relating to health and safety, and legal and regulatory obligations. It also gives high priority to projects that contribute towards delivery of the Council's well-being objectives. Grant conditions dictate the focus of grant-funded projects, but there is often alignment with Council priorities, eg 21st Century Schools funding. The Council also uses the priority matrix to ensure match funding goes to grant applications which contribute towards its own objectives.

15 At project level, both the community hall and care home projects demonstrate links to Council priorities, whereas the replacement windows were a health and safety priority informed by an independent condition survey.

16 **The capital programme lacks success criteria**. As a result, it is not clear what the Council wants to achieve from its overall capital programme or how it will measure this. By clearly defining the outcomes it wants to achieve and identifying appropriate measures, the Council will be better placed to monitor progress and assess the extent to which the completed programme provides value for money and contributes towards Council priorities. We understand the Council plans to introduce similar arrangements to demonstrate the benefits of its flexible use of capital receipts. This is a positive step to strengthening arrangements but should be rolled out to all types of capital spending.

17 **The Council collaborates effectively with a range of partners to deliver its capital programme**. The tracer projects demonstrate officers working with internal colleagues. For example, the care home scheme is being jointly project managed by officers from Estates and Social Services, allowing both to bring their own expertise to the project. The Council also worked with a wide range of external partners such as architects, construction companies, the local Health Board, community groups and the third sector. Project boards and stakeholder groups helped ensure regular communication between partners on the two construction tracer projects.

18 **Capital and revenue funding needed to deliver the Capital Strategy over the short and medium term is clearly set out in the annual capital budget but there remains a significant backlog of unfunded maintenance work**. Over the period 2023-24 to 2026-27, the Council has planned expenditure of £103 million. Nearly 75% of that total is budgeted in the first two years of the plan. After this, planned school schemes and use of capitalisation directive reduce, resulting in a much smaller annual budget.

19 The medium-term capital programme only includes funded schemes. The Council has identified a £52 million backlog of capital maintenance work which it is unable to fund. Although the scoring matrix gives assurance that the Council is prioritising higher-risk maintenance work, the backlog remains a key risk and delays to maintenance often lead to further deterioration which could result in larger future costs. Although the Capital Strategy and risk register recognise this risk, they do not quantify the potential long-term cost of the unfunded capital work.

20 The Strategy considers the longer-term revenue costs of capital expenditure; financing costs for existing borrowing are spread over the lower of 50 years and the expected life of the asset being funded. Both the Capital Strategy and budget monitoring reports recognise the need for caution in relation to borrowing and use of unbanked capital receipts. This is prudent in the context of the Council's financial position and the need to ensure finance costs are affordable over the long term.

21 At a project level, we found the Council has appropriate arrangements to identify delivery costs, revising where necessary in response to rising costs and unexpected issues. Despite very high levels of inflation impacting the care home construction costs, the Council was able to minimise the financial impact through value engineering and effective contract management. It also successfully secured additional grant funding to cover the increased costs. Consideration of ongoing cost implications varies by project. Whilst the care home business case sets out forecast annual revenue savings to energy and staffing costs, we did not see any figures to demonstrate the impact of the community hall's energy efficient design on running costs.

22 **The Strategic Risk Register and Capital Strategy demonstrate a good understanding of risks relating to availability of capital funding**. The Council also has appropriate arrangements for identifying and monitoring project level

risks. We found project risk registers in place for the two construction projects and regular updates and discussions on risks at board meetings and site visits.

Monitoring arrangements focus on budget and timescales with limited consideration of impact or learning

23 In reaching this conclusion we found that:

24 **Budget reports monitor cost and timeliness of capital programme delivery**. These clearly set out forecast outturn, provisional slippage and other budget adjustments. Short explanations are provided for schemes with slippage and under /overspends, and members have the opportunity to scrutinise. Underlying these reports is a more detailed list of all capital schemes, which also includes forecasted position and explanations for variances. Where a project forecasts an overspend then funding must be identified. The Council also holds project budget holders to account at directorate management team meetings.

25 **The capital programme has high level of slippages**. The impact of the pandemic on supply chains and labour availability continued to affect project completion in 2022-23. In total, schemes with a value of £33 million slipped into the following year, including several large value projects. This represents 42% of the total capital budget for the year. In 2023-24, the Council forecasts slippage of £11.9 million (13%). We reviewed the reasons for the 2023-24 slippages and found that although some are due to external factors, others are within the Council's control. For example, delays relating to planning, public consultation and required investigatory work could be mitigated by more accurate profiling that takes into account internal capacity and learning from previous projects. Senior officers also recognise the need for more robust and timely challenge of profiling and slippages. The Council would benefit from analysing the reason for recent slippages to identify any themes and determine what actions it can take to address these. The Capital Strategy requires schemes that slip into future years to be reassessed to ensure they remain a priority and remain affordable within set budgets. This is particularly important given recent challenges around inflation and supply chain disruptions.

26 **The Council does not formally review the completed capital programme to consider the impact of projects against Council priorities**. As noted above, the Council does not set out the benefits it hopes to achieve from its overall capital programme. This makes it more challenging to review outcomes and demonstrate the impact of capital expenditure. Officers told us they reflect informally on achievements and the Council is required to demonstrate outcomes as part of grant funding conditions for individual projects, but members do not currently receive assurance that the capital programme has delivered its intended benefits. The Council should therefore consider how it can demonstrate the impact and value of its capital programme, so members have the opportunity to scrutinise its effectiveness.

27 **Learning is generally informal, which could present a risk that not all relevant people have access to it**. Officers told us they reflect on capital programme management arrangements annually as part of the budget process and when setting the new capital strategy. They were also able to articulate weaknesses in the current arrangements and provide examples of learning from recent capital projects. But capturing this learning in a format that can be shared more widely would be beneficial.

Appendix 1

Key questions and what we looked for

Exhibit 4: key questions and what we looked for

The table below sets out the question we sought to answer in carrying out this audit, along with the audit criteria we used to arrive at our findings.

Level 2 questions	Audit Criteria[7] (what we are looking for)
2.1 Does the Council have robust arrangements to plan its capital programme?	• In developing its capital programme and strategy the Council: – involves an appropriate range and diversity of voices (including other organisations), including representatives of groups who share protected characteristics; – considers how it will deliver longer term aims (ie its well-being objectives) and how it can deliver a range of benefits; – sets out the outcomes it is seeking to achieve and how it will monitor their achievement; and – identifies the resources needed to deliver the strategy over the short, medium and longer term. • When planning individual capital projects, the Council: – involves an appropriate range and diversity of voices; – considers how it will deliver longer term aims (ie those in the strategy and its well-being objectives) and how it can deliver a range of benefits; – works with others (internal and external) to deliver those benefits; – sets out the outcomes it is seeking to achieve and how it will measure the value for money of the project over the short, medium and long term; – identifies the resources needed to deliver the project over the short, medium and longer term (whole life costs) and how it will manage risks/meet those costs supported by reasonable financial assumptions; – identifies key project risks and how they will be managed; and – sets out clear timescales for delivery.

[7] Our audit criteria have been informed by our cumulative knowledge of previous audit work, as well as the question hierarchy and positive indicators we have developed to support our sustainable development principle examinations.

Level 2 questions	Audit Criteria[7] (what we are looking for)
2.2 Does the Council have effective arrangements to monitor the delivery of its capital programme?	• The Council regularly monitors the delivery of its capital programme from a value for money perspective including: – delivery of projects to time and budget; – the impact of completed projects in relation to the Council's short, medium and long-term objectives; – taking effective action where projects are not being delivered with budget and/or on time; and – the Council has a track record of delivering projects on time and within budget.
2.3 Does the Council learn lessons from its approach to managing its capital programme?	• The Council regularly reviews the effectiveness of capital programme management arrangements including: – the economy, efficiency and effectiveness of arrangements in helping the Council to achieve its strategic objectives. • The Council shares and applies any lessons learned from the development and delivery of its capital programme widely across the organisation, and with partners where relevant.

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We welcome correspondence and telephone calls in Welsh and English.
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