

ANGUS COUNCIL

SCRUTINY & AUDIT COMMITTEE – 24 SEPTEMBER 2013

AUDIT SCOTLAND REPORT - MAJOR CAPITAL INVESTMENT IN COUNCILS

REPORT BY THE STRATEGIC DIRECTOR - RESOURCES

ABSTRACT

This report highlights the key messages and main recommendations from Audit Scotland's report 'Major Capital Investment in Councils' and provides commentary on how current arrangements in Angus Council measure up to the best practice identified in Audit Scotland's report.

1. RECOMMENDATION

1.1 It is recommended that the Committee:

- (i) note the contents of Audit Scotland's report;
- (ii) note the contents of this committee report including the areas for development for Angus Council which officers will take forward; and
- (iii) consider whether further training for elected members on capital matters is required at this time and if so identify areas for early attention.

2. BACKGROUND

2.1 Audit Scotland has in recent years published a number of reports under the banner of 'How Councils Work: An Improvement Series for Councillors and Officers'. These reports cover a range of topics and are specifically designed as improvement tools which councils can use to self assess their existing practices and determine where they could or should try to improve. It is important to appreciate that whilst these Audit Scotland reports set out best practice which councils should consider adopting, their adoption is not mandatory – councils have the freedom to choose how far toward best practice they wish to go which in itself may be influenced by competing demands for officer and member time and financial resources.

2.2 A copy of the Audit Scotland report "Major Capital Investment in Councils" has been placed in the information hub and may also be accessed through the following link:

http://www.audit-scotland.gov.uk/docs/local/2013/nr_130314_major_capital_investment.pdf.

A copy of the main summary from the report is attached at [Appendix A](#).

2.3 The Audit Scotland report and its recommendations have been considered by officers over the summer and a self assessment undertaken on how well Angus Council's current arrangements for managing capital investment compare with best practice. The purpose of this report is therefore to highlight those areas where there is an opportunity to strengthen and improve our capital investment arrangements and determine the actions that need to be taken to address these.

3. KEY MESSAGES AND RECOMMENDATIONS FROM THE AUDIT SCOTLAND REPORT

3.1 Based on information gathered from all 32 Scottish local authorities, the report covers three main areas:

- an overview of capital investment in councils, including how much councils in Scotland spend on capital investment, what it delivers and how it is funded and financed;
- the delivery of major capital projects within cost and time targets, based on an examination of recently completed projects and projects currently in progress; and
- the management of capital projects and investment programmes, including areas where councils need to make improvements to help achieve value for money from capital investment.

3.2 The detailed findings of each of the above areas has not been duplicated in this committee report, however the key messages highlighted by Audit Scotland are:

- Since 2000/01, councils have invested £27bn in real terms in building and maintaining assets and infrastructure – more than any other part of the public sector. This includes £23bn from the capital budget and £4bn using private finance methods such as Private Finance Initiative and Non Profit Distributing contracts;
- Councils have increased borrowing in recent years to maintain investment, during a period of wider public spending reductions and constraints. Where plans are available, councils anticipate they will spend less on capital investment in future years, although borrowing will remain the main source of finance for investment;
- 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. For most of the completed major capital projects reviewed, councils' early estimates of the expected costs and timetable proved to be inaccurate. Estimating improved significantly as projects advanced, plans became clearer and contracts were awarded. Estimating for schools projects is more accurate than for non-schools projects; and
- Councils have improved governance structures for investment decision-making in recent years. However weak processes were identified for developing and using business cases and monitoring information was found to be insufficient. Improvements in these areas are important to support scrutiny and decision-making.

3.3 In light of the above, the key recommendations to come out of the report are 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, such as service users and suppliers, as they develop these strategies;
- Assess the overall appropriateness of using borrowing and private finance within the investment strategy. The strategy should balance the costs, risks and rewards of using these methods to ensure plans are financially sustainable and help each council achieve value for money;
- Actively look for opportunities for joint working with other councils, community planning partners and public bodies to improve the efficiency of their capital programmes. This should cover joint projects, sharing resources such as facilities and staff, sharing good practice and taking part in joint procurement;
- Improve the quality of capital project and programme information that is routinely provided to members. Information should cover:
 - annual financial performance against the capital budget
 - project and programme level performance against cost, time and scope targets
 - risk reporting (including identification, likelihood, financial impact and actions taken)
 - an assessment of intended and realised benefits;
- Carry out early assessments of risk and uncertainty to improve the accuracy of early-stage estimating of the cost and timescale of projects;
- Consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary;
- Collect and retain information on all projects including explanations for cost, time and scope changes and lessons learned. Report this information publicly to improve transparency and scrutiny of project delivery and share lessons learned across services and other councils; and

- 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.
- 3.4 To complement the aforementioned main report, the review also produced a good practice guide and checklist for project managers which are designed to help councils improve the management and delivery of their capital investment projects and programmes and to support effective scrutiny of plans. Copies of these documents are available through the following links:

http://www.audit-scotland.gov.uk/docs/local/2013/nr_130314_major_capital_investment_guide.pdf

http://www.audit-scotland.gov.uk/docs/local/2013/nr_130314_major_capital_investment_ch.pdf.

4. EXISTING PROCESS IN PLACE WITHIN ANGUS COUNCIL

4.1 The procedures in place within Angus Council for planning, monitoring and reporting General Fund capital investment have evolved over a number of years, with the last budget process (2013/14) seeing a move towards a priority based approach to capital budgeting.

4.2 Many of the areas of good practice highlighted in the report are already well established within Angus Council, as may be noted from the following summary of the existing processes and procedures already undertaken by Corporate Improvement & Finance with regard to the development and control of General Fund capital investment.

- Preparation of a Five Year Financial Plan

It is only within the last year that Angus Council has moved towards a 5 year financial plan – prior to this the plan covered 4 financial years. Reflecting the priority projects that elected members have agreed should be undertaken over the rolling 5 year period, this publicly available document is used as the basis for all capital related activity. The Council’s financial plan is updated and formally approved by committee twice a year:

1. Provisional Capital Budget Volume - approved by the Special Budget Meetings in February of each year; and
2. Final Capital Budget Volume – provisional volume updated to take account of actual income / expenditure for the preceding year, approved by the Corporate Services Committee in August / September of each year.

Whilst the preparation of the estimates contained within the financial plan are the responsibility of the officers within the relevant directorates / divisions, this is most often carried out in conjunction with staff from Technical & Property Services who hold the expertise in construction and infrastructure based projects.

- Preparation of Capital Budget Guidance

Detailed guidance is issued on an annual basis which provides directorates / divisions / budget holders with the appropriate information needed to steer them through the capital budgeting process.

- Use of Capital Project Appraisals (CPA)

The CPA process has been in place for a number of years now, its purpose being to provide chief officers and elected members with relevant information in a uniform format regarding an identified investment need, possible solutions and the implications (financial, economic and environmental) of the preferred course of action. It also promotes the “fleshing out” of capital projects at an early stage in their development in order to allow decisions to be taken with regard to the medium-term financial planning of the Council. CPAs are only prepared for those projects with an estimated gross cost in excess of £200,000.

- Budget Scrutiny and Review

A consequence of the wider management restructure has been the streamlining of the various groups involved in the budgeting process, with the Capital Budget Sub Group and Budget Review Groups having been disbanded as result. The remit of the Policy & Budget Strategy Group (PBSG), whose membership includes administration and non-administration elected members and senior officers who meet at key points during the annual budgeting

process, has been expanded to oversee and provide the appropriate forum for capital matters. Member / Officer Group meetings are also held to discuss the finer details of each directorate's capital budget and address any specific issues arising.

- Capital Project Priority Model

The capital project priority model was first introduced as part of the 2013/14 budget cycle and has proved a useful tool in capturing the capital position over the medium term on a single page, including: estimated resources available; priority projects that are to be taken forward; level of oversubscription on the capital programme; and projects that must be deferred due to lack of resources. It forms the basis of PBSG discussions throughout the capital budgeting process.

- Calculation of Prudential Indicators

The prudential indicators information which must be formally approved by Angus Council on budget setting day is drawn not only from the Council's financial plan, but also from past levels of borrowing, existing long term credit arrangements such as PPP / PFI, and future levels of revenue resources projected to be available to support the financing of capital expenditure. A detailed report explaining each of the indicators is prepared to ensure elected members are fully aware of the implications of the capital programme they are being asked to approve.

- Determining the Long Term Affordability of the Financial Plan

The Prudential Code requires the Council to consider the affordability and sustainability of its capital spending plans for 3 years into the future. This 3 year horizon is however considered insufficient to genuinely assess the long term impact of capital investment decisions and the Council has therefore adopted a 25 year planning model. Whilst looking so far into the future means assumptions require to be made with regard to levels of grant funding, interest rates, etc. what the model does provide is a good assessment of the impact of today's decisions five, ten, fifteen years down the line. To ensure elected members are fully aware of this impact, a report on the long term affordability of the financial plan is presented to the Special Budget Meeting of Angus Council each year.

- Capital Monitoring Report and Statement

Capital monitoring reports are presented to the Corporate Services Committee throughout the financial year, providing elected members and senior officers with information on the progress of capital projects against the approved monitoring budget for the year. As well as detailing actual expenditure / income and comparing outturn against budget, these reports also provide explanations of any significant variances arising on the capital programme.

- Capital Projects Monitoring Group (CPMG)

As with the PBSG, the remit of the CPMG has been expanded following the disbanding of the Capital Budget Sub Group to ensure that in-year capital matters are dealt with through the appropriate channels. With group membership including both elected members (administration and non administration) and officers, the CPMG uses the periodic monitoring capital monitoring reports and statements as the basis for discussions on the progress of capital projects during the year, as well as the consideration of slippage and project overspends.

- Joint Working

Angus Council has a number of joint working arrangements in place, including the East Central Hubco (for Brechin High School and Forfar Academy Community Campuses) and Tayside Procurement Consortium. Opportunities for joint working are assessed (and will continue to be so) on a project by project basis to ensure best value and efficiency can be achieved for Angus Council.

5. AREAS FOR DEVELOPMENT

- 5.1 It may be noted that Angus Council has a well established, comprehensive capital budgeting and monitoring process in place however the Audit Scotland report highlights some areas which officers believe should be developed further:

- Early Identification of Risks
The report highlights that early estimates of expected costs and timescales are often inaccurate and recommends initial assessments of risk and uncertainty to improve the accuracy of early stage estimating. The absence of detailed asset management plans (with the exception of schools) may be a factor in this as many risks that could potentially be identified and built into project requirements / estimates early on are not captured. Whilst the current Capital Project Appraisal (CPA) guidance does ask for consideration to be given to risk, this is an area which would benefit from enhancement within the guidance to ensure proper and detailed analysis is carried out in the early development stage of projects. A wider update of the CPA guidance is planned to be undertaken by Corporate Improvement & Finance in the near future.
- Capital Programme Consultation
The development of long term investment strategies to set out the needs and constraints for local capital investment, and the importance of consulting with stakeholders as these strategies are developed, is highlighted as a key recommendation. Whilst Angus Council has a number of processes in place with regard to the development of long term investment strategies – five year financial plan, long term affordability model, priority project model, etc. – the wider consultation with service users is an area which could be further developed. This could potentially be undertaken in conjunction with the revenue budget consultation in terms of service preferences and priorities and would ensure that capital implications are closely linked with the delivery of key services.
- Reporting of Performance
The report recommends reporting of performance against cost, time and scope targets and intended and realised benefits. This is an area which the council should consider further, but only for larger scale projects.
- Post Project Analysis
The report recommends that post project evaluations be carried out within six months of a project being completed to find out if the project has delivered, or is on course to deliver, the intended benefits and to learn lessons. This is an activity which is not carried out in a formal way within Angus Council and is an area where positive change and improvement could be implemented. This would require to be driven by the directorate / division carrying out the capital project however and the results presented to an appropriate forum for consideration and learning. Such a review would not be proposed for every project undertaken, perhaps only for those with a gross cost in excess of a de minimis level which it is considered should be no less than £500,000 to keep the number of reviews to a manageable level.
- Elected Member Training
The report identifies elected member training as an area of potential need. Members of the committee are therefore asked to consider whether further training is required at this time and if so to identify areas for early attention.

6. RISKS

- 6.1 This report does not require any specific risk issues to be addressed.

7. FINANCIAL IMPLICATIONS

- 7.1 There are no financial implications arising from the recommendations in this report, although it will be necessary to invest staff time to take the development areas forward. As with all areas of Council activity the relative benefits of implementing the changes highlighted above will need to be considered alongside other priorities and demands on what will be a diminishing staffing resource.

8. HUMAN RIGHTS IMPLICATIONS

- 8.1 There are no human rights implications arising from the recommendations in this report.

9. EQUALITIES IMPLICATIONS

9.1 The issues contained in this report fall within an approved category that has been confirmed as exempt from an equalities perspective.

10. CONSULTATION

10.1 The Chief Executive, Strategic Director of People, Strategic Director of Communities, Head of Corporate Improvement & Finance and Head of Legal & Democratic Services have been consulted in the preparation of this report.

11. CONCLUSION

11.1 The Audit Scotland report 'Major Capital Investment in Councils' provides an assessment of how well councils in Scotland direct, manage and deliver major capital investments and highlights a number of key recommendations in this regard. Whilst the existing procedures in place within Angus Council for the planning, monitoring and reporting of capital investment are reasonably robust, some areas for development have been identified.

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NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

APPENDICES:

Appendix A – Major Capital Investment in Scotland – Main Summary

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