

Falkirk Council

Major capital investment in councils

A targeted follow-up report



Prepared for Falkirk Council
June 2014

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Executive summary

Background

1. Audit Scotland uses a targeted approach to follow-up a small number of performance audit reports each year to promote local impact. This approach is one of a three-part approach to follow-up activity which also includes the preparation of impact reports (prepared around one year after publication) and national follow-up reports.
2. [Major capital investment in councils](#) was published on behalf of the Accounts Commission in March 2013 and is one of two reports selected for targeted follow-up during audit year 2013/14 in the local government sector. The other targeted follow-up relates to the report *'Arm's length external organisations: Are you getting it right?'*
3. 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.

Key findings

4. The local follow-up audit identified a number of areas of good practice including:
 - Audit Scotland's *Major capital investment in council's* report was reviewed by the council's Corporate Management Team (CMT).
 - A robust business case is required for all capital projects over £1m that are included in the capital programme.
 - Capital monitoring statements are presented to the Executive bi-annually (October and January) with a supplementary report in August which provides details of the preceding years out-turn. This allows members to scrutinise progress in implementing the capital programme.
 - Capital monitoring statements provide details of spend to date and projected spend for each project to enable members to identify any potential slippage or overspends at an early stage.
5. In addition, we also identified a number of areas where there is scope for improvement:
 - The Corporate Asset Management Strategy only covers the period 2011-2014 and needs updating to ensure that it accurately reflects the council's priorities and objectives going forward. We acknowledge that the strategy is in the process of being updated.
 - Capital monitoring statements provided to members do not currently provide an update on risks and how these may affect individual projects. A capital programme risk register should be considered to provide programme level view of aggregate risks to projects.

Management action

6. Issues arising from our follow-up audit together with management's responses are detailed in the Improvement Action Plan included at Appendix 1. The factual content of the report and improvement actions have been agreed with relevant officers.
7. The issues identified in preparing this report are only those which have come to our attention during the course of the review and are not necessarily, therefore, all the issues that may exist. It remains the responsibility of management to determine the extent of any improvement actions. However, we would stress that commitment to an improvement agenda is an essential part of the efficient management of any organisation.

Acknowledgement

8. The assistance and co-operation received from officers during the course of our audit work is gratefully acknowledged

Introduction

Context

9. The report on *Major capital investments in councils (March 2013)* 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.
10. The key messages from the report were:
 - Since 2000/01, councils have invested £27 billion in real terms in building and maintaining assets and infrastructure, more than any other part of the public sector. This includes £23 billion from the capital budget and £4 billion using private finance methods such as Private Finance Initiative and Non-Profit Distributing contracts.
 - Councils 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 we reviewed, councils' early estimates of the expected costs and timetable have proved to be inaccurate. Estimating improved significantly as projects advanced, plans became clearer and contracts were awarded. Estimating for school projects is more accurate than for non-school projects.
 - Councils have improved governance structures for investment decision-making in recent years. However, we identified weak processes for developing and using business cases and that monitoring information is insufficient. Improvements in these areas are important to support scrutiny and decision-making.

National report recommendations and good practice guidance

11. The report contained 14 recommendations aimed at councils to help them improve in this area. 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 such as service users and suppliers as they develop these strategies
 - 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. This should cover joint projects, sharing resources such as facilities and staff, sharing good practice and taking part in joint procurement.
12. In addition to the national report, two report supplements were published:
- A [good practice guide](#) (as part of the *How Councils Work* series).
 - A [good practice checklist](#) for project managers.
13. These supplements are targeted at project managers and are aimed at promoting detailed review and reflection and, where appropriate, identifying areas for improvement.

Scope and objectives of local follow-up audit

14. The follow-up audit is being carried out at all 32 councils in Scotland with additional, more detailed work (Stage 2) being carried out at nine selected councils. Falkirk is not one of the councils selected for Stage 2 review.
15. At a local level, the overall aim of this follow-up work is to answer the question: *to what extent has Falkirk Council improved performance in managing its capital investment programme?* Our follow up work focussed on the General Fund capital programme rather than the HRA because the latter mostly consists of repairs and maintenance contracts.
16. The specific audit questions are:
- Have the recommendations from the report *Major capital investment in councils* been considered and effectively implemented?
 - Do councils have sustainable capital investment plans which reflect strategic priorities?
 - Are elected members provided with sufficient information to support effective scrutiny and decision-making?
17. The local audit work will also consider the extent to which the council is using the good practice guide and checklist to help improve the management and delivery of its major capital projects and programmes and to support effective scrutiny of plans. The work 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*.

Audit approach

18. The audit questions which are at the core of the follow-up study (refer paragraph 5) have been expanded and developed into an audit checklist by colleagues in our Performance Audit and Best Value Scrutiny Group. The completed checklist and supporting evidence formed the basis of the main findings section of this local report.

Main findings

Have the recommendations from the report *Major capital investments in councils* been considered and effectively implemented?

Consideration of Audit Scotland national performance reports

19. Audit Scotland encourages local authorities to consider national performance reports, review key findings and whether there is any scope for making improvements locally. The expectation is that national performance reports are presented to an audit or scrutiny committee for members to consider and hold management to account for local performance.
20. The *Major capital investment in councils report* was not submitted to members for review and scrutiny. However, at the council's Audit Committee on 24 March 2014 members were advised of new arrangements agreed by the Corporate Management Team for responding to Audit Scotland national performance reports. These include consideration of reports by the appropriate committee and inviting relevant managers to explain what is being done locally in response to national reports. Furthermore, the Audit Committee will retain an oversight of the new arrangements through reports summarising the outcomes of scrutiny activity.

Impact of the national performance report locally and Good Practice Guide

21. The Audit Scotland national report was considered by the Corporate Management Team (CMT) at their meeting on 19 August 2013. As a result, a number of recommendations were implemented including the requirement for all capital projects of £1 million (or more) to be supported by a business case. It was also agreed that, in future, training for members would include capital issues. A training session was held for members on 28 April which covered capital and treasury management. The capital part of the training covered amongst other things, the definition of capital and the prudential code on borrowing.
22. While some recommendations were implemented following consideration of the report, no formal action plan was agreed. An action plan, compiled in SMART terms, would enable more effective monitoring of agreed improvements through allocation of responsibilities and timescales for implementation.

Improvement action 1

23. The good practice guide and checklist accompanying the national report were not formally considered by the council although many features of good practice already exist, including:
 - Strategic Alignment – as part of the bidding process services must specify which council priorities will be met by their proposed capital project(s).
 - Risk Management – risks associated with projects are identified through the bidding process.
 - Procurement Strategy – discussions are held on tendering and contractual options.

- Project Management – projects are broken down into manageable work streams to make them easier to manage.
- Resources – the scope of the project and its financing are developed in detail prior to authorisation to spend being sought.

24. It is common practice for many national reports to be accompanied by good practice guides to be considered by management in order to evaluate performance locally. It is important that these are circulated to officers and members, as appropriate, to ensure that they can evaluate and scrutinise local performance against good practice.

Improvement action 2

Do councils have sustainable investment plans which reflect strategic priorities?

Long-term investment strategy

25. The council have a Corporate Asset Management Strategy covering the period 2011 - 2014. It includes a section on Capital Planning as well as Investment and Asset Management. It aims to ensure that the council's 3-year capital investment plan is aligned with its asset management strategy to ensure that resources and investments are focused on the council's strategic aims and objectives.
26. Although the strategy demonstrates good practice in aligning the capital investment plan, the strategy has not been updated to reflect planned developments. There is a risk, therefore, that the strategy no longer reflects the council's priorities although we acknowledge that the strategy is in the process of being updated.

Improvement action 3

Investment capital plan

27. The council plans to incur capital expenditure of £57.7m and £55.6m for 2014/15 and 2015/16 respectively. These are combined totals including both HRA and General Fund capital programmes. Each programme is matched to funding resources and prudential borrowing as set out in the Three Year General Capital Programme 2014/15 - 2016/17. The HRA capital programme is primarily repair and maintenance orientated rather than major capital works. The capital programme consists of a number of projects, of which there are only three costing over £5m individually. The two largest of these relate to the Helix project (Public Realm £8.3m and Canal Works £14.5m).
28. The council's Three Year General Capital Programme was approved by full council on 12 February 2014. It covers the period 2014/15 - 2016/17. The programme generally meets the key features of good practice outlined in the Audit Scotland publication *Major capital investment in councils: good practice guide*, as summarised in Figure 1 overleaf.

Figure 1: Comparison of council's capital programme with good practice

Features of Good Practice	Current Capital Programme
The rationale for all main capital investment projects identified as priorities within the plan period, including expected benefits and any options around the selection of projects	✓ (does not cover expected benefits)
Details of planned annual project and programme costs	✓
Financing arrangements, including grant funding, borrowing, use of private finance	✓
Details of shortfalls/surpluses in available funding and actions to address these	✓
Details of re-profiling of capital spend between years	✓
Details of project slippage between years	✓
The effect of programme slippage on the delivery of the plan	✓ (through update reports to Executive)
Clear links between the overarching capital investment strategy and the annual capital budget monitoring	✓ (linked to bid process)

Internal audit review of capital programme

29. On 27 February 2014, Internal Audit reported their findings from a review carried out on the council's general services capital programme. It included a number of recommendations for improvements particularly in relation to the process for service project bids. In response, the Capital Planning and Review Working Group (CPRWG) carried out a review of the bid process and revised the format of the bid sheet (effective from 2015/16 financial year onwards). Services have been consulted on the group's proposals and feedback is being considered at present.
30. The new bid process will require services to provide more information when bidding for capital investment such as anticipated benefits in service delivery and asset performance, revenue budget implications, and sustainability and achievability information. In addition, projects will have specific links to the council's strategic objectives as set out in the Single Outcome Agreement. Furthermore, more detailed information on the potential risks associated with each risk will also be required. A scoring system has been introduced to assist the CPRWG in assessing individual projects in terms of legislative requirements, objectives and risks.

Are elected members provided with sufficient information to support effective scrutiny and decision-making?

Capital reporting and monitoring

31. Capital monitoring statements are prepared on a bi-annual basis (October and January) and presented to the Executive for review and scrutiny. There is also a further update for members in August which provides the out-turn position for the preceding year. These reports to elected Members include a comparison of projected spend against budget and projected programme resources against budgeted resources. This information reported is at a high level. However, if there are specific issues or problems with the projects costs or delivery then more detailed information is provided.
32. External factors such as UK and Scottish budget settlements, construction inflation, interest rates and other market factors are also considered at the budget stage but not included in the quarterly capital monitoring statements.
33. Following CMT's consideration of the Audit Scotland report on *Major capital investment in councils*, improvements to the information presented to members are planned. For example, the layout of the capital programme and bi-annual updates will, in future, provide a broader picture of the investment in capital projects at each stage in their lives.
34. In addition, the CMT at their meeting on 13 January 2014 revised the information which is routinely reported to members in relation to the capital programme. Members now receive information that shows previous and projected capital spending to date, by project, and the current status of each project. This enables members to identify potential overspends and slippage against programme. While this is helpful to members it falls short of best practice. In particular, there is no reporting of risk nor is there any assessment of intended or realised benefits associated with specific projects. This will be addressed in future.

Improvement action 4

Overall assessment

35. Overall, we have found evidence that Audit Scotland's national performance report *Major capital investment in councils* has been reviewed and discussed by the council's CMT. The council already had a number of good practices in place and recognises that further improvements can be made.
36. Revised arrangements for considering national performance have been agreed by the CMT and the Audit Committee have been notified. These will help ensure that Audit Scotland's reports are reviewed and scrutinised in more detail with local improvement action plans prepared where appropriate.

Appendix A

Improvement action plan

Action point	Refer para no	Issue identified	Planned management action	Responsible officer	Target date
1	22	No formal action plan (framed in SMART terms) was prepared following consideration of the initial report by the Corporate Management Team. It is difficult therefore to monitor progress in implementing improvements effectively.	In our report to CMT, we noted that the Audit Scotland report focused on high value projects, above the values that Falkirk Council routinely commission. It was noted that our response was therefore proportionate given the value of our projects and focussed on some key points. The recommendations subsequently made formed the basis of our action plan. The recommendations were measurable and have been implemented, albeit dates were not attached to the CMT paper.	Capital Manager	In future, and where considered necessary, a formal action plan will be drafted.
2	24	The 'Good Practice Guide' and 'Good Practice Checklist for Project Managers' were not considered in conjunction with the report by CMT. Areas with scope for improvement and areas of good practice may not have been identified by the council.	In our report to CMT, we noted that Audit Scotland focused on high value projects, above the values that Falkirk Council routinely commission. It was noted that our response was therefore proportionate given the value of our projects and focussed on some key points.	Capital Manager	When the Council next embarks on a significant very high value project, the checklist will be reviewed.

Action point	Refer para no	Issue identified	Planned management action	Responsible officer	Target date
3	26	The Corporate Asset Management Strategy relates to the period 2011 - 2014. This document should be updated to reflect the forward looking capital investment strategy of the council.	This document is in the process of being updated by Development Services.	Development Services	31 March 2015
4	34	The capital update information that is routinely reported to members does not include an assessment of risks. This information should be included in line with best practice.	We will review how we present risk information to Members.	Capital Manager	31 August 2014