

Perth & Kinross Council

Major capital investments in councils: A follow-up report



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Key messages

Background

1. In 2013, the Accounts Commission published *Major Capital Investments in Councils* together with a good practice guide for councillors and officers and good practice checklist for project managers. The report was designed to promote and encourage good practice in the way the councils direct, manage and deliver capital investments.
2. As part of the 2013/14 audit, local government auditors are carrying out targeted follow up work on major capital investments in each council. The aim of this work is to provide a position statement on councils' major capital investments and in particular, on progress since the 2013 report was published.

Key findings

3. The Strategic Policy and Resources Committee considered the Accounts Commission's report *Major Capital Investments in councils* at its meeting in June 2013. The Council has taken the positive step of reviewing its position in relation to key recommendations of the report, and created an action plan which is currently being implemented to tackle those areas where the Council could improve.
4. To drive the improvements required the Council established a Strategic Investment Group (SIG) in June 2013 and appointed a Capital Programme Manager and capital programme team to scrutinise and support the capital programme and drive improvements. The SIG scrutinise projects on an individual basis holding officers to account for individual projects performance.
5. To further aid the process an internal audit report *Corporate Capital Programme* issued in March 2014 highlighted ten areas for action with six highlighted as high risk which the Council agreed to address by December 2014.
6. The Council is currently reviewing ways to improve the planning and governance of its capital programme, and is undertaking a review of processes and documentation in line with the above action plans. These developments considered by the SIG in May 2014 include:
 - clarifying the roles and responsibilities of those involved
 - ensuring business case approvals follow good practice guidance
 - developing asset management plans
 - improving performance monitoring arrangements for the capital programmes
7. Overall the Council having considered the national report is taking actions to strengthen its arrangements. The improvements in the planning and governance arrangements are currently being implemented in line with the agreed action plans, with many of these areas to be completed by December 2014. The impact on the capital programme therefore has yet to be fully realised. We will continue to monitor and report on the Council's progress in this area.

Introduction

Background

8. As part of our 2013/14 audit plan, we highlighted that we would undertake targeted follow up work on the Accounts Commission's *Major Capital Investments in Councils* report (published in March 2013). The audit provided the first comprehensive review of major capital investment in councils. It focused on major capital projects over £5 million each and assessed how well councils direct, manage and deliver capital investments. Key messages from the national report included:
 - accurate cost estimates are important from the outset of major projects. Weak estimating can undermine the successful delivery of a project and the potential to achieve value for money
 - councils have improved governance structures for investment decision-making in recent years. However, weak processes were identified for developing and using business cases and that monitoring information was insufficient
9. The national report contained fourteen recommendations aimed at councils to help them improve. Some of the key recommendations were that councils should:
 - develop and confirm long-term investment strategies to set out the needs and constraints for local capital investment, and consult with stakeholders
 - develop and use clearly defined project milestones for monitoring and reporting. This should include a clear process for preparing and approving business cases as a key part of decision-making and continuous review of all major capital projects
 - improve the quality of capital project and programme information that is routinely provided to elected members, including reporting of performance against cost, time and scope targets, risk and intended and realised benefits
 - consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary
 - actively look for opportunities for joint working with other councils, community planning partnerships and public bodies to improve the efficiency of their capital programmes
10. A good practice guide was published by the Accounts Commission for use by councillors and officers as part of the *How Councils Work* series. The national report recommendations and the good practice guide are designed to help councils improve the management and delivery of their capital investment programmes and projects
11. In addition a good practice checklist provides a detailed self-assessment checklist aimed at project managers to promote detailed review and reflection and, if necessary, a basis for improvement.

12. Whilst the position continues to improve the Council's capital programme has continued to be underspent. In 2012/13 we highlighted that if this pattern was to continue there would be a risk that the asset base would not be able to deliver the Council's strategic goals. The gross expenditure budget approved in February 2013 for the composite programme was £53.2 million and the housing capital investment programme £18.3 million. The actual expenditure in 2013/14 was £39.6 million and £15.6 million respectively. This represents an underspend of 25.6% (2012/13: 38%) and 14.8% (2012/13: 21%) against the initial budget.

Audit approach

13. As part of this year's audit a follow-up review is being carried out across all Councils in Scotland to assess progress since the 2013 report was published. The review is structured around the following key questions:
- Have the recommendations from the report *Major capital investment in councils* been considered by the Council and effectively implemented?
 - Does the Council have a long-term capital investment strategy and plan which reflects the Council's strategic priorities?
 - Are elected members provided with sufficient information to support effective scrutiny and decision-making?
14. The audit will also consider the extent to which councils are using the good practice guide and checklist to help improve the management and delivery of their major capital projects and programmes and to support effective scrutiny of plans. The audit will not cover how capital projects are funded in detail. This will be covered in part by the forthcoming performance audit *Borrowing and treasury management in local government*.
15. This report summarises the findings from our review and identifies the areas where the Council may be exposed to significant risk. Although this report identifies certain risk areas, it is the responsibility of management to decide the extent of the internal control system appropriate to the Council. We would stress, however, that an effective control system is an essential part of the efficient management of any organisation. The risk areas highlighted in this report are only those that have come to our attention during our normal audit work in accordance with our Code of Audit Practice and therefore are not necessarily all of the risk areas that may exist.
16. The report details the areas where continued risk exposure requires management action.

Acknowledgements

17. The contents of this report have been discussed with officers to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

Main findings

Consideration of national report

18. The Accounts Commission's report *Major Capital Investments in councils* was published in March 2013. A good practice guide for councillors and officers and a good practice checklist for project managers were also published in March 2013.
19. The national report was formally considered at the Strategic Policy & Resources Committee in June 2013. Officers advised that the good practice guide and checklist are being used in the development of the Council's revised internal guidance.
20. The Council has taken the positive step of reviewing its position in relation to key recommendations of the report, and created an action plan to tackle those areas where it could improve. This position statement for the Council in June 2013 highlighted several action areas including:
 - the national report is to be used to inform the capital budget setting process
 - asset management plans are to be utilised across all services to better support strategic decision-making
 - improvements in relation to outline and full business cases to ensure that early stage cost estimates and deliverability of projects are more accurate to reduce slippage within the capital programme
 - continue to explore opportunities for joint working and procurement
 - revise reporting arrangements for members and to assess the effectiveness of each project within the capital programme
21. Further to this, internal audit conducted a review of the Council's capital programme and reported its findings in March 2014. Internal audit's objectives were to ensure: the integrity and adequacy of the management of the capital programme; and the adequacy of the monitoring and reporting arrangements of the composite capital programme.
22. Internal audit's report *Corporate Capital Programme* highlighted that the internal control arrangements were moderate and the report resulted in ten agreed actions with six areas highlighted as high risk incorporated within the relevant areas of the report.
23. The Council having considered the national report is taking appropriate steps to strengthen its arrangements. To drive forward the required improvements in the planning and delivery of the capital programme the Council has established a Strategic Investment Group (SIG) in June 2013 and appointed a Capital Programme Manager and capital programme team in November 2013.
24. The actions to address the issues highlighted in the national report, and in internal audit's report, are in the process of being introduced therefore the impact on the capital programme has yet to be fully realised. The SIG in May 2014 considered the current position and agreed the next steps to strengthen the process.

Capital investment strategy and plan

25. The good practice guide indicates that a long-term capital investment strategy would help to set out the needs and constraints for local capital investment over a long period, perhaps 10-15 years. Major capital investment projects can take four or five years from inception to completion, and many take longer, so a long timescale is essential despite the uncertainties involved.
26. The Council has a Corporate Asset Management Plan however this strategic document has not been updated since 2009. A report to the SIG in May 2014 noted developments to the asset management plan framework to ensure these reflect good practice.
27. Currently capital projects do not form part of a single capital investment strategy, but are approved on a case by case basis for inclusion in the capital programme. Strategic outlines are developed based on the Council's existing strategic documentation (e.g. Perth City Plan, Schools Estates Strategy etc.). These strategic outlines are considered by the service management team and the Corporate Resources Group prior to an outline business case being developed for consideration by the Executive Officer Team and the Council.
28. In selecting projects for inclusion in the capital programme, a ranking process should take place whereby each proposed project is scored against criteria aligned to strategic outcomes and budget resources. Internal guidelines require that the project business case should "evidence how the project will deliver the outcomes including the achievement of the corporate plan priorities". A project prioritisation matrix is also included in capital budget reports to members which confirm if projects contribute to the corporate plan or single outcome agreement.
29. Internal audit's review highlighted that the criteria for prioritising projects should be revised and noted instances where the internal guidance on business cases was not being followed. The Council have agreed the actions in these areas will be addressed by December 2014.
30. Once approved the projects inform the Council's seven-year composite capital programme and five year housing capital programme, with both programmes being updated regularly to reflect projected levels of expenditure and project phasing.
31. The capital programmes are monitored and updated on a quarterly basis with the last update prior to the current budget setting process being considered by Strategic Policy & Resources Committee on 12 February 2014. The composite programme for 2020/21 and the housing programme for 2018/19 were agreed by the Council on 13 February 2014 and the Housing & Health Committee on 29 January 2014 respectively. The capital programme's gross expenditure is detailed in Exhibit 1 below.

Exhibit 1: Capital programme approved budgets

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Composite programme	51.0	67.3	51.7	23.0	27.2	27.1	13.4
Housing programme	20.3	13.9	10.8	8.7	9.0	n/a	n/a
Borrowing requirement identified	48.0	53.5	43.2	13.8	18.2	15.0	2.9

Source: Perth & Kinross committee papers

32. This ongoing monitoring of budgets allows the Council to profile its expenditure between years and indicate the borrowing requirements for future years. This audit has not covered the funding of capital projects as this will be covered as part of the forthcoming national performance audit of *Borrowing and treasury management in local government*.
33. Overall the Council recognise the risks inherent in its current arrangements and are:
- developing asset management plans to ensure that works programmes are appropriately managed
 - addressing issues highlighted by internal audit

Effective scrutiny and decision making

34. Councils should have sound governance structures in place to oversee and deliver their capital programmes. As highlighted previously members approve projects for inclusion in the capital programmes following consideration of the project at various stages. Individual projects are considered by the service management team and the Corporate Resources Group prior to a business case being developed for consideration by the Executive Officer Team. The Council and the appropriate committees approve inclusion within the capital programmes following their consideration of the project.
35. The Strategic Policy & Resources Committee consider quarterly monitoring reports summarising expenditure against budget, future resourcing requirements, recommendations for adjustments to the budget, and exception reports that track projects which have been accelerated or are behind schedule.
36. The Strategic Investment Group and Corporate Resource Group consider performance and financial information for each project. The Council has a project management tool kit, which is currently in the process of being reviewed and updated. This guidance currently requires a report to be provided monthly to Corporate Resources Group on progress, a full governance and reporting structure, a peer review, an approved business case prior to initiation, and a post-implementation review.

37. At the service level, the senior management teams are provided with a summary report for each major project on a regular basis. These reports contain a project summary, key milestones, key risks and issues, budget and expenditure analysis and details of any significant changes since the previous report.
38. Internal audit highlighted areas for development in performance monitoring including:
- continuing to review performance reporting arrangements with reports provided to the appropriate Council committees and corporate groups
 - developing a work plan which details key measurable deliverables and actions in relation to the capital programme
 - developing a methodology to carry out structured post implementation reviews that will include lessons learned
39. To further enhance the performance monitoring arrangements, the Strategic Investment Group (SIG) was established in June 2013 to evaluate the capital programme and drive forward improvements in the governance arrangements. Its membership includes the Leader of the Council, Deputy Leader, Executive Officer Team, statutory and other senior officers. The SIG, chaired by the Chief Executive, also monitors progress and challenges decisions on the capital programme for each service, providing strategic governance at a corporate level. Council officers report to the SIG on individual projects where necessary.
40. Internal audit's report agreed that the remit, roles and responsibilities of the various groups involved in capital investment will be incorporated within a capital programme governance model. These roles and responsibilities for the capital programme are yet to be formally agreed. The improvements planned include ensuring these roles and responsibilities are incorporated in process maps detailing initiating a capital project to developing a full business case and the required approval process (e.g. appropriate committees/Executive Officer Team/Corporate Resource Group/Strategic Investment Group). The SIG considered these developments in May 2014.
41. The good practice guidance issued in March 2013 suggests a programme risk register and benefit strategy should be considered by management and relevant committee on a quarterly basis. A programme risk register and benefits strategy has not been considered. The Council may wish to consider this in its review of performance reporting to ensure it recognises the level of risk facing the overall capital programme.
42. Overall the Council has appropriate governance structures in place with developments being implemented and monitored through the SIG including the clarification of roles and responsibilities and the performance reporting arrangements.