

## Analysis of Key Corporate Risk 7 – Capital Programme

1. This Annex provides a more detailed analysis of KCR7, Capital Programme.
2. The description of this risk is as follows; **Failure to deliver the Capital Programme, which includes high profile projects.** The capital programme currently has a budget of £427m from 2025/26 to 2029/30 at Monitor 2. The schemes range in size and complexity but are currently looking to deliver several high profile projects, including Station Gateway and York Central.
3. Members will be aware of some recent high profile schemes where costs have increased significantly beyond the approved budget. A lessons learned exercise undertaken internally and a subsequent internal audit review has highlighted areas for improvement.
4. A key action is to undertake a review of existing arrangements with a view to creating a capital programme management office (PMO). This PMO will provide assurance, manage risk and support budget management. It will establish “guardrails” within which projects and programmes can be effectively delivered to time and budget as well as manage the provision of clear, timely, accurate information both within the Council and to external stakeholders.
5. This work will also result in a clear resource plan to give assurance that we have the right skills in the right places to deliver the capital programme, as well as creating a career pathway to support ongoing resilience of the overall project management functions.

### Risk Detail

#### Complex projects with inherent risks

6. The latest approved capital programme has a number of major schemes, including;
  - Investment in Housing of £155m over the next 5 years, £57m of which relates to the building of new homes
  - Investment of £188m in Transport, Highways and Environment schemes over the next 5 years including areas such as the Clean Air Zone, York Outer Ring Road Dualling (£42m) and the Local transport plan road safety scheme.
7. Other major individual schemes set to deliver significant outcomes for the city include Station Gateway (£36m), Castle Gateway (£8m) and York Central Infrastructure (£38m).

#### Large capital programme being managed with reduced resources across the Council

8. Due to reductions in government funding the Council has made significant savings over recent years, which has inevitably reduced staff resources.
9. Work is underway to create a capital programme management office (PMO) which brings together delivery of the capital programme into one function. This will allow the sharing of expertise across the programme and deliver robust and consistent processes across all capital programme schemes.

## **Analysis of Key Corporate Risk 7 – Capital Programme**

### Increase in scale of the capital programme, due to major projects and lifting of the borrowing cap for Housing

10. The Council continues to have a significant capital programme covering a wide range of schemes. In recent years, due to the Council's financial challenges, only essential new schemes have been considered and approved, and this has slowed down the rate of increase in the overall programme, reducing the risk that the programme grows beyond that which can be delivered.

### Cost pressures due to fluctuating inflation rate

11. This has been a significant cost pressure over recent years. There can often be a long delay between the inception and delivery of a scheme. Allowances are made for inflation when costing schemes, but the increases seen since the pandemic have been well beyond the tolerances usually included, particularly in construction where increases of 20% to 30% have not been unusual.

### Interest Rate expected to remain higher than previously forecast

12. Interest rates have an impact on the cost of a scheme funded through borrowing. Whilst the rate of borrowing does not fluctuate once it has been taken, during the planning stages of a new project assumptions are made about the cost of borrowing, which is crucial to determining if there is a valid business case for delivery of the scheme.

## **Implications**

13. The implications for the Council include;

- Additional costs and delays to delivery of projects
- The benefits to the community are not realised
- Reputational Damage
- Pausing or stopping schemes due to the economic climate can create compliance issues, meaning that some schemes need to be extended. This further increases the costs.
- Increased interest rates and inflation reduce the overall funding available to the Council and may therefore lead to reductions in service levels in other areas of the Council

## **Controls**

14. The controls in place include;

### Project boards and project plans for major schemes

15. Consistent with the guidance in the All About Projects (AAP) framework, each of the Major projects reports to a Project board. All these boards operate within the mechanisms set out in the constitution of the Council. The boards for each of the Council's Major projects are included in the corporate highlight report;

## Analysis of Key Corporate Risk 7 – Capital Programme

<https://data.yorkopendata.org/dataset/major-projects-highlight-reports>

16. Each major scheme has a project plan.

### Regular monitoring of schemes

17. Each of the council's major project managers submit a monthly highlight report through the Council's project management system, Verto. All of the council's large projects have a risk register recorded on Verto.

18. Project management of larger capital schemes is considered by the council's Directorate Management Teams (DMTs). The City Development Board provides additional coordination between projects, ensuring that dependencies are managed.

19. Arrangements are currently being reviewed to establish a Capital Programme Management Office. This will provide corporate and project assurance, manage strategic risk, support budget management, ensure compliance and safety as well as supporting project governance, management and gateway approval processes.

### Capital programme reporting to Executive and CMT

20. The capital programme is reported to CMT and Executive quarterly. The report sets out the projected outturn position including any variances from budget and adjustments in the budget. Requests to reprofile budgets to or from current and future years are also included, as these must be approved by Executive.

21. Major Capital schemes have also provided various reports to Executive. Further details of the Executive reports are listed in the highlight reports, which are reported on the open data platform as detailed in paragraph 13.

### Financial, legal and procurement support included within the capital budget for specialist support skills

22. In the capital budget setting process, managers are required to submit proposals for new schemes, taking account of budget, resources and benefits to be realised.

23. Where appropriate finance, legal, procurement or other specialist skills are included in the larger capital schemes from the outset to ensure that schemes are correctly resourced, and budgets are accurate.

### Project Management Framework

24. The Council's Project Management Framework includes the All About Projects (AAP) guide, its project management system (Verto) for storing project

## **Analysis of Key Corporate Risk 7 – Capital Programme**

information and the Introduction to Project Management training delivered by the Workforce Development Unit.

25. The AAP guide is readily available to all staff via the council's intranet site. In addition to the AAP guide, a user guide tailored to the council's Verto setup and to its project management framework has been produced and covers the key functions that need to be performed by project managers to progress through the gateways in the system.

### Additional resource to support project management

26. In the 2017/18 budget additional growth was included for a Project Assurance Officer post, to strengthen the project assurance function. This function aims to decrease risk in terms of project visibility and interdependencies and to provide support to project managers.
27. The creation of the Capital PMO referred to above will further strengthen the resource available to support project management.

### Capital Strategy 2025/26 to 2029/30 approved in Feb 2025

28. The latest Capital Strategy report was approved by Council in February 2025. This sets out the 5 year programme, including new investment based on council priorities and how the schemes will be funded.

### Capital Programmes are sufficiently staffed to deliver to timescales

29. Staff turnover and sickness absence in some areas has resulted in short term gaps in staffing. Interim staff have been engaged where appropriate, and recruitment has taken place to ensure staff are in place to deliver the capital programme.

### Internal Audit Report gave reasonable assurance on project management arrangements

30. The purpose of the audit was to provide assurance that procedures and controls were in place to ensure that:
- Effective project management guidance is in place and has been adopted by those involved with projects.
  - Project information is available and retained to support decisions.
  - Projects have adequate governance and risk management processes embedded into them.
31. The audit concluded that the council's approach to project management has seen significant improvements since the arrangements were last fully audited in

## **Analysis of Key Corporate Risk 7 – Capital Programme**

2015/16 but there are still some improvements that could be made. The overall opinion of the controls within the system at the time of the audit in June 2019 was that they provided reasonable assurance.

### **Outstanding Actions**

- 32. The development of the Capital Strategy for 2026/27 is set to be completed by 31/1/2026, for approval by Council in February 2026.
- 33. Review of major projects governance to be undertaken, including the development of a resource plan. This work has been referred to in the risk detail and controls above.

### **Risk Rating**

- 34. The gross risk score is 20 (likelihood probable, impact major). After applying the controls detailed above the net risk score is reduced to 15 (likelihood probable, impact moderate).