AGENDA ITEM
7

AUDIT SCOTLAND FOLLOW UP REPORT – MAJOR CAPITAL INVESTMENT IN COUNCILS

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FALKIRK COUNCIL

Subject:	**AUDIT SCOTLAND FOLLOW UP REPORT – MAJOR CAPITAL INVESTMENT IN COUNCILS**
Meeting:	**SCRUTINY COMMITTEE**
Date:	**16 JUNE 2016**
Author:	**DIRECTOR OF CORPORATE & HOUSING SERVICES**

1. INTRODUCTION

1.1 The purpose of this report is to advise Members of the recommendations from Audit Scotland's National follow up report "Major Capital Investment in Councils" and thereafter to consider the Council's compliance with these recommendations. The follow up report was published in January 2016.

1.2 The recommendations from the report have been circulated to Services and comments sought from members of the Capital Planning and Review Working Group (CPRWG). The Working Group also includes officers from the Corporate Asset Management Working Group.

2. AUDIT SCOTLAND'S "MAJOR CAPITAL INVESTMENT IN COUNCILS"

2.1 Audit Scotland initially published the report "Major Capital Investment in Councils" in March 2013. The report looked at all Councils and recommendations flowing from the report were not specifically aimed at Falkirk Council. Details of the report were subsequently reported to Corporate Management Team (CMT) in August 2013. The Audit Scotland report focused on high value projects – the smallest project included in the review was £3.8m and the largest was £180.5m (excluding PFI projects). It was therefore recognised at that time that a number of the recommendations were overly bureaucratic for the size of most of our projects and the key messages from the report were therefore critically reviewed and applied appropriately. Audit Scotland also published Good Practice Guidance and a Checklist to aid Councils in managing their capital investment plans effectively.

2.2 The follow up report was published in January 2016 www.audit-scotland.gov.uk/report/major-capital-investment-in-councils-follow-up following an audit to assess to what extent Councils had improved performance in managing their capital investment programmes and projects since the 2013 report. Falkirk Council was asked to provide details of significant capital projects included within the approved Capital Programme e.g. the new ASN school.

2.3 The key recommendations from the follow up report are that Councils should:

- Prepare, review and monitor business cases that comply with good practice. This is to be done for all capital projects.

- Regularly carry out post-project evaluations to establish whether planned benefits are realised and identify good practice or lessons learned. Lessons learned can relate to both successful projects and those with significant difficulties

- Consider how best to review projects at key stages to help provide assurance about project progress and to identify any potential problems.

- Improve the quality of capital project and programme information that is routinely provided to elected members, including reporting of performance against cost and time at key stages, risk, intended and realised benefits, reasons for and consequences of slippage, delays and timing of spend.

- Provide Members with regular training on capital investment to enable them to scrutinise effectively capital investment activity.

3. CURRENT PROCESS

3.1 As stated in para 2.1, it was recognised that a number of the recommendations in the Audit Scotland report were overly bureaucratic for the size of most of our projects. Consequently it was recommended and subsequently approved by CMT in August 2013 that a de minimis level of £1m be set for the preparation of business cases for capital projects. Services have advised that they prepare business cases for projects valued at £1m and above.

3.2 "The Guide to Capital Expenditure" which is prepared and updated within the Finance division of Corporate & Housing Services and thereafter distributed to Services, specifically refers to the requirement to carry out post-project evaluations. A de minimis level for these reviews has been set at £1m and is in relation to stand-alone projects. Notwithstanding the requirement for these evaluations, Services also have to comply with the Contract Standing Orders in terms of reporting of contract overspends (see para 3.6).

3.3 This Guide prepared by Finance includes a template for post-project evaluations and Development Services as the contract lead, should complete this in consultation with the Client Service and Finance. The post-project review template records when the review was carried out i.e. at the end of the project or as the project progressed. It also considers what went well in the process and what didn't go well in terms of cost, timing, communication and delivery. Fundamentally the evaluation provides an opportunity to learn lessons and to ensure continuous improvement in delivering the Capital programmes. To maximise the lessons learned opportunity, post-project reviews should be undertaken within 9 months of project completion date.

3.4 The Guide states that completed post-project reviews should be discussed at future CPRWG meetings and reported annually to CMT. Given that the de minimis level for post-project reviews is set at £1m, there are a limited number of major stand-alone projects which would require a post-project evaluation. Indeed there are only three projects within the General Capital programme and one within the Housing Capital programme which have completed during 2015/16.

3.5 Details of the projects are as follows:

- Antonine Primary School Extension
- St Joseph's Primary School Extension
- Helix Visitor Centre – 2015/16
- New Build Housing – Merchiston Phase 2 – 2015/16

3.6 Development Services in conjunction with the Client Service and Finance, will therefore undertake a review of those projects that completed in 2015/16. Thereafter the findings will be presented to CPRWG before onward submission to CMT as per the Guide.

3.7 The Contract Standing Orders require that Services report to the Executive where project costs exceed the original contract value by more than 10% for contracts over £350,000 and for contracts of £350,000 or less, where the increase in cost equates to £35,000 or more. Whilst Finance is responsible for monitoring the approved Capital programme spend for the Council as a whole, it is the responsibility of Services to report such contract variations to the Executive.

3.8 The need for formalised post-project reviews does not extend to rolling programmes within both the General and Housing Capital programmes. It is recognised that these programmes although substantial in value, may consist of a smaller number of contracts which are monitored by Services on an individual basis and reported to Members as part of the Capital Update reports to the Executive. It would not be practical to formally report post-project reviews to CMT on these individual contracts within the rolling programmes. These programmes will however continue to be subject to on-going contract monitoring and management to ensure that they deliver on time and on budget, in accordance with specified requirements.

3.9 The information reported to Members has been reviewed since Audit Scotland's 2013 report. As part of the Capital programme process, the Budget book presented to Members, details the total budget for all major stand-alone projects, not just the budget for the 3 years being considered by Members. In terms of risk, the Budget book identifies the stage at which each project is e.g. feasibility or design, with risk of cost increases being more likely at the feasibility than design stage.

3.10 The Capital Programme Update reports to Members include details of the forecast variance against budget for both the General Fund and Housing Capital Programmes. Within these reports details of those projects that have slipped and the reasons for the slippage are stated. The reports also identify potential projects that can be accelerated to mitigate the slippage.

3.11 Audit Scotland recommended that Members be provided with cost/budget information on projects which spanned more than one financial year. Whilst we do provide budgeted information to Members on major stand-alone projects as part of the Capital budget process (per para 3.8) and make narrative reference to individual projects in our Capital Programmes Update reports, it is not formally captured in the tabular information we routinely include in our Update reports to Members.

3.12 The Good Practice Guidance and Checklist published by Audit Scotland as part of the 2013 report have both been circulated to officers within the CPRWG with particular reference to the need to comply with these publications in terms of our larger projects such as the new ASN School.

4. MEMBER TRAINING

4.1 Following Audit Scotland's National Report "Borrowing and Treasury Management in Councils" published in March 2015, the Executive approved the recommendation from the Scrutiny committee that training be made mandatory before Members can serve on the Executive, Scrutiny or Audit Committees. Consequently training sessions took place on 15 and 31 March 2016. Given that treasury management and capital investment plans are intrinsically linked, the training sessions covered both elements. The training looked at what Treasury Management is, the definition of capital expenditure, how it is funded e.g. grants, borrowing etc. and Council priorities linked to capital spend. Other areas covered included borrowing and the Prudential Code; investments e.g. how we decide where to invest, limits etc. The session also looked at the scrutiny role of Members and Officers in terms of capital and treasury activities. Both training sessions were very well received by Members.

5. CONCLUSION

5.1 It was recognised at the time Audit Scotland's report was published in 2013, that given the size of our capital projects a lot of the recommendations flowing from the report were overly bureaucratic. On this basis the key messages from the report were therefore critically reviewed and applied appropriately.

5.2 Overall the framework we have in place allows us to adequately monitor our Capital programmes but recognise that there may be some refinements that could supplement our monitoring role. These refinements include formalised post-project reviews reported to CMT and the inclusion of total costs/budgets for projects spanning more than one year within the Capital Update reports to the Executive.

6. RECOMMENDATIONS

It is recommended that Members note that:

6.1 post-project reviews will be undertaken for those projects which completed in 2015/16 and going forward for completed projects valued at £1m or more; and

6.2 additional financial information for projects which span more than one financial year, will be included in future Capital Update reports to the Executive.

Director of Corporate & Housing Services
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LIST OF BACKGROUND PAPERS

NIL