

REPORT TO: SCRUTINY COMMITTEE – 25 JUNE 2013

REPORT ON: MAJOR CAPITAL INVESTMENT IN COUNCILS

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 279-2013

1 PURPOSE OF REPORT

- 1.1 To provide Elected Members with a summary of, and a proposed course of action in response to the above national study prepared by Audit Scotland on behalf of the Accounts Commission.

2 RECOMMENDATIONS

- 2.1 It is recommended that Elected Members note the main findings arising from this national study and that the Chief Executive and Director of Corporate Services will review the current capital reporting and monitoring arrangements to adopt additional elements of good practice.

3 FINANCIAL IMPLICATIONS

- 3.1 Improved controls over the cost and time delivery of capital projects should lead to an overall reduction in capital costs. This will mean that more physical works can be delivered from within the fixed funding envelope for capital projects.

4 BACKGROUND

- 4.1 Audit Scotland conducted a comprehensive review of major capital investments within Councils across Scotland. It focussed on major capital projects over £5 million to assess how well Councils direct, manage and deliver capital investment. This included financing methods and management of spending in delivering projects against time and cost targets.

5 AUDIT SCOTLAND KEY RECOMMENDATIONS

- 5.1 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 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;

- 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;
- 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.

6 GOOD PRACTICE CHECKLIST FOR PROJECT MANAGERS

- 6.1 This was issued as a supplement to the main Audit Scotland study.
- 6.2 This can be used as a self-assessment tool and covers – vision and directions, planning execution, measuring and monitoring and business acceptance.

7 GOOD PRACTICE GUIDE

- 7.1 This is another supplement to the study.
- 7.2 This is particularly aimed at Elected Members, Chief Executives and Directors of Finance, Heads of Service and senior responsible owners and programme and project managers.
- 7.3 It considers programme management, project management and questions to support scrutiny and challenge.

8 CURRENT POSITION

- 8.1 The Council's approach to its capital programme has become more structured with the development of Asset Management Plans and dedicated asset managers.
- 8.2 Whilst there is a good track record on cost management, time management of projects is not part of the monitoring process or report to Committee.
- 8.3 Initial costs within the capital plan are occasionally exceeded at tender stage or during project because of changes in client specification. There may be a need to ensure that design is accommodated within the budget available.

9 POLICY IMPLICATION

This report has been screened for any policy implications in respect of sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

10 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted.

11 BACKGROUND PAPERS

None

**MARJORY M STEWART
DIRECTOR OF CORPORATE SERVICES**

28 MAY 2013

Major capital investment in councils



 ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 2013

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, requests local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 45 joint boards and committees (including police and fire and rescue services).

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Summary

Page 2

Background

About this audit

Page 3

Summary of key messages

Key recommendations

Page 4

Part 1. Capital investment in councils

Page 6

Key messages

Since 2000/01, councils have spent £23 billion in real terms on capital investment

Councils have spent around half of total public sector investment each year

Councils have increased borrowing in recent years to maintain investment

Page 7

Councils have procured £4 billion of investment through private finance contracts

Page 8

Councils have completed 121 major capital projects worth £3.5 billion since 2009

Page 9

Part 2. Delivering major capital projects within cost and time targets

Page 12

Key messages

There are significant gaps in the availability of cost and time information

Page 13

Councils delivered most projects since 2009 within or close to contract cost, despite early estimates being too low

Page 14

Most projects were delayed compared to initial estimates

Page 16

School projects perform better to cost and time targets

Some major projects in progress have increasing costs and delays

Recommendations

Page 17

Part 3. Managing capital projects and investment programmes

Page 20

Key messages

In recent years, councils have improved governance structures for investment decisions

Page 21

Councils' investment and financing plans are uncertain

Page 24

Councils have weak processes for developing and maintaining business cases

Page 25

Councils do not have enough information to scrutinise effectively

Councils do not review all completed projects to learn lessons

Page 26

There is limited evidence of collaboration in capital investment planning

Page 27

Recommendations

Page 28

Appendix 1. Audit methodology

Page 30

Appendix 2. Methods of financing and funding capital investment in councils

Page 31

Appendix 3. Sixty-three completed projects analysed in our audit

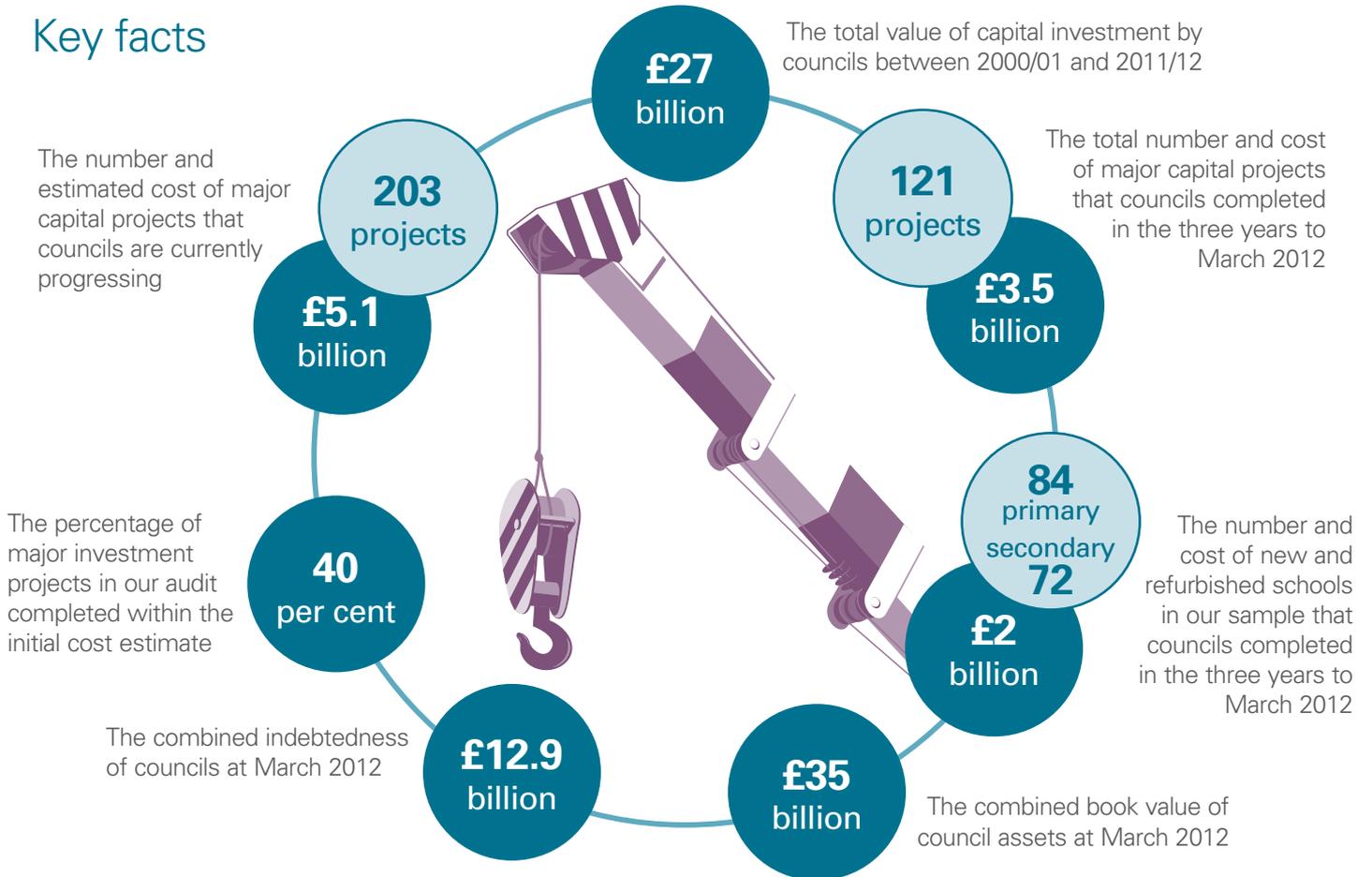
Page 33

Appendix 4. Project advisory group members

Page 36

Summary

Key facts



Councils' capital investment involves spending on property and other assets that councils will use over many years to provide public services

Background

1. Councils' capital investment involves spending on property and other assets that councils will use over many years to provide public services. It includes spending on new buildings such as new and refurbished schools, social housing, sports and community centres and care homes for older people. As well as new facilities, councils must also invest to maintain and repair their existing property assets such as local roads, schools and social housing.

2. The 32 councils in Scotland spend significant amounts of money on capital investment every year and this has increased steadily in real terms – that is, allowing for the effects of inflation – since 2000/01. In 2011/12, they spent £2.4 billion on capital investment, in addition to their £18 billion revenue spending that year – that is, spending on the day-to-day cost of providing services. Capital investment in 2011/12 was the highest in real terms in any year since 2000/01.

3. Improving facilities and other assets can help councils deliver services more efficiently and effectively and enhance people's experiences of council services. Councils' capital investment can help to:

- sustain and improve public services and achieve service plans and local outcomes – that is, the local priorities that councils have agreed to deliver
- improve the overall efficiency of how councils manage their properties and reduce costs in the long term (this includes reducing carbon emissions and helping to contain the effect of rising energy prices)

- boost economic growth and stimulate economic recovery, by providing employment opportunities in construction and engineering and wider commercial opportunities for local and national businesses

- achieve a wide range of other goals and objectives, in accordance with local priorities.

4. Councils make their own decisions about capital investment and must ensure their spending plans are prudent, affordable and sustainable. Planning capital investment requires a long-term and strategic outlook. Councils must also select, design and deliver individual investment projects to a high standard. Elected members are important decision-makers for capital investment and have a fundamental role in ensuring that councils deliver investment plans successfully. Effective governance arrangements that manage, challenge and scrutinise how programmes are delivered, and strong financial, project and risk management are all important to ensure that investment provides value for money.

5. Councils pay for capital investment from a range of sources. Mainly they borrow for capital investment, so that the cost spreads over many years. They also pay for investment through Private Finance Initiative (PFI) and Non-Profit Distributing (NPD) contracts, which also allow the costs to be spread over a longer time.¹ Central government grants are the second main source of funding for investment and the Scottish Government therefore has a strategic role in shaping and supporting councils' investment, particularly for schools, housing and transport infrastructure. Councils also use money transferred from revenue budgets and income from selling

property for capital investment. But these and other sources provided less than a fifth of the total capital investment by councils in 2011/12.

6. Over the two years to 2014/15, the public money available for capital investment across the public sector is forecast to decrease significantly and the position in later years is expected to face similar reductions. It will be vital for elected members and council officers to set clear priorities and provide strong leadership and effective management to ensure value for money from their capital investment programmes.

About this audit

7. Audit Scotland has reported previously on some major capital projects and initiatives in councils.² We have also reported on the management of major capital projects in other parts of the public sector.³ However, this audit provides the first comprehensive review of major capital investment within councils. It focuses on major capital projects over £5 million each and assesses how well councils direct, manage and deliver capital investments. In doing so, it reviews the level, type and financing methods of investment spending in councils. It also examines how well councils manage their investment spending as a programme and their performance in delivering major capital projects against time and cost targets.

8. The report has three parts:

- Capital investment in councils ([Part 1](#)).
- Delivering major capital projects within cost and time targets ([Part 2](#)).
- Managing capital projects and investment programmes ([Part 3](#)).

¹ These methods do not involve using a council's capital budget. Instead, the council meets the cost of providing each project over typically 25 to 30 years or more through ongoing revenue payments to the providers over the life of the contract. These payments cover the costs of construction as well as service and maintenance costs. For accounting purposes, PFI projects are now usually reflected in council balance sheets.

² In particular, in recent years, *Commonwealth Games 2014 – position statement* (2012 and 2009), *Edinburgh trams interim report* (2011), *Maintaining Scotland's roads – a follow-up* (2011), *Improving the schools estate* (2008).

³ *Management of the Scottish Government's capital investment programme* (2011); *Review of major capital projects in Scotland* (2008).

9. In Part 1, we detail how much councils spend on capital investment, what it delivers and how it is funded and financed. Part 2 focuses on councils' performance in delivering individual major capital projects to cost and time, based on our examination of recently completed projects and projects currently in progress.⁴

Part 3 assesses councils' broader capital planning and management capabilities, including areas where councils need to make improvements to help achieve value for money from their capital investment.

10. We have also published a good practice guide as part of the *How councils work* series to help councils make improvements where necessary.⁵

11. The report draws on a number of sources including the following:

- An initial survey of all 32 councils to establish the total number of major capital projects, both recently completed and currently in progress.
- A review of 63 recently completed major capital projects in councils with a combined cost of £2.9 billion, assessing how they performed against cost and time targets and other aspects.⁶
- A review of 15 major capital projects in progress in nine councils at April 2012, with a combined estimated cost of £919 million.
- Interviews with 21 senior council staff and nine elected members and a review of papers to assess project and programme management in nine councils.
- Published good practice in project and programme management.

12. In this audit our primary focus was on how councils direct major capital projects costing £5 million or more. Councils' capital investment also includes projects costing less than £5 million and major programmed maintenance work in areas such as roads and social housing. The latter may cost more than £5 million but comprises large volumes of relatively routine work such as roads maintenance or replacing kitchens or bathrooms. Our audit did not examine these other types of investment in any depth.⁷

13. Appendix 1 provides more information on our methodology.

Summary of key messages

- 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 schools projects is more accurate than for non-schools 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.

Key recommendations

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

4 This report does not consider the Edinburgh trams project or projects relating to the 2014 Commonwealth Games. As noted, these projects have been subject to separate Audit Scotland reports.

5 *Major capital investment in councils: Good practice guide* is part of the Accounts Commission's *How councils work* series. The guide can be downloaded from our website www.audit-scotland.gov.uk

6 The projects we examined represented 82 per cent of the £3.5 billion cost of all 121 major capital projects completed by councils in the three years ending March 2012.

7 Audit Scotland will publish a report on housing in Scotland later in 2013.

- 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
- 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
- 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.

Part 1. Capital investment in councils



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



Key messages

- 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. This investment was needed to address a long-term decline in councils' assets and to develop new infrastructure.
- Councils increased borrowing in recent years to maintain investment, during a period of wider public spending reductions and constraints.
- Most recently, in the three years ending March 2012, councils have completed 121 major capital projects worth £3.5 billion. A further 203 major projects are in progress with a combined value of £5.1 billion. Most of the completed projects (£2.5 billion) were for improving schools and school properties. This area remains a priority with 82 schools projects worth £2 billion in the current programme.

Since 2000/01, councils have spent £23 billion in real terms on capital investment

14. Since 2000/01, councils have spent £23 billion in real terms on capital investment. This has paid for building and developing many types of investment projects including new schools, care homes and sports facilities. It has also paid for significant elements of maintaining and

refurbishing councils' infrastructure such as housing repairs and road maintenance.

15. Councils' capital spending almost doubled in real terms from £1.2 billion in 2000/01 to just below £2.4 billion in 2008/09. Following the onset of the recession, capital spending fell by 11 per cent between 2008/09 and 2010/11 but increased again to £2.4 billion in 2011/12 owing to additional borrowing. Councils' capital spending between 2000/01 and 2011/12 increased at a higher rate than revenue spending in the same period. Capital spending almost doubled in real terms whereas revenue spending increased by almost 50 per cent.

16. This growth in capital investment spending reflects priorities councils set individually and is consistent with the spending plans of the Scottish Government, reflected in successive local government financial settlements. In general terms, more investment was needed to address a long-term decline in councils' assets, to develop new infrastructure and (in later years) to stimulate the economy. An Audit Scotland report in 2009 found that many council assets were in poor condition and unsuitable for the services being delivered from them.⁸

Councils have spent around half of total public sector investment each year

17. Between 2008/09 and 2011/12, councils have provided almost half of public sector capital investment ([Exhibit 1, overleaf](#)). Total public sector investment includes spending on areas such as national transport infrastructure (mainly rail services and motorways), prisons, colleges and hospitals. In 2011/12, councils spent £2.4 billion (56 per cent) on capital investment compared to transport's

spending of £755 million (17 per cent) and the NHS' £488 million (11 per cent).⁹ Together, other areas spent £672 million (16 per cent).

18. Between 2008/09 and 2010/11, almost a third of councils' capital investment was on housing, with schools and transport, including road maintenance, each accounting for around a fifth of the total.¹⁰ Central services, such as office accommodation, and culture services such as leisure facilities and museums, together accounted for just under a fifth of overall capital spending.

Councils have increased borrowing in recent years to maintain investment

19. Councils fund capital investment from a range of sources, including:

- borrowing from the UK Government¹¹
- capital grants from the Scottish Government
- receipts from selling assets
- transfers from revenue budgets.

20. Increasingly, councils have borrowed to finance capital investment, allowing them to spread the cost over many years. The level of annual capital investment has almost doubled in real terms since 2000/01 and the proportion financed by borrowing has increased by about a half during the same period.

21. Councils have increased their use of borrowing since prudential borrowing was introduced in 2004. ([Exhibit 2, page 9](#)). This allowed councils greater flexibility to borrow for capital investment without specific consent from the Scottish Government. In doing so, each council

⁸ *Asset management in local government*, Audit Scotland, May 2009.

⁹ Councils' figures are taken from annual accounts. Other figures are taken from Scottish Government draft budget documents 2008-12. Owing to changes in the Scottish Government portfolio structure it is not possible to provide trend analysis from 2000/01.

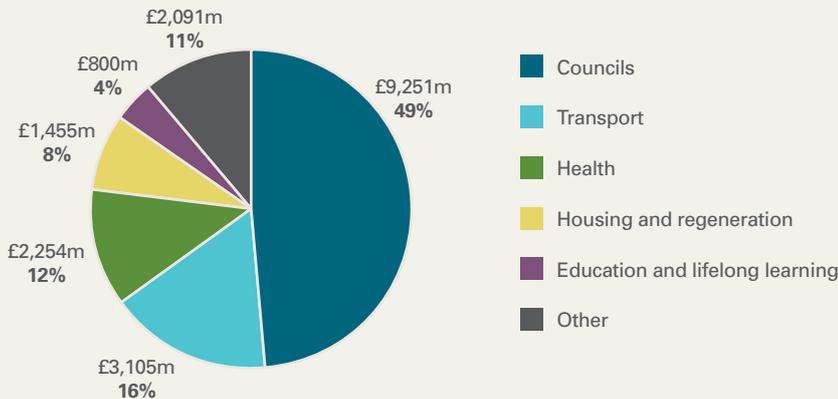
¹⁰ *Scottish Local Authority Capital Expenditure 2010-11*, Scottish Government, April 2012.

¹¹ Borrowing is mainly from the National Loans Fund and distributed by the Public Works Loan Board (PWLB). The PWLB is part of the UK Debt Management Office and is a non-ministerial UK government department.

Exhibit 1

Public sector capital spending by area 2008/09 to 2011/12 (real terms)

In the last four years, councils spent almost £9.3 billion on capital investment, about half of total public sector capital investment.



Note: Transport, Education and lifelong learning, and Housing and regeneration figures relate to central government spending. 'Other' includes Justice, Scottish Water loans, Rural affairs and the environment, and Enterprise, energy and tourism
Source: Audit Scotland

must decide and keep under review the amount of money it can afford to borrow for capital investment, with reference to the Prudential Code.¹² The requirements of the code are intended to ensure that councils apply proper care and prudence regarding investment decisions. Until 2011/12, councils received support from the Scottish Government towards the financing costs of borrowing. In the final year, this amounted to £305 million, representing just over a quarter of borrowing in that year. From 2011/12, this support was replaced by grant and included as part of the General Capital Grant.

22. Scottish Government grants have been the second main source of funding for councils. These comprise grants for specific projects and General Capital Grant, which can be used at councils' discretion. Although

councils make their own decisions about capital investments and priorities, since 2000/01 the Scottish Government has provided £5.8 billion capital grant funding to councils in real terms. This is an average of about £480 million a year. The level of grant funding available to each council is an important factor in deciding how much borrowing they need to fulfil capital investment plans. Grant levels reached a peak of more than £820 million in 2009/10 but they have since declined in both cash and real terms.

23. Councils also use money transferred from revenue budgets and income from selling property to help fund capital investment. These and other sources provided less than a fifth of councils' total capital investment in 2011/12. Councils attribute the reduction in financing from asset sales to the significant

general decline in property market values and activity across the Scottish and UK economy.¹³

24. Recent investment has contributed to an increase in the value of councils' total property assets reported in their annual accounts by 35 per cent, from £26 billion in 2007/08 to £35 billion in 2011/12.¹⁴ The main sources of finance for investment in this period have been borrowing and the use of Private Finance Initiative (PFI) or Non-Profit Distributing (NPD) projects. Councils' combined debt levels have increased by 39 per cent from £9.3 billion in 2007/08 to £12.9 billion in 2011/12.¹⁵ With further borrowing and private finance investment planned over the next few years, overall debt levels may continue to rise.

Councils have procured £4 billion of investment through private finance contracts

25. Councils have financed significant capital investment using PFI and NPD contracts. Under these contracts, the council appoints a contractor who is responsible for designing, building, financing and operating the new building over a contract period of around 30 years. The council does not have to meet the up-front costs of the new building or asset from its capital budget and does not pay for the investment directly from borrowing or other sources. Instead the council pays the contractor an annual charge for constructing the asset and any related services, for example building maintenance services, over the contract life.¹⁶

26. Councils have more NPD and PFI contracts in place than any other part of the public sector in Scotland. Since 2000/01, councils have procured almost £4 billion worth of capital investment in real terms using PFI

¹² This is a professional code of practice developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to help councils with decisions that relate to affordability, sustainability and prudence.

¹³ For example, in evidence to the Scottish Parliament's Finance Committee in autumn 2012, Registers of Scotland reported that over the previous 12 months it had recorded just under £1.8 billion in commercial property sales in Scotland compared to the high of £6.3 billion during 2006/07.

¹⁴ Some of this growth is attributable to annual asset revaluation.

¹⁵ This is net external debt (total borrowing less any investments).

¹⁶ Buildings provided through PFI and NPD contracts have since 2010/11 been treated as assets on councils' balance sheets and some of the contract payments made to the PFI and NPD providers are treated as financing charges.

and NPD (Exhibit 3). This represents 58 per cent of total public sector NPD and PFI commitments in Scotland, compared to about 20 per cent in both health and central government. About half of these commitments were made in two years, 2006/07 and 2007/08, adding an extra 50 per cent worth of investment in those years and pushing the total investment to over £3 billion a year. Since then, councils have added £130 million of PFI and NPD investment.

27. The high levels of investment reflect previous Scottish Government policy, which encouraged councils to consider using PFI contracts for investment where councils judged it to provide value for money. Councils used PFI contracts for very large-scale major capital projects rather than smaller, more routine elements of capital spending. In 2008, the Scottish Government decided to adopt NPD as its preferred model for private finance projects.¹⁷

28. Thirty-eight projects for new or completely refurbished schools account for 95 per cent of the total value of councils' PFI and NPD commitments. Seven other PFI projects, including waste, IT and road projects, account for the other five per cent of these types of contracts.

29. Further information about methods of financing investment in councils is in Appendix 2.

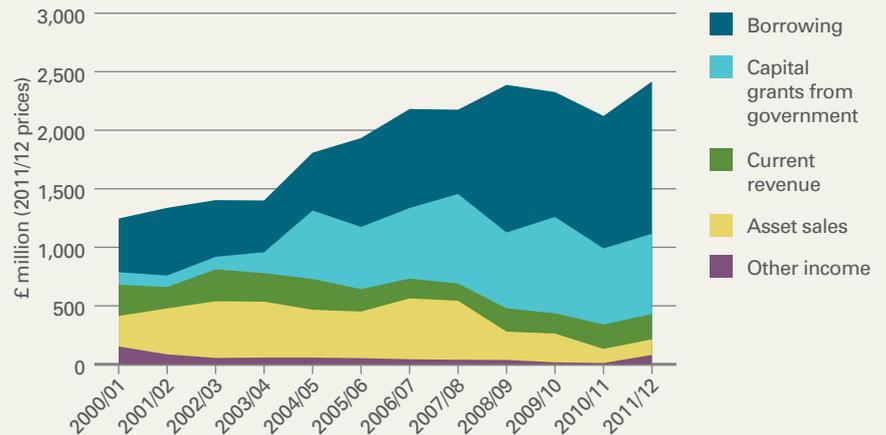
Councils have completed 121 major capital projects worth £3.5 billion since 2009

30. Each council must keep records of its capital projects. Annual accounts detail total capital investment spending each year. However, information was not available on all planned, ongoing or completed major projects across councils in Scotland. We therefore surveyed all 32 councils to get this information. We

Exhibit 2

Sources of financing for councils' annual capital expenditure, 2000/01 to 2011/12 (real terms)

Since 2000/01, councils have increasingly used borrowing and government grants, with a significant reduction in financing from receipts from asset sales.

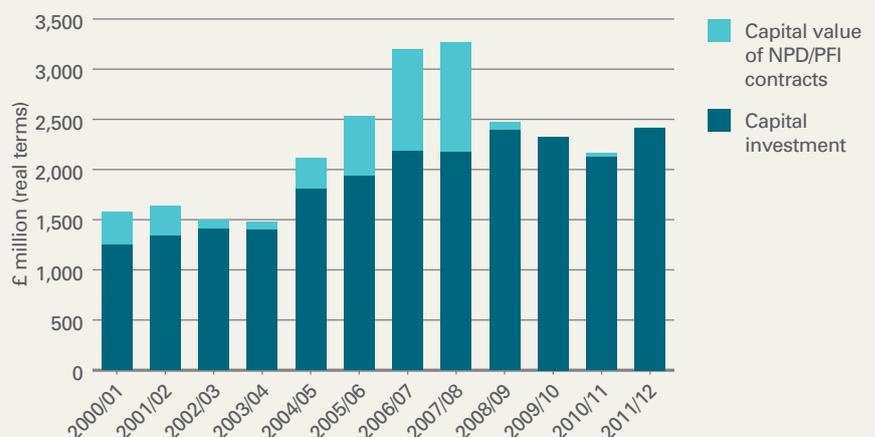


Source: Audit Scotland

Exhibit 3

Annual capital spending by councils and the capital value of signed PFI and NPD contracts in the same year

Since 2000/01, councils have spent £23 billion in real terms on capital investment. In addition, they have signed £4 billion worth of PFI and NPD contracts.



Source: Audit Scotland

¹⁷ Under the NPD method there is a partnership with a private sector company, who pays up-front construction costs and ongoing maintenance costs. The public sector pays an annual charge to this company over the life of the asset from its revenue budget. NPD contracts impose a limit on the profits that the private sector company may retain and any surplus profit is reinvested in the public sector.

concentrated on recently completed projects – that is, projects that were physically completed in the three years to the end of March 2012 – and projects that were in progress at the time of our survey in April 2012.

31. Councils reported that since 2009 they had completed 121 major capital projects with a combined value of £3.5 billion. Another 203 projects, worth £5.1 billion, were in progress at April 2012 ([Exhibit 4](#)).

32. Our analysis of completed projects shows the following:

- Most – 52 – with a combined value of £2.5 billion (71 per cent of the total cost of all projects) were for new or redeveloped schools.
- Thirteen were sports facilities, which accounted for £218 million (six per cent).
- Ten were road and other transport-related projects costing £124 million (four per cent), and four were arts projects costing £130 million (four per cent). These included the new Riverside Museum in Glasgow and the refurbishment of the Usher Hall in Edinburgh, costing £85 million and £25 million respectively.
- Eight were office accommodation projects costing £163 million (four per cent). These included Aberdeen City Council's new corporate headquarters (£68 million) and new office accommodation for Dundee City Council (£35 million).
- Three were flood prevention schemes costing £87 million (two per cent). The City of Edinburgh Council's scheme at Braid Burn (£43 million) was the largest of these.
- The remaining 31 projects, costing £320 million (nine per cent), included social housing, care homes and shared service facilities. West Lothian Council's Civic Centre (£47 million) was the largest of these projects.

33. Although only 16 of the 121 completed projects were PFI projects, they were higher-value projects with a combined value of almost £2 billion, 56 per cent of the value of all projects completed in the period. All PFI projects were for school buildings and property improvements.

34. Councils' investment in maintaining social housing can be significant but only a small proportion is in the form of major projects. Housing projects are typically valued at less than £5 million or are rolling programmes of maintenance and repair rather than new, one-off, projects. For example, in 2011/12, Aberdeen City Council spent £18 million replacing kitchens and bathrooms as part of its annual housing modernisation programme.

Councils have about 200 major projects in progress worth almost £5.1 billion

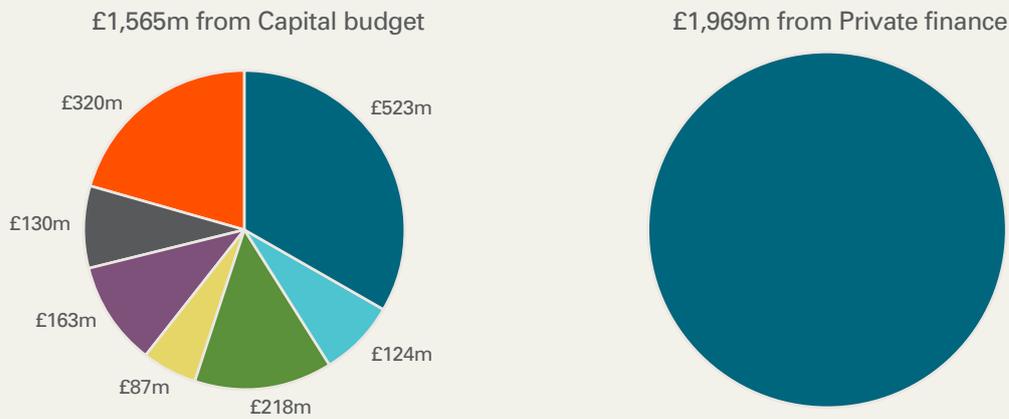
35. At the time of our audit, councils reported they had 203 major capital projects in progress with a combined value of almost £5.1 billion. This includes projects that are in the early planning stages through to projects where contracts have been signed and construction is under way.

36. Investing in school buildings and property will continue to represent the highest spending area in councils' capital investment plans. Projects in progress include 82 school projects with a combined value of £2 billion (40 per cent). Councils will fund most of these schools projects from their capital budgets.

Exhibit 4

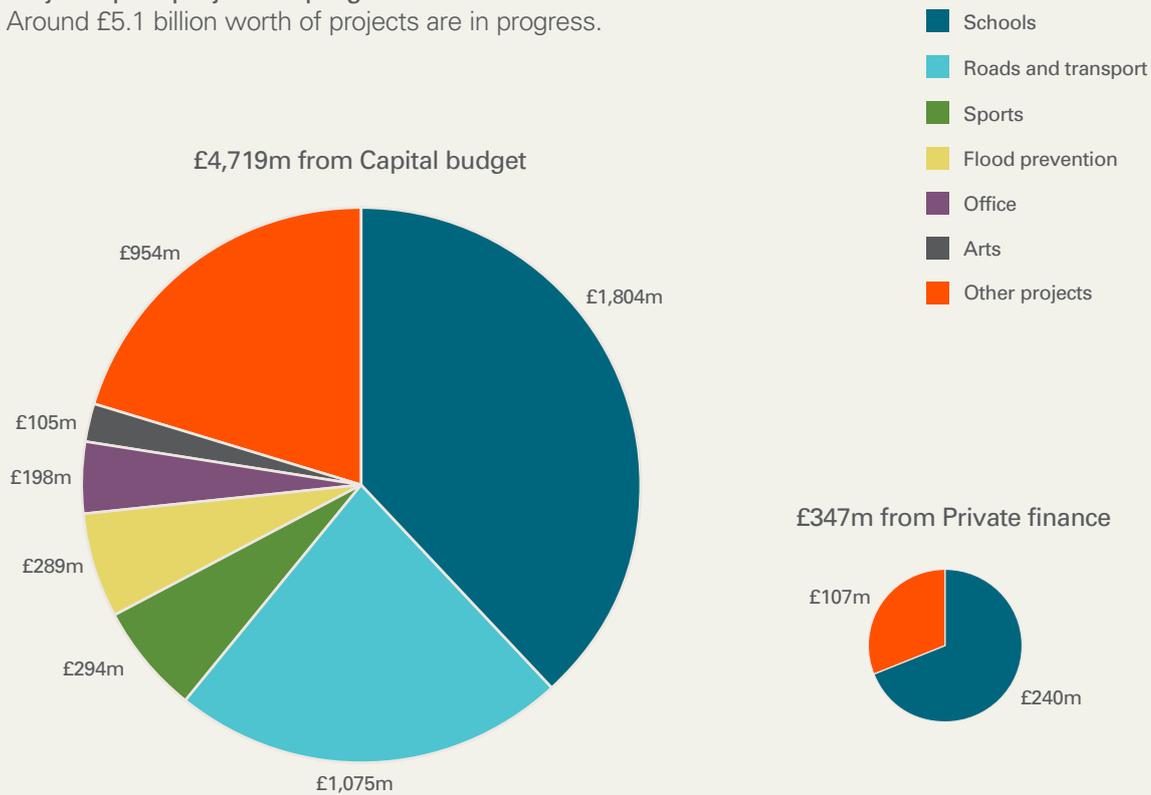
Completed major capital projects (2009–12)

Councils completed £3.5 billion of major projects between 2009 and 2012.



Major capital projects in progress

Around £5.1 billion worth of projects are in progress.



Note: 'Other projects' include housing, waste treatment, care homes, community centres, regeneration and ICT projects.
Source: Audit Scotland

Part 2. Delivering major capital projects within cost and time targets



Councils delivered most projects since 2009 within or close to contract cost, despite early estimates being too low



Key messages

- For most major projects completed within the last three years, councils' early estimates of the expected costs and timetable have proved to be inaccurate. For example, councils completed only two-fifths of these projects within the initial cost estimates. As expected, estimating improved significantly as projects advanced, plans became clearer and contracts were awarded.
- Estimating for school projects was better than for other projects. A seventh of completed school projects in our sample cost five per cent or more than the contract award estimate. This compared to almost half of non-school project estimates at the same stage. Similarly, a fifth of school projects were completed at least two months later than the contract award estimate, compared to just over half of non-school projects.
- Good practice requires strong control over costs and timescales of major projects. However, there are some significant gaps in the information that councils have to measure as to whether projects are completed to budget and on time.
- Councils' estimating of cost and time targets for a sample of current major projects is also inaccurate. Of 15 projects in progress reviewed, seven have cost estimates that are higher than initial estimates. Likewise, nine of these 15 projects have estimated completion dates that are later than initial estimates.

37. We have previously reported on how major public sector capital projects perform against time and cost targets. In 2008, our report *Review of major capital projects in Scotland* found that at project approval stage, the early estimates of cost and time were too optimistic for many major projects in health and central government. In 2011, our report *Management of the Scottish Government's capital investment programme* found that the accuracy of cost estimating had improved since our 2008 report but cost increases and slippage continued to affect many projects.

There are significant gaps in the availability of cost and time information

38. Good project management increases the likelihood that projects will meet time, cost and scope targets.¹⁸ Key features of good practice include the importance of well-defined project plans with carefully calculated and realistic estimates of timescales and costs from the outset. Good practice requires strong control over the expected costs and timetable at each stage of the project from inception through to completion and operation. Each project should pass through several key stages ([Exhibit 5, overleaf](#)).

39. We examined the latest reported costs and completion time compared to earlier estimates for a sample of 63 completed major capital projects. These 63 projects accounted for over half of all projects completed by councils. They had a combined cost of £2.9 billion (82 per cent of the combined cost of £3.5 billion of completed projects). Summary information about the sample of projects is in [Appendix 3](#). We have published separately on our [website](#) further information about the 63 individual projects in our sample.

40. In particular, we assessed the performance against two milestones:

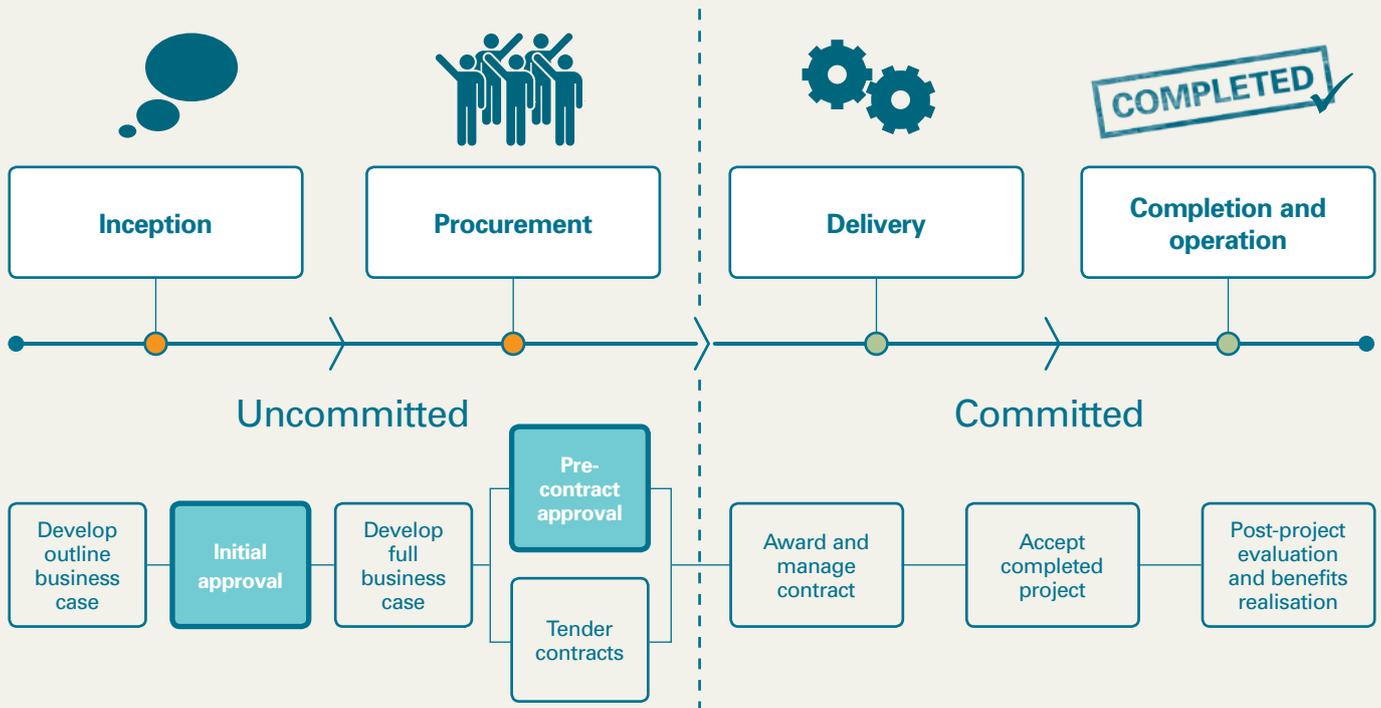
- **Initial approval stage:** At this stage the following features of the project need to be clear:
 - Overall value and purpose.
 - Contribution to business goals.
 - The best balance of cost, benefit and risk for delivering it effectively.
- At this stage, accurate cost and time estimates contribute to effective decision-making. There should be a formal outline business case. However, there is no legal commitment as a contract has not been awarded. Where we refer to initial costs we are referring to estimates at this stage.
- **Contract award stage:** The estimate just before awarding the contract is vital because it provides a basis for confirming value for money before the main financial commitment (the construction or service contract) is accepted. Once a contract price is agreed, significant changes to a project are likely to be costly, disruptive and may jeopardise value for money.
- **41.** There are some significant gaps in the availability of cost and time information. For one in five projects, the relevant council could not provide a cost estimate at the initial approval stage, either because project costs were not estimated at this time or data were unavailable (records could not be retrieved). Similarly, 20 out of 63 (32 per cent) could not provide a time estimate at the initial approval stage.

¹⁸ Examples of scope targets include measurements such as space per pupil (schools) or number of beds (care homes).

Exhibit 5

Key stages in major capital projects

Each project should pass through several key stages. Two important milestones for any project are the initial approval and the pre-contract approval (shown as shaded below).



Source: Audit Scotland

Councils delivered most projects since 2009 within or close to contract cost, despite early estimates being too low

Few major projects are completed within initial cost estimates

42. Forty-seven of the 63 projects in our sample were traditionally financed projects with a combined final cost of £980 million. Councils were able to provide cost estimates at the initial approval stage for 37 of these projects. Of the 35 projects where final costs were known, the majority had initial cost estimates that proved to be significant under-estimates:

- Councils completed 13 projects, costing £355 million, on or within the initial cost estimate.
- One project had final costs that exceeded the initial cost estimate by one per cent.

- Twenty-one projects had final costs that were significantly higher – between five and 189 per cent – than the initial cost estimate. These projects had a combined outturn cost of £344 million, £89 million (26 per cent) more than their combined initial cost estimates.

43. Councils reported a wide range of reasons for these overruns. They reported that changes in project scope were a contributory factor for time and cost increases for three-quarters of projects. They reported that unforeseen delays or extra costs from third parties, such as utility providers, affected half of the projects.

44. North Lanarkshire Council's Ravensraig Regional Sports Facility had one of the largest monetary increases. It cost £33 million, against

the initial estimate of £18 million. North Lanarkshire Council attributed this cost increase to major changes in project scope in conjunction with the development of a national strategy for sports facilities.

Estimating improved by the point of contract award

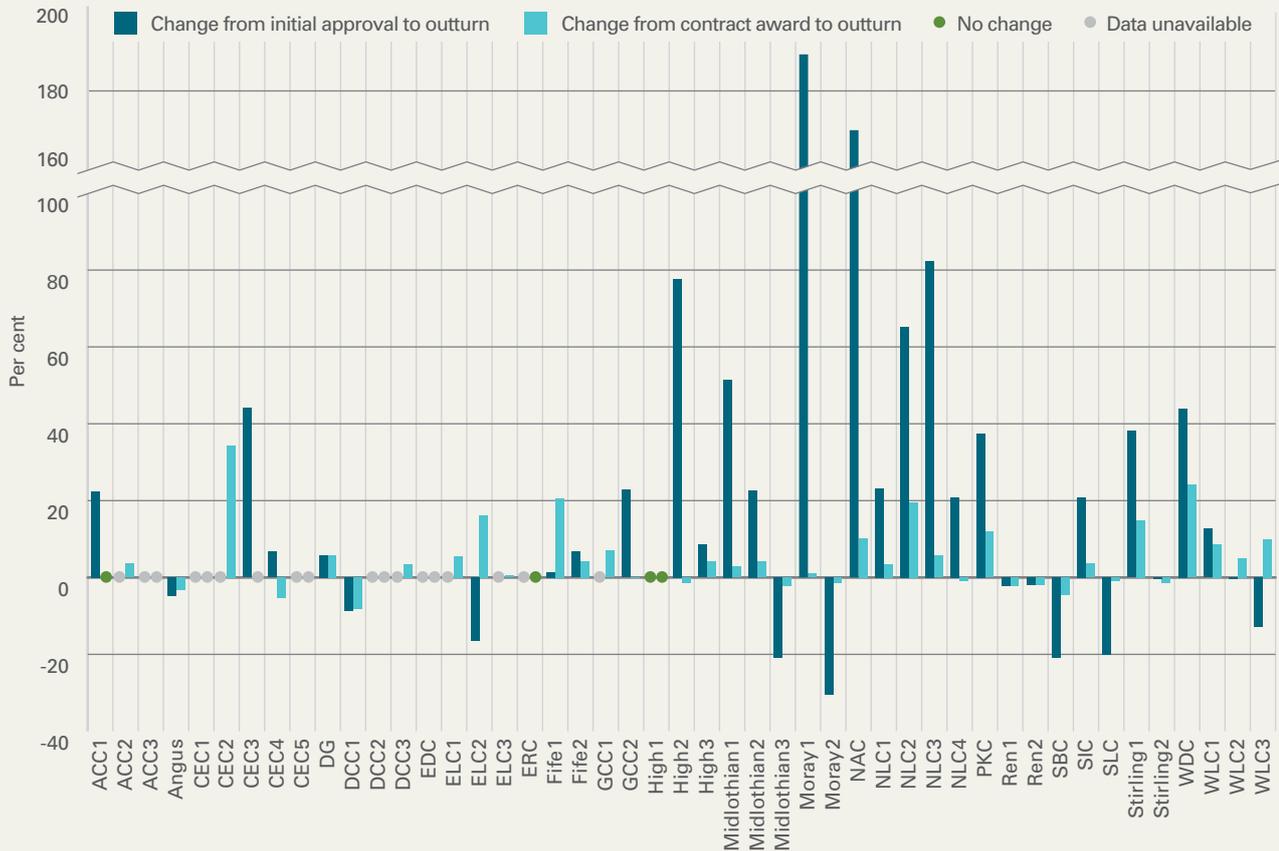
45. Councils were able to provide contract award estimates and final costs for 41 of 47 traditionally financed projects. These had a combined final cost of £838 million, £26 million (three per cent) more than the combined approved contract award estimate. Contract award cost estimates are more reliable than estimates made at the initial approval stage (Exhibit 6). For the 41 projects with contract award cost estimates:

- 16 projects, costing £447 million, were delivered within the contract award estimate

Exhibit 6

Traditionally financed projects – change in final cost compared to forecasts at earlier stages

Contract award estimates are more reliable than estimates made at the initial approval stage.



Note: Please see Appendix 3 for further information about each project
Source: Audit Scotland

- ten projects, costing £138 million, were less than five per cent above the estimate
- 15 projects, costing £253 million, were between five and 34 per cent over the estimate.

46. The City of Edinburgh Council's Usher Hall redevelopment had the largest cost increase for any traditional project when compared to the contract award estimate. The project cost £25.5 million, 34 per cent higher than the contract award estimate of £19 million. The council

attributed the increase to substantial additional works on the foundations of the existing structure of the building considered necessary after contractors had started work. There were also knock-on costs from additional temporary works to allow access to the theatre during the period of the 2008 Edinburgh International Festival.

Early cost estimates for PFI projects were too low

47. Between 2009 and 2012, 16 major capital schools projects were completed using PFI contracts, with a total capital value of almost £2 billion.

48. We examined the cost and time targets for all 16 schools projects. For these projects we have used the Net Present Cost of the contract as the best measure of final cost.^{19, 20} South Lanarkshire Council's Secondary Schools Modernisation programme and The City of Edinburgh Council's PPP2 Schools programme were the two largest projects, costing £407 million and £271 million, respectively.

49. Councils provided initial cost estimates for 13 of 16 PFI projects, with a combined estimated net present cost of £2.2 billion. For

19 The Net Present Cost (NPC) is the value of all costs over the lifetime of the contract discounted to reflect the time value of money decreasing over the life of the contract. Lifetime costs include annual unitary payments made by the council to the private sector provider for use of the asset over the course of the contract – usually 25 to 30 years. These payments typically cover capital repayment and interest, service and maintenance costs.

20 The estimated capital cost of PFI projects in our sample was available for 15 of the 16 projects. These costs are detailed at Appendix 3.

Exhibit 7

PFI projects – contract cost compared to earlier estimates

Initial cost estimates for around half of PFI projects were under-estimates.



Note: Please see Appendix 3 for further information about each project.
Source: Audit Scotland

about half of these projects the initial approval estimates were under-estimates (Exhibit 7). We found that:

- six projects, costing £1,068 million, were completed on or within the initial cost estimates
- two projects, costing £344 million, were less than five per cent above the estimate
- five projects, costing £832 million, were between five and 67 per cent over estimate.

50. The Highland Council's schools project had the largest cost increase. The contract cost increased from £148 million to £247 million, an increase of 67 per cent. The council reported an increase in the construction cost element of the contract as a reason for the increase.

51. Cost estimates at the contract award stage for PFI projects appeared to be more reliable. Comparing the contract award estimate to the latest available estimate for each project:

- 11 PFI projects, with a combined cost of £2 billion (74 per cent by value), have latest estimates equal to or below the contract award estimate
- five projects with a combined cost of £708 million (26 per cent by value) have latest estimates higher than the contract award estimate; in each case these were by less than five per cent.

52. Councils reported that changes to scope were the main reason for increases in the latest estimated costs, where these occurred.

Most projects were delayed compared to initial estimates

53. We examined the actual completion time of all 63 projects, both traditionally and privately financed, compared to estimates made at the initial approval and contract award stages. The analysis of time estimates at the initial approval stage in this section is based on 43 projects, while the analysis of contract award time estimates is based on 61 projects.

Councils were not able to provide us with time estimates for one or both stages for the remaining projects.

54. For 63 completed projects, the average duration was four years from initial approval. Generally, councils completed traditionally financed projects more rapidly than PFI projects, with PFI projects taking just over two years longer on average. The difference is largely due to the lengthier preparation period, from initial approval to contract award, for PFI projects. PFI projects spent an average of 34 months in the pre-contract stage compared to 20 months for traditionally financed projects. The longest PFI project was Perth and Kinross Council's Investment in Learning Schools programme, which took about eight years to complete. The council reported that almost four years were for preparation before the contract was awarded, including three years to resolve issues that were outside its direct control. Glasgow City Council's Riverside Museum was the longest traditionally financed project. It was complex, involving a design contest providing an iconic building by a world-renowned architect and had secured significant funding from the Heritage Lottery Fund. It took over seven years to complete, including over three years' preparation before the contract was awarded.

55. Seventy-nine per cent of projects took at least two months longer to complete than estimated at initial approval, with only 19 per cent completed on time. The average delay was 17 months, with delays ranging from three months to 52 months.

56. Where significant delays arose, they were mostly during the initial planning stages of projects, rather than the delivery phase where delays are more costly. Delays at initial stages may arise owing to unforeseen circumstances such as planning enquiries or legal challenges rather than specific project management issues. Time spent on planning and design of projects may help to avoid problems later in construction.

57. Estimating project duration was more accurate at the contract award stage. Fifty-six per cent of projects were completed on or within contract award estimates. However, 34 per cent of projects took at least two months longer to complete than the estimates at this point.

58. In most cases, the delay during the contract phase was shorter. The average delay was five months; delays ranged from one month to 24 months. South Ayrshire Council's schools PFI project had the longest delay following contract award, taking two years longer to complete than estimated. The City of Edinburgh Council's Usher Hall redevelopment and Fife Council's Carnegie Sports Centre project both took 11 months longer to complete than estimated at contract award.

59. Delays do not necessarily result in higher project costs. For example, The Highland Council's Raasay Ferry Terminal project took ten months longer than expected at contract award but its final cost was £200,000 lower than the contract estimate. The council reported that delays were due to a major subcontractor entering administration. However, as the contract risk remained with the contractor, the council did not have to meet any additional contract costs.

School projects perform better to cost and time targets

60. Within our sample of 63 completed projects, we reviewed the cost and time targets of 37 schools projects with a combined capital cost of £2 billion. These projects included building or redeveloping 84 primary schools and 72 secondary schools. Each project provided between one and 34 schools and some included a mixture of school types including primary, secondary or additional support needs schools. Sixteen projects, providing mostly secondary schools, were completed using PFI contracts; the other 21 projects providing mostly primary schools, were traditionally financed.

61. Schools projects had more accurate cost and time estimates than other projects:

- Fourteen per cent of schools projects had cost overruns of at least five per cent compared to the contract award estimate. This compared to 45 per cent of non-schools projects.
- Twenty-two per cent of schools projects were completed at least two months later than estimated at contract award. This compared to 54 per cent of non-schools projects.

62. Building and redeveloping schools is the most common type of major capital project that councils deliver. Councils' experience of delivering schools projects may explain why estimating is more reliable. The requirement to deliver new schools to coincide with school term dates and the high priority that councils give to these projects may also help to explain why councils deliver them more successfully.

Some major projects in progress have increasing costs and delays

63. We assessed how 15 major capital projects under way were performing against cost and time estimates. We reviewed these projects between August and December 2012 and, inevitably, costs and time estimates may have changed since our review. The combined value of these 15 projects is £919 million, which represents 18 per cent of the total value (£5.1 billion) of the 203 projects in progress ([Exhibit 8, overleaf](#)).

64. Seven of the 15 projects have cost estimates that are higher than initial estimates. The combined variance compared to initial cost estimates is £58 million, which is seven per cent higher than the combined value of initial costs (£861 million). Fife Council's Flood Prevention Scheme in Dunfermline has the largest percentage variance

from initial estimate. The latest cost estimate is £24.7 million - an increase of 152 per cent from its initial estimate of £9.8 million ([Case study 1, page 19](#)). Glasgow City Council's Pre-12 Schools Strategy (phase 4) project had the largest cost increase from initial estimate. The current estimate of £178 million is £50 million greater than the initial estimate of £128 million ([Case study 2, page 19](#)).

65. Nine projects have estimated completion dates that are later than initial estimates, including five projects with slippage of a year or more. The time to complete Moray Council's Flood Alleviation Scheme in Elgin increased by 35 months mainly because of the need for a public local inquiry into the scheme to resolve planning objections. The time for The City of Edinburgh Council's project to provide an extension to the Edinburgh International Conference Centre increased by 43 months, mainly because of the withdrawal of the original contractor in 2007 and subsequent reappraisal of the scope of the project.

Recommendations

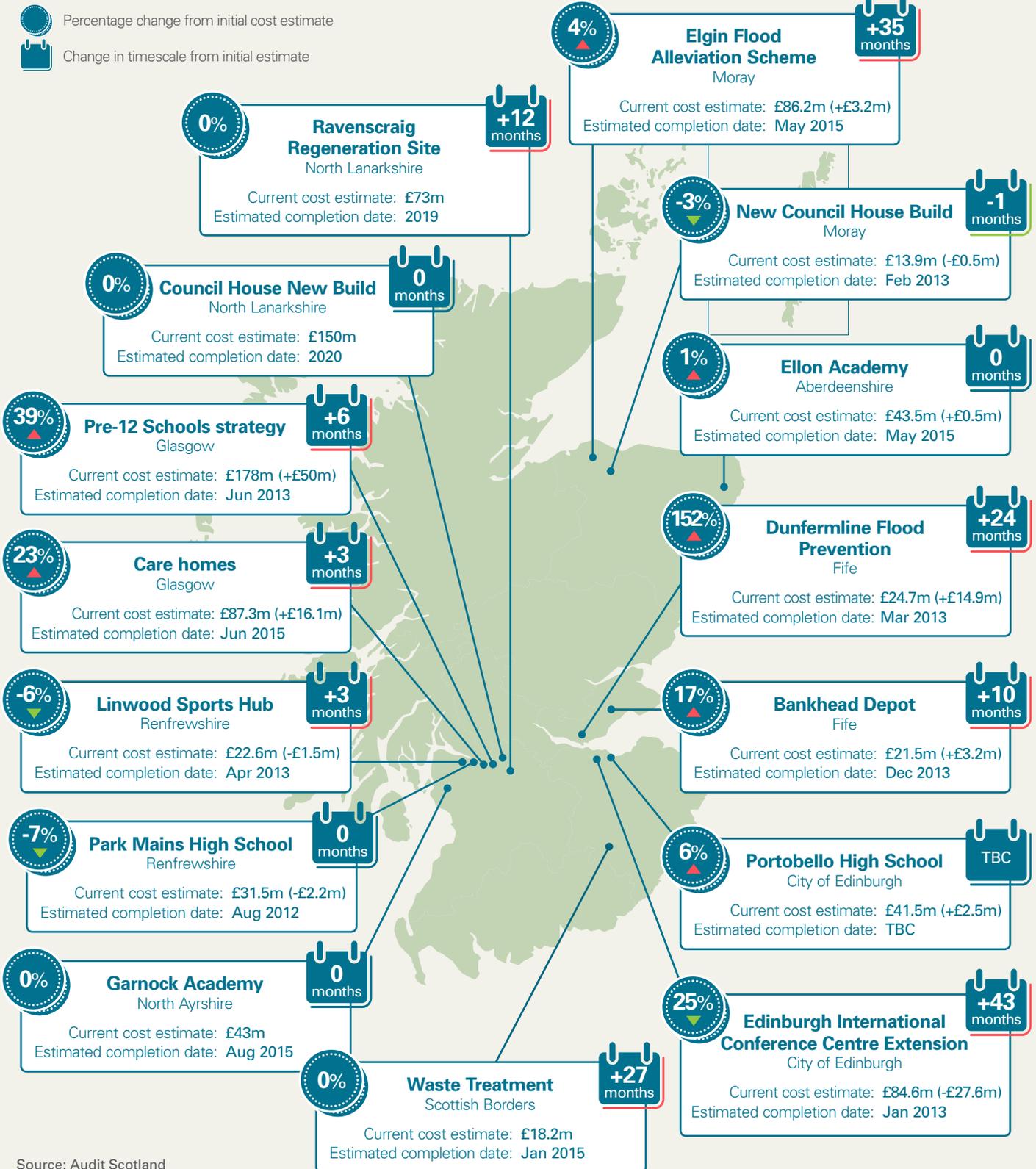
Councils should:

- carry out early assessments of risk and uncertainty to improve early-stage estimating of the cost and time of projects; each risk assessment should take into account experience and expertise gained from previous projects and the potential for higher risks with projects that are relatively novel
- 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.

Exhibit 8

Major capital projects in progress – variance of current estimates from initial estimates

Seven of 15 projects in progress have cost estimates above the initial estimate. The estimated completion date for nine projects has slipped.



Source: Audit Scotland

Case study 1

Fife Council – Dunfermline Flood Prevention Scheme

In December 2002, Fife Council initially approved the design of a flood prevention scheme in Dunfermline with an estimated cost of £3.75 million. In November 2005, the council approved the project with a revised estimated cost of £9.8 million, following work by consultants on the project design. In September 2006, the tendering process resulted in the appointment of a preferred bidder with an estimated price, including consultants' fees, of £14.15 million. Since then the project has been problematic, with conflicts between the contractor and the council and challenges with problems faced over the design and specialist nature of the project. As a result, the estimated cost has risen to £24.7 million and the expected completion date has slipped by a further two years from March 2011 to March 2013.

Source: Audit Scotland

Case study 2

Glasgow City Council – Pre-12 Schools Strategy (phase 4)

The council's Pre-12 Schools Strategy construction programme is designed to meet primary school needs across the area it is responsible for. The overall programme is multi-phased with phase 4 planned to deliver 16 new or refurbished primary schools. In 2006, when the programme was approved and began, cost estimates were £128 million. Individual schools projects within the programme are subject to regular reporting and cost control. However, the programme's total cost is now projected to be about £178 million by its completion in June 2013. The movements in cost are due to:

- problems over site identification and planning approval
- changes to design requirements
- unforeseen additional ground works needed as a result of siting on brown-field sites.

Source: Audit Scotland

Part 3. Managing capital projects and investment programmes



Because of its scale and impact, councils must clearly direct and rigorously manage their capital investment activity



Key messages

- Councils have improved governance structures for investment planning in recent years. But councils do not have enough monitoring information to scrutinise effectively. All levels of the governance structure, from working groups to committee level, need to be supplied with reliable, accurate, realistic and publicly available information for arrangements to be effective.
- Councils' investment and financing plans are uncertain. To the extent that plans are available, councils anticipate that investment will decrease over the next few years to 2014/15, although the position after this is unclear. Borrowing will remain the main source of finance for councils' investment spending.
- Many councils do not have established processes for developing and using business cases. Where available, business cases are often short and highly summarised and do not all reflect good practice. Without good-quality and realistic business cases, particularly at the initial approval stage, key performance information on aims, cost, time, scope and risk may not be clearly defined. This may make it more difficult to hold decision-makers to account if problems arise on a project.
- Councils are clear about the broad goals for their investment projects. However, where councils outline intended benefits, they are often high-level and measurable benefits are rarely specified. Councils have evaluated about half of recently completed projects to assess if they have delivered the intended benefits.

- Councils do not proactively seek opportunities to work with other councils or other public bodies in planning and delivering their capital programmes. While there are some examples of shared assets, joint procurement and joint projects, there is little evidence of councils systematically assessing the potential for increased joint working and the related costs and benefits.

66. This part of the report considers how well councils manage capital projects and programmes. It outlines areas where improvements are required to help councils achieve best value from their capital investment.

In recent years, councils have improved governance structures for investment decisions

Most councils plan investment corporately, taking into account future service priorities

67. Councils must have sound governance structures in place to oversee and deliver their capital programmes. Annual capital spending within each council ranges from £8 million to £332 million. At the time of our audit, 20 councils had at least four major capital projects at various stages of design and delivery. Of these, five councils had ten or more major projects under way including Glasgow City Council with 35. Particularly where there are many projects in progress simultaneously, it is important that councils have clear corporate oversight of:

- their investment programme
- how well they select and progress individual major projects.

Good practice – managing capital programmes

Because of its scale and impact, councils must clearly direct and rigorously manage their capital investment activity. To achieve this, they require to do the following:

- Be clear about the overall purpose and justification for spending and the benefits it will deliver. There should be a clear understanding of the links between investment, performance and outcomes.
- Establish priorities to help them decide which projects to choose taking into account what they can afford. Proposals for new investment should reflect these priorities. Councils should balance proposals for new projects with what they need to spend to maintain current properties and ensure they stay fit for purpose.
- Take a long-term view of their total investment spending so they can plan and coordinate it effectively.
- Put a clear and effective governance structure in place and ensure responsibilities are clearly defined, allocated and understood. The structure should provide scope for constructive challenge and effective scrutiny at all stages of the programme.
- Ensure financial and risk management are robust.
- Clearly define benefits and manage programmes to ensure they deliver the benefits. Monitor and report outcomes and learn lessons from programmes.

Source: Audit Scotland

68. Of the councils reviewed, we found that most capital governance structures follow good practice. This includes having an officer-led corporate capital group that considers and challenges the capital and asset management plans of each individual service. This group should report and make recommendations to the council's senior management team, who in turn will report, make recommendations and answer to the relevant council committee (Case study 3 is an example of a good governance structure).

69. Having a good governance structure is necessary but does not guarantee that councils will deliver capital investment plans and projects effectively. At all levels of the governance structure, from working groups to committee level, there should be clear arrangements for reporting and monitoring. All levels need to be supplied with reliable,

regular information on the capital programme including details of current performance, financial performance, risk and benefits management.

70. Independent expert reviews at key stages of a project – known as Gateway Reviews – can help support good governance. The purpose of such reviews is to provide assurance about the performance and planning of the project at key stages, including the opportunity to identify – and correct – any gaps. It is mandatory to assess the need for and if necessary plan to undertake such reviews for all major projects in the central government and health sectors that the Scottish Government is directly responsible for. Most of the 16 completed schools PFI projects that we examined had received such reviews, as they were required as a condition of funding by the Scottish Government. However, councils considered or undertook such reviews

for only one in five of their other major projects that we examined.

Councils are making progress in linking their investment planning to asset management

Good practice – asset management

Councils need reliable information on the condition of existing assets to be able to make the best decisions on what capital investment they need to make in the future. Good asset management plans provide information on the condition of their assets, if these are suitable and if the council has enough for its needs. These plans should also assess energy efficiency, reflecting the rising price of energy and the need to reduce carbon emissions.

Source: Audit Scotland

Case study 3

Good practice example – Aberdeenshire Council

Level	Purpose	Key activities
Policy and Resources Committee	Approval body for capital investment decisions	<ul style="list-style-type: none"> Approve the capital programme Approve the corporate asset management plan Approve project inclusion into capital programme and subsequent spending
Strategic Management Team (SMT)	Acts as a steering group for capital works, led by Chief Executive	<ul style="list-style-type: none"> Manage the capital strategy Undertake strategic resource management Manage corporate performance of investment Consider and approve proposals for investment, making recommendations to the Policy and Resources Committee
Capital Plan and Asset Management Working Group	Acts as a project group for the capital programme, chaired by member of the SMT	<ul style="list-style-type: none"> Review and challenge service asset management plans Manage and monitor the capital plan Assess proposals for new projects including options appraisal and examination of business cases Assess requests from services for changes to current projects Recommend to SMT the corporate prioritisation of projects

Source: Audit Scotland

71. In 2009, an Audit Scotland report found that many council assets were in poor condition and unsuitable for the services being delivered from them.²¹ About half of councils had a council-wide strategy for managing assets and although there was some good management information available it was not always used to help make decisions. The report recommended that councils should ensure they put in place better asset management strategies. Our follow-up in 2010 showed that councils were making good progress.

72. In 2012, our review of nine councils indicated that most are adopting good practice in relation to their asset management plans. Most have asset management plans for each service area that feed into a corporate asset management plan. Together these help councils decide their capital investment priorities. For example, North Ayrshire Council and Renfrewshire Council have developed asset management plans based on categories suggested by CIPFA covering property, housing, ICT, open spaces, roads and fleet. The findings of condition surveys contribute to both councils' plans. Renfrewshire Council surveyed the condition of all non-housing property in 2011 and North Ayrshire Council plans to complete more surveys during 2012/13. However, some councils still have to complete asset management plans in some areas. For example, at the time of our audit, Moray Council had only completed an asset management plan for housing and was developing four other plans.

Councils adopt good practice when engaging with stakeholders on project-specific issues

73. Every project has stakeholders. These can cover a range of different groups including local residents, businesses, employees, service users, suppliers and public sector bodies such as health boards. Engaging and consulting with stakeholders is essential in achieving a successful

project outcome. Stakeholders' interest in a project can have both positive and negative effects on its progress. Their concerns may also create additional risks to a project's outcome. Engaging with stakeholders effectively is therefore important and should be a vital part of project planning from the start. Consulting with stakeholders can often be a lengthy process. But it can shape the project at an early stage and help ensure a more successful outcome.

74. In our audit, councils demonstrated good practice in engaging with stakeholders on project-specific issues, particularly on projects where there is a statutory consultation requirement. For example, the Schools (Consultation) Scotland Act 2010 requires any council to formally consult if it proposes to change any part of the existing education services it provides in its area ([Case study 4](#)).

75. Although councils consult on individual projects, we found no evidence of them consulting with stakeholders on their capital programmes. Councils should consult with stakeholders on their capital programmes to ensure they are fully aware of their capital spending priorities and plans. This may:

- be particularly valuable to potential suppliers and contractors by finding out about potential procurement opportunities
- help identify opportunities to find efficiencies or synergies within the whole programme rather than restricting communications to project-specific issues
- offer stakeholders the chance to engage with, scrutinise and challenge significant spending proposals.

Case study 4

Good practice example – consultation. Moray Council

Public and statutory consultation has played an important role as the council has developed options for the Elgin Flood Alleviation Scheme. Consultation with the general public has continued since the start of the project. The council first consulted at the start of the project in 2002 with key stakeholders to identify the policies, plans and programmes that may affect the development of engineering options for flood alleviation in Elgin. The consultation took the form of meetings, supplements in local newspapers, press releases, public exhibitions and information on the Moray Flood Alleviation Group's website. There was also one-to-one consultation with individuals likely to be directly affected by the options. The council used this feedback to develop and refine the business case and technical reports.

Good practice example – consultation. Aberdeenshire Council

The council's consultation with the public for the Ellon Academy Campus development started in August 2011. The council issued a proposal document to parents, pupils, teaching staff, trade unions, community councils and Education Scotland. The council also launched a website dedicated to the development and displayed the proposals in the council's headquarters, libraries and neighbouring schools. The council asked HM Inspectorate of Education (HMIE) to independently review the consultation process. HMIE praised the plan as comprehensive and stated that it had allowed time for the council to collate and consider all views.

Source: Audit Scotland

21 *Asset management in local government*, Audit Scotland, May 2009.

Councils' investment and financing plans are uncertain

Good practice – capital investment plans

Capital investment is, by definition, a long-term activity. It is important that councils develop and maintain a clear strategy to direct and control their investment. To do this, they should produce an investment strategy with priorities to decide the level and nature of investment spending and develop plans to assess how they can finance and afford the spending.

Source: Audit Scotland

76. At the time of our audit, three councils did not have a corporate capital plan covering annual investment spending to 2014/15. Twenty-nine councils had plans, which indicated they would reduce investment spending by about 40 per cent between 2012/13 and 2014/15. However, many of these plans were tentative or needed to be updated as not all provided a complete forecast.

77. From a review of available plans, borrowing is likely to provide the main source of finance for investment. For six of the 29 councils with capital plans, their plans did not outline how investment would be financed, that is how much the councils would borrow, use grants or other sources to pay for planned investment.

78. To help understand what levels of borrowing councils might need to make, we projected investment spending and financing using three different, illustrative scenarios over the next eight years to 2020/21. For this illustration, we have assumed that government grant funding will fall by five per cent each year beyond 2014/15. Similarly, we have assumed that the contributions from current

revenue, asset sales and other income will also decrease by five per cent each year to reflect recent trends. Our analysis showed that, by 2020/21, if capital investment was to:

- increase by five per cent each year, borrowing levels would need to almost double their current levels to £2.9 billion a year
- remain at current levels, borrowing levels would need to increase by 14 per cent on current levels to £1.6 billion a year
- decrease by five per cent each year, borrowing levels would fall by almost half of their current levels to nearly £700 million a year.

79. This analysis confirms that councils' future borrowing will vary significantly depending on their appetite or otherwise for additional investment. It illustrates the importance of councils developing a clear long-term strategy for investment and how they will finance this.

80. Councils plan to continue to use private finance for some future investment:

- Twenty-nine secondary schools projects will begin over the next few years as part of the Scottish Schools for the Future programme.²² Councils will use the Hub initiative led by the Scottish Futures Trust (SFT) as the means to procure these projects. This may include up to around £300 million using private finance contracts.²³
- In addition, the SFT has identified that about £1 billion of investment is needed over the next ten years if Scotland is to meet its zero waste targets. Twelve councils are planning to use private finance contracts to invest in waste projects although

plans remain at the early stage of development in most cases.

81. Many councils are considering using Tax Incremental Financing (TIF) to finance capital investment, although no additional investment under TIF has yet gone beyond the planning stage.²⁴ Scottish ministers have approved three councils' business plans for TIF projects: North Lanarkshire, Glasgow City and The City of Edinburgh. However, the projects remain at an early stage and no council has so far made any additional borrowing under TIF. A further three councils – Falkirk, Fife and Argyll and Bute – are working with the Scottish Futures Trust to develop TIF business cases.

Councils need to develop long-term, sustainable investment strategies

82. Using borrowing and private finance can be attractive as it spreads the cost over many years. But by doing so, councils commit a larger proportion of future budgets to financing charges, for example, repaying debt and interest. This leaves less money available to spend on the day-to-day costs of running council services. This is demonstrated in the following ways:

- Annual interest and debt repayments for borrowing arrangements have increased from £946 million in 2009/10 to £1,450 million in 2011/12. This represented an increase from eight to 12 per cent of councils' net revenue expenditure over the same period.
- Annual payments for previously signed NPD/PFI contracts are increasing. In 2012/13, these annual payments were £459 million. These will peak at £591 million in 2025/26 with the final payment for current

²² The Scottish Schools for the Future programme is a £1.25 billion investment programme to provide 67 new or refurbished schools across Scotland. All councils are included in the programme, which reflects the Scottish Government and the Convention of Scottish Local Authorities (COSLA) joint school estate strategy established in 2009. The Scottish Government aims to provide £800 million for the programme over the period to 2017/18 and councils will provide the remainder.

²³ See Appendix 2 for more information about the Hub initiative.

²⁴ See Appendix 2 for more information about TIF.

signed contracts to be made in 2041/42. In 2012/13, The Scottish Government provided councils with £227 million (49 per cent) towards these payments. This level of financial support will continue each year but will reduce to around 39 per cent of annual payments as they peak in 2025/26.

83. Very few councils have developed detailed capital investment plans beyond 2014/15. There is less certainty about future funding arrangements beyond 2014/15. But councils need to develop long-term investment plans to set out their investment needs and constraints and provide the information needed for prioritising and planning. Long-term capital investment plans should also provide a strategic assessment of the various financing options available to the council.

Councils have weak processes for developing and maintaining business cases

84. Many councils do not have established processes for developing and maintaining business cases. The evidence we have indicates that, where they are available, business cases are short and highly summarised or are not updated, and therefore do not reflect good practice. For example, the business case for Midlothian Council's Cuiken Primary School only included an options appraisal with associated costs. It did not consider other important aspects such as an assessment of risk, a procurement strategy or details of stakeholder consultation plans. The business case for this project estimated it would cost £6.2 million but its final cost of £7.6 million was 23 per cent higher. Without detailed, accurate and realistic business cases, particularly at the initial approval stage, key performance information on aims, cost, time, scope and risk may not be clearly defined. This could make it more difficult to hold decision-makers to account if problems arise later in the project.

Good practice – business cases

Good-quality business cases are key to project scrutiny, decision-making and transparency. The business case should develop as each project develops. It should provide the basis for all important project decisions. Councils should develop business cases over the following stages:

- A Strategic Business Case (SBC) to confirm the strategic context of the proposal and provide an early indication of the proposed way forward.
- An Outline Business Case (OBC), including the council's preferred option for getting the best value for the money available. It should also provide details of a procurement strategy. This is equivalent to the initial approval stage at paragraph 40 previously.
- The Full Business Case (FBC) to revise the OBC and provide important project information including a recommendation following discussions with key stakeholders including potential suppliers. This is equivalent to the contract award stage at paragraph 40 previously.

Councils should revisit the business case throughout the course of a project, particularly if things change. These changes could include developments in financing arrangements; adjusting the scope of the project or dealing with an external delay that affects the project. Revisiting the business case will help to ensure that the aims and objectives remain clear and that project benefits remain relevant. It is also a good basis for transparency and accountability, by making sure councils are seen to be continually monitoring progress against the business case.

Source: Audit Scotland

Councils have appointed in-house providers for some major projects

85. An important part of any business case for a major capital project is developing a procurement strategy. The preferred procurement route for any project should include a detailed assessment of value for money to ensure councils take the best option for cost, quality and, ultimately, the likelihood of a successful outcome to the project. The strategy should consider the use of competition in selecting and appointing a contractor for the work.

86. One option available to councils is to use in-house providers, including arm's-length external organisations (ALEOs). Glasgow City Council and Fife Council have both recently appointed in-house providers for major capital projects ([Case study 5, overleaf](#)).

In many cases, councils are not outlining the intended benefits of investment

Good practice – identifying the benefits

It is important that councils clearly define the intended benefits of a project from the outset to justify the investment decision and provide a benchmark against which they can measure progress. By doing so, it allows councils to track, monitor and measure the delivery of benefits as a project progresses.

Source: Audit Scotland

87. Councils are clear about the idea or vision for their major investment projects. However, we found that where councils had outlined intended benefits, they were often high-level; councils rarely specified measurable benefits from investment. For example, neither Moray Council's Flood Alleviation Scheme nor Scottish Borders Council's Waste Treatment project clearly outlined a benefits strategy covering how the councils would measure or assess

Case study 5

Procurement of in-house providers to deliver capital projects

Glasgow City Council contracted with City Building Glasgow LLP (CBG), its wholly owned subsidiary, to carry out two major capital projects: Phase 4 of their Pre-12 Schools Strategy and their Care Homes and Day Care Re-Provision. The projects have a combined estimated cost of £265 million. The council decided to award the contracts for both projects to CBG by single tender, under case law (the 'Teckal' case). This exempts the council from European procurement rules if the council controls the provider and the provider carries out the essential part of its activities for them. The council appointed a cost consultant to assess the value of the CBG tender price, who reported that it was in line with market prices.

Likewise, **Fife Council** contracted with its internal trading organisation Fife Building Services (FBS) through a single tender to deliver renovation works at their Bankhead Depot, at an estimated cost of £11.4 million. The award was made on the basis that FBS would deliver 30 per cent of works and subcontract the remaining 70 per cent. The council's Property Services team benchmarked the price for the FBS element.

Source: Audit Scotland

the achievement of project benefits identified at the initial approval stage of each scheme.

Councils do not have enough information to scrutinise effectively

Good practice – monitoring information

The success of any governance system will partly depend on the quality of the information provided to decision-makers. It is important that this information is tailored to each level within the governance structure and that the decision-makers at each level have all the information they need. Without good information, there is a risk that decision-makers will not be able to ensure that the project delivers best value for money.

Source: Audit Scotland

88. Councils regularly report to elected members on capital spending and on major projects. However, in many cases, performance reports focus on comparing spending against

approved annual budgets with the risk that scrutiny concentrates on any slippage in this area.

89. Monitoring information does not routinely extend to project performance against earlier benchmarks for cost, timescales and benefits. Without this information, elected members may not be able to properly challenge decisions made during the project and scrutinise how well the projects are progressing. Councils generally have weak processes for developing business cases and where clear business cases are absent ambiguities can arise about the initial cost estimates. This, in turn, makes it difficult to benchmark later cost estimates.

90. Generally councils monitor risks with their capital investment activity by focusing on individual projects. Councils rarely undertake more strategic reviews on programme-level risks, their implications and the proposed action to lessen their impact. Project risks need to be visible at a programme level to gauge the wider implications to other projects and the programme itself. Councils should reflect individual

project risks on a programme risk register. They then should review and update these regularly. By not assessing risk at a programme level, councils will be unable to explore opportunities that may arise or manage threats to the programme effectively. Improving the quality of programme risk reporting will increase the likelihood that councils will identify risks at an early stage, allowing them to take appropriate and timely action. It does not guarantee a successful outcome. But it can help resolve any potential problems that may arise.

91. Councils provide training to elected members on capital issues. In many cases this is restricted to one-off training for new members as part of their induction rather than as part of an ongoing training programme. Councils should consider developing a continuing programme of training for members on capital issues, using independent external advisers if necessary. Increasing the knowledge and expertise of members on capital investment issues will help them scrutinise and challenge capital investment plans.

Councils do not review all completed projects to learn lessons

92. There are a number of reasons why a major capital project might fail to deliver best value for the taxpayer. When a project fails to deliver it is often due to a number of contributory factors, such as:

- lack of a clear link between the project and strategic priorities
- lack of robust planning and assessment of expected costs and timetable
- lack of accountability and leadership from senior officials or elected members
- lack of effective engagement with stakeholders
- poor relationships between client and suppliers.

Good practice – lessons learned

Identifying lessons learned from projects after they are completed, both in terms of success and failure, are key to improving the way councils deliver future projects. However, councils often overlook this stage of a major project. They should assess the completed project to ensure that it meets business requirements and provides good-quality design and functionality. They should then apply any lessons learned to other projects that are being developed.

Source: Audit Scotland

93. A post-project evaluation is often the formal review carried out at this stage and has two main purposes:

- to review how the project was managed, from preparing the business case through to how it was delivered and completed
- to assess whether the intended benefits set out in the business case have been achieved.

Without carrying out a post-project evaluation, councils will not be able to clearly demonstrate the investment has been worthwhile or identify lessons learned and apply them to future projects.

94. Just over half of the 63 completed projects in our sample had been evaluated to assess whether they have delivered the intended benefits. Councils reported the following:

- For 34 projects (54 per cent), they have undertaken, or are scheduled to undertake, a formal post-project evaluation. For the other projects, some councils reported they had carried out ongoing evaluations throughout the project, while others reported a lack of money or people to carry out any post-project evaluation.

- For 36 projects (57 per cent), they have undertaken, or are scheduled to undertake, a post-occupancy evaluation (POE) to assess how well the building operates.

- For 20 projects, about a third of the total, councils reported carrying out formal design quality assessments. These assessments were more common for PFI projects – eight of these projects (50 per cent) had a formal assessment of design quality. Councils had formally assessed 12 of 47 traditional projects against design quality standards. Where councils had assessed projects against specific measures of functionality, build quality, impact and diversity and inclusion, most reported the project as having scored ‘high quality’ across these areas. The exception to this was in build quality, where 41 per cent reported only ‘satisfactory’.

- For 24 projects, councils reported they had assessed them against environmental (BREEAM) criteria.²⁵ This was 42 per cent of projects where councils responded to this question and considered the assessment was relevant. The majority of projects were rated as ‘excellent’ or ‘very good’. Councils completed such an assessment for 81 per cent of PFI school projects, compared to 27 per cent for traditionally financed schools.

There is limited evidence of collaboration in capital investment planning

- 95.** Councils do not proactively seek opportunities to work with other councils or other public bodies in planning and delivering their capital programmes. Collaborating with others provides councils with the opportunity to improve performance by making more effective use of their resources. This can take various forms, including sharing resources

such as buildings and staff, taking part in joint projects or joint procurement. It can also extend to sharing good practice and advice in delivering capital projects and programmes.

96. Sharing or rationalising the use of buildings, land and property can help generate significant savings on accommodation and maintenance costs. Although there are some examples of shared assets, joint procurement and joint projects, there is little evidence of councils systematically assessing the potential for increased joint working and the related costs and benefits. Where joint working had been considered, councils reported it was difficult to work effectively with other public bodies owing to conflicting timescales or priorities.

97. The Scottish Futures Trust (SFT), established by the Scottish Government in 2008, leads a number of initiatives to help public bodies collaborate to make their capital investment programmes more efficient. The SFT has a remit to examine and develop new financing arrangements for investment and work collaboratively with both public bodies and commercial enterprises.

98. One of the main activities of the SFT is to lead the Hub initiative. The Hub is a procurement process aimed at improving collaboration and joint working between public sector bodies through a joint venture. There are five regional hubs in Scotland, each incorporating councils, health boards, police, and fire and rescue services. They work in partnership to deliver new community assets, such as local ‘drop-in’ offices and health premises. Many councils have projects either planned or in construction through the initiative, with most projects to deliver new accommodation facilities. The first completed project was Drumrae Library Hub in Edinburgh which includes library, daycare and community-use facilities.

²⁵ Building Research Establishment Environmental Assessment Method. It sets the standard to describe a building’s environmental performance.

Councils should improve procurement strategies

99. Some councils have established 'framework' contracts to procure and deliver their capital programmes. These are long-term agreements between a council and a panel of suppliers to undertake major investment programmes. Such agreements can result in significant savings compared to other strategies that involve repeated one-off tendering for individual projects. They can allow purchasers and suppliers to build up strong working relationships. This helps to reduce the potential of expensive legal disputes. They should also allow for projects to be procured quickly and more efficiently.

100. A number of councils have framework contracts in place. In 2011, Aberdeenshire Council established a framework contract of five contractors to deliver over £200 million worth of major capital works. Similarly, in 2009, Renfrewshire Council established a framework contract to deliver five major projects within its capital investment programme. While establishing framework contracts is recognised good practice, it should not prevent councils from seeking opportunities with other councils and public bodies in joint procurement practices.

101. There is limited evidence of councils becoming involved in collaborative procurement for construction activity. In most cases, councils adopt their own procurement practices without working with other public sector bodies to identify possible opportunities for generating efficiencies through joint procurement.

102. In August 2012, the Scottish Government published its consultation proposals for a new Procurement Reform Bill. These proposals would establish new rules for procurement by Scottish public bodies, with an aim of adopting more efficient procurement practices across the public sector. The Bill aims to:

- use public procurement, worth about £9 billion a year, as a lever for economic growth
- streamline the public sector's dealing with business
- adopt more efficient procurement practices
- secure value for money.

These proposals increase the profile of public procurement and the expectation that public bodies, including councils, implement, and can demonstrate, effective purchasing practice.

Recommendations

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 the council achieve value for money

- establish standard criteria for the content of business cases that reflects good practice and establish clearly defined project milestones for monitoring and reporting
- prepare detailed and robust business cases for every project. These should cover the intended aims and benefits, options appraisal, risk assessment and cost, time and scope targets
- 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
- improve the quality of capital project and programme information that is routinely provided to elected 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
- consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary

- consult with stakeholders on its capital programme to ensure stakeholders are fully aware of council capital spending priorities and plans. This may create opportunities to generate efficiencies over the whole programme rather than restricting it to project specific issues
- improve how they manage risk and report on programme-level risk to members. Reports should provide details on the likelihood of risks occurring, potential impact and what proposals are in place to lessen the impact of risk
- carry out post-project evaluations within six months of a project being completed to find out if the projects have delivered, or are on course to deliver, the intended benefits and to learn lessons. The results should be reported publicly
- ensure lessons learned from projects are shared across services and other councils to help improve the successful delivery of future projects to time and cost targets.

Appendix 1

Audit methodology

The focus of our work was to assess how well capital investment is directed, managed and delivered within councils. For [Part 1](#) we considered how much councils spend on capital investment, what this delivers and how it is funded. For [Part 2](#) we focused on evidence from councils on the performance of recently completed projects and projects currently in progress. For [Part 3](#) we focused on how well councils manage their investment spending as a programme.

Our audit had five main components:

- A questionnaire to all councils to collect data on all major capital projects completed between April 2009 and March 2012 and major capital projects in progress at April 2012.
- A detailed data survey of 63 completed projects.
- A case study review of 15 projects in progress.
- A review of capital programme management arrangements at nine councils.
- Desk research of existing information on council investment levels, debt and borrowing levels, types of financing and funding arrangements.

We did not consider capital investment relating to police and fire and rescue boards owing to their forthcoming mergers. We did not consider the Edinburgh trams project or projects relating to the Commonwealth Games in 2014 as these projects have been subject to separate Audit Scotland reports.

Initial data request

We requested data on all major capital projects completed between 1 April 2009 and 31 March 2012 from all 32 councils. This covered all types of projects, financing methods and projects where councils received financial contributions from other public or private sector bodies.

Data survey of 63 major capital projects

We analysed quantitative and qualitative data on a sample of 63 completed major capital projects. We selected this sample using information from the initial data request. The sample covered 28 councils, 52 per cent of the projects we had data for and 82 per cent of their total capital value. The survey requested data from each council on project cost, time, scope and quality. However, not all councils could provide all the data we requested as they were either not held or could not be accessed. [Appendix 3](#) provides a full list of the projects included.¹

Case study review of projects in progress

We reviewed a sample of major capital projects in progress to evaluate whether management controls and governance are effective. We selected the sample using the information we received from our initial request for data. The sample covered nine councils and 18 per cent of the total capital value.

We appointed PricewaterhouseCoopers after a competition to lead the case study reviews. Each case study included interviews with key project staff and a review of relevant project documents. The work was completed between August and

December 2012 and therefore the status of each project may have changed since the review. The case study projects are identified in [Exhibit 8](#) on page 18.

Review of capital programme management arrangements

We examined capital programme arrangements at a sample of nine councils: Aberdeenshire, Fife, Glasgow City, Moray, North Ayrshire, North Lanarkshire, Renfrewshire, Scottish Borders and The City of Edinburgh. These were the same councils included in the case study review noted above. We assessed how well councils managed their investment spending as a programme and how they could improve in this area. For this work we interviewed elected members, the Director of Finance or equivalent and other Heads of Service. We also reviewed a number of relevant documents.

Desk research and other analysis

We examined existing information such as trends in council capital spending, Scottish Government capital budget projections, sources of financing investment, and councils' borrowing levels and procurement activity. We reviewed published good practice on project and programme management, including information published by the Chartered Institute of Public Finance and Accountancy.

To help understand what levels of borrowing councils might need to make, we projected investment spending and financing using illustrative scenarios for variations in investment over the next eight years to 2020/21.

¹ We have published separately on our [website](#) further information about individual projects in our sample.

Appendix 2

Methods of financing and funding capital investment in councils

Method	Potential
Capital grant	
The Scottish Government provides grant funding to each council on an annual basis. This has provided around a quarter of councils' capital budgets since 2000/01.	Looking ahead, the Scottish Government will reduce the capital grant to councils in real terms from £604 million in 2012/13 to £540 million in 2013/14, but will increase it to £733 million in 2014/15.
Prudential borrowing	
Introduced in 2004, it allows councils to borrow for capital investment. In doing so, each council must calculate and keep under review the amount of money it can afford to borrow with reference to the Prudential Code.	The potential for new borrowing depends, in part, on an assessment of affordability and therefore varies among councils. The City of Edinburgh (£151m), and North Lanarkshire (£93m) had the highest increases in underlying need for new borrowing in 2011/12. Eleven councils reduced their need for new borrowing, with Orkney Islands Council having the largest decrease of over £9 million.
Revenue budget	
Councils can transfer money from revenue budgets to capital budgets to fund capital investment.	The scope to transfer money from revenue budgets to capital budgets depends on how much councils are willing to reduce their revenue budgets.
Private finance initiative (PFI)	
PFI is a form of Public Private Partnership (PPP) where public and private sector partners agree a contract to build and maintain an asset that the public sector will use. The private sector partners pay for the up-front costs of building and ongoing maintenance in return for annual payments from the public sector. Contracts are usually for 25 to 30 years after which the asset either remains with the private sector or is transferred to the public sector.	Twelve councils have plans to use PFI for waste projects, although information on these is limited. Councils continue to operate a number of previously signed PFI contracts, mainly for schools projects.
Non-profit distributing (NPD)	
NPD is another form of PPP. As with PFI, there is a partnership with a private sector company, which pays up-front construction and ongoing maintenance costs. However, NPD contracts limit the profits that the private sector company may retain. Any surplus profit is reinvested in the public sector. The public sector pays an annual charge over the life of the asset from its revenue budget.	Four councils have each approved an NPD contract for new schools in their area, with a combined estimated capital value of £370 million. However, most councils are now pursuing new schools projects through the Hub initiative, which is more suitable for the smaller scale of projects included.
User charging	
However the project is funded, the public sector can help pay for it over time by charging the public to use the asset. Examples of user charging include road tolls and waste disposal charges.	This is restricted to certain assets and services such as museums, waste collection and leisure facilities.

Method	Potential
The Hub initiative	
<p>The Scottish Futures Trust is leading hub implementation across five geographical territories in Scotland.</p> <p>The hub is a partnership-based approach to providing new community assets such as new health premises and other facilities for local community services.</p> <p>In each territory the initiative aims to bring together community planning partners (health boards, councils, police and fire and rescue services), the SFT and a private sector development partner in a joint venture delivery company called a hubco. Five hubcos were established between 2010 and 2012 and have awarded some initial contracts.</p> <p>Public bodies may acquire new projects through the hub using either traditional or private financing.</p>	<p>The hub aims to increase the value for money of construction procurement through better collaboration in the public sector and partnership with private sector suppliers. Previous Audit Scotland reports have identified the need for improvement in these areas.</p> <p>Hubco plans anticipate that they will deliver £2 billion worth of education, transport, health and community services projects over the next ten years. This includes plans for 29 secondary schools projects with an estimated capital value of over £800 million, to be taken forward within the Scottish Schools for the Future programme.</p> <p>The SFT estimates it will give significant financial benefits, including efficiencies of two to three per cent of total project spending and lower procurement costs.</p>
Tax incremental financing (TIF)	
<p>Many councils are considering using TIF to finance capital investment, although no additional investment under TIF has yet gone beyond the planning stage. Under TIF, investment is intended to be ultimately self-financing:</p> <ul style="list-style-type: none"> • Projects need to be able to deliver regeneration and sustainable economic growth. • Councils invest in infrastructure, such as new access roads, to promote growth in a specified regeneration area. The objective is to attract and permit additional private sector investment - such as new shops, offices or factory space - in the same area. • Councils borrow to pay for their investment; however, the Scottish Government allows them to keep a greater share of the anticipated extra non-domestic rates income expected to flow from the additional private sector investment in the specified area. • If all goes to plan, in the short term the anticipated future additional income allows councils to borrow and repay more than would otherwise be affordable; in the long term the extra income pays for the infrastructure investment at no net additional cost to councils. 	<p>Three councils – North Lanarkshire, Glasgow City and The City of Edinburgh – have had business plans approved by Scottish Ministers for TIF projects, but have not made any financial commitments. A further three councils – Falkirk, Fife and Argyll and Bute – are working alongside the SFT to develop TIF business cases.</p>
Capital receipts	
<p>Councils can use income from selling assets to pay for new projects. In most cases councils use these receipts to supplement funding from grants.</p>	<p>During 2012/13, 25 councils planned to sell existing assets with a combined book value of £91 million. A further £62 million worth of assets are held for disposal at a later date, of which Glasgow City Council holds £55 million. However, any income received will depend on the sale price and conditions of each sale.</p>

Appendix 3

Sixty-three completed projects analysed in our audit

Project reference	Council	Project name	Project outturn capital cost (£) ¹	Lifetime contract cost (£) ²	Year of completion (ready for service)
■ Denotes PFI projects. PFI project references are also suffixed '-P'. All other projects were traditionally financed.					
ACC-P	Aberdeen City	3Rs School Programme	124,800,000	181,700,000	2011
ACC3	Aberdeen City	Marischal College	68,300,000		2011
ACC1	Aberdeen City	Regional Sports facility (Phase 1)	27,800,000		2009
ACC2	Aberdeen City	Rosewell House	8,700,000		2009
Angus-P	Angus	Forfar / Carnoustie Schools Project	42,300,000	75,500,000	2009
Angus	Angus	Seaview Primary School	6,000,000		2009
CEC-P	City of Edinburgh	PPP2 Schools Programme		270,600,000	2010
CEC5	City of Edinburgh	Braid Burn Flood Prevention Scheme	43,000,000		2010
CEC2	City of Edinburgh	Usher Hall	25,475,247		2009
CEC1	City of Edinburgh	Housing - Gracemount	6,000,000		2012
CEC4	City of Edinburgh	Inch View Care Home	8,895,000		2011
CEC3	City of Edinburgh	Redhall MLD Primary School	7,566,000		2008
Clack-P	Clackmannanshire	3 secondary schools project	65,500,000	93,800,000	2009
DG-P	Dumfries & Galloway	Schools PPP project	108,824,000	176,898,000	2010
DG	Dumfries & Galloway	Cargenbridge Depot	7,300,000		2010
DCC-P	Dundee City	Schools PPP project - phases 1-5	90,000,000	145,000,000	2009
DCC3	Dundee City	Dundee House	35,200,000		2011
DCC1	Dundee City	Kingspark Special School	13,700,000		2010
DCC2	Dundee City	Whitfield Primary School	8,000,000		2012
EDC-P	East Dunbartonshire	Schools PPP project	134,100,000	183,100,000	2009
EDC	East Dunbartonshire	Kirkintilloch Health & Social Care Centre	8,900,000		2009
ELC3	East Lothian	New Dunbar Upper Primary School	10,000,000		2011
ELC2	East Lothian	Housing - Brunt Court	8,600,000		2011

Notes:

¹ Latest reported cost. Estimated construction cost for PFI projects.

² For PFI projects only. This is the estimated Net Present Cost of contract.

Project reference	Council	Project name	Project outturn capital cost (£) ¹	Lifetime contract cost (£) ²	Year of completion (ready for service)
ELC1	East Lothian	Kinwegar Waste Recycling Centre	3,800,000		2010
ERC	East Renfrewshire	Isobel Mair School	12,118,000		2011
Falkirk-P	Falkirk	Schools PPP project	115,500,000	167,390,000	2009
Fife1	Fife	Carnegie Leisure Centre refurbishment	20,050,000		2011
Fife2	Fife	Leven Primary Schools	9,600,000		2010
GCC2	Glasgow City	Riverside Museum	84,700,000		2011
GCC1	Glasgow City	River Clyde Regeneration - quay walls, public realm and bridge	30,600,000		2009
High-P	Highland	Education PPP2	133,900,000	246,700,000	2009
High2	Highland	Raasay Ferry Terminal	13,400,000		2010
High1	Highland	Highland Archive & Registration Centre	10,400,000		2009
High3	Highland	Lochaber High Phase 2 refurbishment	7,700,000		2011
Inverclyde-P	Inverclyde	Schools PPP project	77,600,000	124,200,000	2011
Midlothian1	Midlothian	Woodburn Primary School	10,900,000		2009
Midlothian3	Midlothian	Housing - Site 16 Eskvale Road	9,400,000		2010
Midlothian2	Midlothian	Cuiken Primary School	7,600,000		2009
Moray1	Moray	Forres Burn of Mosset Flood Alleviation Scheme	21,100,000		2009
Moray2	Moray	Council Headquarters Annexe	7,100,000		2011
NAC	North Ayrshire	Bailey Bridge	5,400,000		2010
NLC3	North Lanarkshire	Ravensraig Regional Sports Facility	33,176,399		2010
NLC4	North Lanarkshire	Cathedral & Firpark PS campus & Daisy Park Community Centre	19,090,500		2011
NLC1	North Lanarkshire	Buchanan Centre	18,200,000		2010
NLC2	North Lanarkshire	Motherwell Theatre Refurbishment	6,700,000		2012
PKC-P	Perth & Kinross	Investment in Learning Programme	135,800,000	217,600,000	2011

Project reference	Council	Project name	Project outturn capital cost (£) ¹	Lifetime contract cost (£) ²	Year of completion (ready for service)
PKC	Perth & Kinross	Errol Primary School redevelopment	6,600,000		2009
Ren2	Renfrewshire	Renfrew High School refurbishment	9,900,000		2010
Ren1	Renfrewshire	Johnstone High School (part 2) refurbishment	8,700,000		2009
SBS-P	Scottish Borders	Schools PPP project	76,300,000	110,500,000	2009
SBS	Scottish Borders	Kingsland Primary School	8,400,000		2010
SIC	Shetland Islands	New Mid Yell Junior High School	8,700,000		2010
SAC-P	South Ayrshire	Schools PPP project	76,300,000	127,700,000	2009
SLC-P	South Lanarkshire	Secondary Schools Modernisation Programme	318,900,000	406,600,000	2009
SLC	South Lanarkshire	Primary Schools Modernisation Programme	180,500,000		2012
Stirling2	Stirling	Peak Sports Village	27,200,000		2009
Stirling1	Stirling	Bannockburn High School Refurbishment	11,600,000		2010
WDC-P	West Dunbartonshire	Schools PPP project	96,992,000	137,049,000	2010
WDC	West Dunbartonshire	Goldenhill Primary School	7,200,000		2010
WLC-P	West Lothian	Schools PPP project	60,800,000	89,800,000	2009
WLC3	West Lothian	West Lothian Civic Centre	46,787,046		2009
WLC1	West Lothian	St Kentigern's Academy refurbishment	20,956,213		2009
WLC2	West Lothian	James Young High School refurbishment	18,515,997		2009

Notes:

1 Latest reported cost. Estimated construction cost for PFI projects.

2 For PFI projects only. This is the estimated Net Present Cost of contract.

Appendix 4

Project advisory group members

Audit Scotland would like to thank members of the project advisory group for their input and advice throughout the audit.

Member	Organisation
Ian Black	Director of Finance & Shared Services, East Dunbartonshire Council
Alan Carr	Board member, Civil Engineering Contractors Association
Stephen Crichton	Head of Corporate Finance, Glasgow City Council
John Fyffe	Executive Director (Education), Perth and Kinross Council
Alison Hood	Audit Manager, National Audit Office
Michael Levack	Chief Executive, Scottish Building Federation
Peter Reekie	Director of Finance & Structures, Scottish Futures Trust

Note: Members of the project advisory group sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

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Major capital investment in councils

Good practice checklist for project managers



 ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 2013

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, requests local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
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The Commission secures the audit of 32 councils and 45 joint boards and committees (including police and fire and rescue services).

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Contents

About this checklist.....	4
Vision and direction	5
Planning	8
Execution	12
Measuring and monitoring	16
Business acceptance	20

About this checklist

The Accounts Commission, as part of its policy of encouraging improvement, seeks to support developments in best value and resource management, recognising these as two key components vital to the successful delivery of council services.

Our audit '*Major capital investment in councils*' published in March 2013 assessed how well investment is directed, managed and delivered within councils. It considered the performance of a large number of recently completed major capital projects against time, cost and quality targets. It also reviewed the appropriateness of councils' capital programme management arrangements.

The audit included recommendations to help councils improve in this area. To help councils make improvements where necessary, the Accounts Commission also published a good practice guide, as part of the *How councils work* series. The guide included a set of questions, largely aimed at elected members, to support and promote effective scrutiny and challenge of major capital projects and programmes.

This checklist supplements the good practice guide. It provides a detailed self-assessment checklist - aimed at project managers rather than elected members - to promote detailed review and reflection and, if necessary, a basis for improvement.

Audit Scotland originally prepared this checklist in connection with its 2008 report, *Review of major capital projects in Scotland*. This concerned the work of central government and health bodies only. We have tailored this version of the checklist so that it refers specifically to councils and may be used in a council context.

All Audit Scotland reports are available on our website: www.audit-scotland.gov.uk

Vision and direction

Good practice area	Good practice statement	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
Strategic alignment	<ul style="list-style-type: none"> The council and senior management team have prioritised projects according to the council's strategic priorities. Each project is established to support achievement of these priorities. 			
	<ul style="list-style-type: none"> The Senior Responsible Owner (SRO) has a clear vision of what the 'future state' looks like and clearly defined the project objectives and ensured that they align with the strategic objectives of the council. 			
	<ul style="list-style-type: none"> The SRO and senior management team is clear about and has documented how the project will affect and, where relevant, improve operational activities. 			
	<ul style="list-style-type: none"> The impact of wider plans to redesign services on the project delivery plan is reviewed on a regular basis, and vice versa. 			
Business case	<ul style="list-style-type: none"> Responsibility for owning and championing the business case process (Strategic Business Case, Outline Business Case, Full Business Case) is clearly allocated to the Senior Responsible Owner (SRO) 			
	<ul style="list-style-type: none"> The business case describes what the value is to the council from the outcomes of the project, documenting: <ul style="list-style-type: none"> Options have been identified and assessed 			

Good practice area	Good practice statement	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
<p>Business case (continued)</p>	<ul style="list-style-type: none"> ○ Project procurement routes and options are fully explored, market tested and form part of the developed business case ○ The council is clear about the benefits expected and about how these will be achieved. ○ Project costs are built-up in a consistent manner, including specific risk and optimism bias allowances and realistic construction inflation costs. ○ The council has sought review of costs by a skilled individual / team without any stake in the numbers, and any issues that have been identified have been addressed. ○ There is clear understanding of the different purpose and requirements of each stage of the business case process. ○ The stakeholder (including funders) approval process is outlined within the business case, and their expectations of benefits to be realised has been appropriately managed. 			
	<ul style="list-style-type: none"> ● The business case has considered emerging service changes and changes within the business environment and how they may affect the project. 			

Good practice area	Good practice statement	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
	<ul style="list-style-type: none"> The business case is reviewed throughout the lifecycle of the project, to help test that any changes affecting it are justified, provide value for money and to help reinforce proper reporting and accountability. 			
	<ul style="list-style-type: none"> The business case is fully communicated to relevant stakeholders. 			
Sponsor commitment	<ul style="list-style-type: none"> The SRO has assurance that the Project Sponsor has: <ul style="list-style-type: none"> the most appropriate knowledge, credibility and seniority to influence the key stakeholders sufficient resources to discharge their obligations 			
	<ul style="list-style-type: none"> The successful delivery of the project is linked to the sponsor's personal performance metrics, with a successful outcome being pre-agreed by the SRO and approved by the council. 			

Planning

Good practice area	Key points to consider	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
Governance	<ul style="list-style-type: none"> Each project should have an identified investment decision maker, Senior Responsible Officer (also known as Project Owner) and Project Sponsor. 			
	<ul style="list-style-type: none"> There are clear and documented roles and responsibilities for SRO, Project Sponsor, Project Manager, including role descriptions, delegated authorities, council structures. 			
	<ul style="list-style-type: none"> The SRO is the senior individual with accountability for delivery of the project within budget. 			
	<ul style="list-style-type: none"> The SRO has appointed a Project Sponsor, where appropriate experience is required 			
	<ul style="list-style-type: none"> The SRO has considered and approved the project governance, documented roles and responsibilities and delegations of authority are effectively communicated. This includes: <ul style="list-style-type: none"> Clear identification of the management structure and decision making process within the project Process for escalation of issues to the 			

Good practice area	Key points to consider	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
Governance (continued)	appropriate forum, where decision making will be made on the action required to address them			
	<ul style="list-style-type: none"> • For Project Boards, there are clear terms of reference, accountabilities and decision-making criteria. The Project Board is chaired by the SRO and attended by all stakeholders involved in the project 			
	<ul style="list-style-type: none"> • Senior stakeholders within the public body require high levels of focus and assurance on major projects in order to take action to reduce the potential negative effects. These stakeholders include Committees (including Audit), Boards, senior management and Heads of Internal Audit. For these stakeholders, there is evidence that: <ul style="list-style-type: none"> ○ All major projects and programmes are 'under control' and risks are being managed in terms of delivery on time and to specification, within budget and the benefits originally intended ○ All projects in progress will have a measurable impact in supporting achievement of strategic objectives 			
	<ul style="list-style-type: none"> • Where the project crosses organisational boundaries, there are clear governance arrangements in place to ensure sustainable alignment with the corporate 			

Good practice area	Key points to consider	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
	<p>objectives of all organisations involved.</p> <ul style="list-style-type: none"> The requirement for independent review and challenge of the project to provide assurance that the project continues to be effective has been defined and approved. Specifically, the audit committee has considered what degree of independent assurance and challenge it requires with regards to individual projects. 			
Risk management	<ul style="list-style-type: none"> The council has determined its “risk appetite”, considering the acceptable levels of risk in strategic, financial, operational regulatory and reputational terms, and it uses the results to inform the management of risks. The project’s risk processes are consistent with the council’s risk framework and reporting of risks is a two-way process (top down and bottom up) between the project and the council. Discussions about the level of project risk are undertaken at project sponsor level, and with peers in the council. The project risk management framework is embedded within the day-to-day project processes, such as a constraints, assumptions, risks, dependencies and issues log. 			

Good practice area	Key points to consider	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
Risk management (continued)	<ul style="list-style-type: none"> The Project Board has established and agreed tolerances for cost , time and quality for the project and has established clear escalation levels should the level of risk be outside of agreed limits. 			
Procurement strategy	<ul style="list-style-type: none"> The council has defined its procurement strategy within which the Project Board must manage the project's procurement remit. 			
	<ul style="list-style-type: none"> Discussions are held on tendering and contractual options, to ensure risks and potential opportunities of each are understood thoroughly. 			
	<ul style="list-style-type: none"> The project's procurement route reflects informed knowledge of the market and ensures an attractive approach for the market place is chosen. 			
	<ul style="list-style-type: none"> The procurement strategy is consistent with the agreed council's Risk Strategy. 			

Execution

Good practice area	Key points to consider	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
Project management	<ul style="list-style-type: none"> As an 'informed client' the Project Sponsor appoints a suitably experienced and qualified project manager either from within the council or externally after the agreement of the high level business case/ mandate. 			
	<ul style="list-style-type: none"> During initiation of the project, the project manager should be involved, but at a lower level of importance to the SRO and project sponsor. However once the project moves into the planning phase, then the project manager takes on most of the responsibility for that element of the project. 			
	<ul style="list-style-type: none"> The project plan has a direct relationship with the business case and overall strategy of the council. 			
	<ul style="list-style-type: none"> The project plan is broken down into manageable work streams and relevant project milestones that are meaningful to the Project Board to allow accurate and frequent progress tracking and maximise visibility of inter-dependencies. 			
	<ul style="list-style-type: none"> An analysis has been undertaken of the effects of any slippage in time, cost, scope or quality. 			

Good practice area	Key points to consider	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
Project management (continued)	<ul style="list-style-type: none"> Critical path activities identified, and used as a base timeline for other activities and interdependencies to report against. Allowance for planning time and 'stepping back' and fully assessing interdependencies. 			
	<ul style="list-style-type: none"> There is consistent application of a recognised project management methodology which is scalable, flexible and embedded in the culture of the council 			
	<ul style="list-style-type: none"> The project team has developed a resource plan for the duration of the project, so as to inform the Project Board on future and on-going resource requirements. 			
	<ul style="list-style-type: none"> There is an identified change strategy which defines project change processes with escalation and approval points. 			
	<ul style="list-style-type: none"> Independent project assurance reviews are carried out by the council and/or external parties at key milestones. 			
Procurement	<ul style="list-style-type: none"> The procurement route for the project should be tailored to the specific nature of the facility, be it standard or bespoke, and incorporate benefits to be delivered by the contractor. 			
	<ul style="list-style-type: none"> Commercial expertise / specialism is brought to bear to ensure optimal commercial conditions are fostered during procurement, and that commercially appropriate 			

Good practice area	Key points to consider	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
	terms are used in contracts – e.g. change controls.			
	<ul style="list-style-type: none"> The Project Board is informed by an suitably knowledgeable project manager who can demonstrate understanding of the capacity and capability of the market. 			
	<ul style="list-style-type: none"> Key risks generated through the choice of procurement route and contract type are identified and added to the risk register for management through the risk process. 			
Resources	<ul style="list-style-type: none"> Consistent cost estimating processes are used to develop and maintain project costings 			
	<ul style="list-style-type: none"> Contingencies have been identified and overlaid on base costs to allow for known risks, unknown risks, overhead and optimism bias. 			
	<ul style="list-style-type: none"> A change management process is in place and fit-for purpose to address any oversights. 			
	<ul style="list-style-type: none"> The project scope and finances are developed in detail prior to authorisation to spend is sought. 			
	<ul style="list-style-type: none"> Accounting systems have been set up to reflect the data required to track costs and billings by workstream line item 			
	<ul style="list-style-type: none"> The project team has sufficient allocated resources and 			

Good practice area	Key points to consider	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
Resources (continued)	the necessary skills to achieve the project objectives successfully.			
	<ul style="list-style-type: none"> The Project Board and the project team have access to relevant specialist expertise as required throughout the lifecycle of the project. 			
	<ul style="list-style-type: none"> Performance of project team is incentivised e.g. annual performance measures, to align individual expectations with the goals of the project. 			

Measuring and monitoring

Good practice area	Key points to consider	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
Project management	<ul style="list-style-type: none"> As an 'informed client' the Project Sponsor appoints a suitably experienced and qualified project manager either from within the council or externally after the agreement of the high level business case/ mandate. 			
	<ul style="list-style-type: none"> During initiation of the project, the project manager should be involved, but at a lower level of importance to the SRO and project sponsor. However once the project moves into the planning phase, then the project manager takes on most of the responsibility for that element of the project. 			
	<ul style="list-style-type: none"> The project plan has a direct relationship with the business case and overall strategy of the council. 			
	<ul style="list-style-type: none"> The project plan is broken down into manageable work streams and relevant project milestones that are meaningful to the Project Board to allow accurate and frequent progress tracking and maximise visibility of inter-dependencies. 			
	<ul style="list-style-type: none"> An analysis has been undertaken of the effects of any slippage in time, cost, scope or quality. 			
	<ul style="list-style-type: none"> Critical path activities identified, and used as a base 			

Good practice area	Key points to consider	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
Project management (continued)	<p>timeline for other activities and interdependencies to report against. Allowance for planning time and 'stepping back' and fully assessing interdependencies.</p>			
	<ul style="list-style-type: none"> There is consistent application of a recognised project management methodology which is scalable, flexible and embedded in the culture of the council 			
	<ul style="list-style-type: none"> The project team has developed a resource plan for the duration of the project, so as to inform the Project Board on future and on-going resource requirements. 			
	<ul style="list-style-type: none"> There is an identified change strategy which defines project change processes with escalation and approval points. 			
	<ul style="list-style-type: none"> Independent project assurance reviews are carried out by the council and/or external parties at key milestones. 			
Procurement	<ul style="list-style-type: none"> The procurement route for the project should be tailored to the specific nature of the facility, be it standard or bespoke, and incorporate benefits to be delivered by the contractor. 			
	<ul style="list-style-type: none"> Commercial expertise / specialism is brought to bear to ensure optimal commercial conditions are fostered during procurement, and that commercially appropriate terms are used in contracts – e.g. change controls. 			

Good practice area	Key points to consider	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
	<ul style="list-style-type: none"> The Project Board is informed by an suitably knowledgeable project manager who can demonstrate understanding of the capacity and capability of the market. 			
	<ul style="list-style-type: none"> Key risks generated through the choice of procurement route and contract type are identified and added to the risk register for management through the risk process. 			
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	<ul style="list-style-type: none"> Contingencies have been identified and overlaid on base costs to allow for known risks, unknown risks, overhead and optimism bias. 			
	<ul style="list-style-type: none"> A change management process is in place and fit-for purpose to address any oversights. 			
	<ul style="list-style-type: none"> The project scope and finances are developed in detail prior to authorisation to spend is sought. 			
	<ul style="list-style-type: none"> Accounting systems have been set up to reflect the data required to track costs and billings by workstream line item 			
	<ul style="list-style-type: none"> The project team has sufficient allocated resources and the necessary skills to achieve the project objectives 			

Good practice area	Key points to consider	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
Resources (continued)	successfully.			
	<ul style="list-style-type: none"> The Project Board and the project team have access to relevant specialist expertise as required throughout the lifecycle of the project. 			
	<ul style="list-style-type: none"> Performance of project team is incentivised e.g. annual performance measures, to align individual expectations with the goals of the project. 			

Business acceptance

Good practice area	Key points to consider	In place? (Yes/No)	Comments to support or explain your assessment	Required actions
Change management	<ul style="list-style-type: none"> The Project Sponsor ensures relevant stakeholder involvement and buy-in to project changes throughout the project relative to business case objectives. 			
	<ul style="list-style-type: none"> The SRO manages the project change process within the pre-agreed tolerance levels 			
	<ul style="list-style-type: none"> The project team has developed a stakeholder map so as to identify stakeholder groups. 			
Stakeholder management	<ul style="list-style-type: none"> The SRO and Project Board have documented and agreed how stakeholders will be engaged e.g. ensure buy-in, overcome resistance to change, allocate risk to the party best able to manage it. 			
	<ul style="list-style-type: none"> A communication plan has been agreed by the SRO, and is regularly updated so as to inform stakeholders. 			
	<ul style="list-style-type: none"> Project Sponsor communicates with stakeholder groups on the achievement of project objectives. 			
	<ul style="list-style-type: none"> Lessons learned have been captured and shared across the council for future projects, and have been raised with other councils as appropriate. 			

Major capital investment in councils

Good practice checklist for project managers

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How councils work:
an improvement series for councillors and officers

Major capital investment in councils

Good practice guide



 ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 2013

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, requests local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

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Contents

About our 'how councils work' series	4
Introduction.....	5
Purpose of the guide	5
What is in the guide?.....	6
Part 1: Good practice in capital programme management	7
Key points	7
Recommendations	7
What is capital programme management?	8
Creating a vision for capital investment activity	8
Ensuring sound governance arrangements are in place.....	10
Measuring, monitoring and dealing with risk.....	11
Identifying, calculating and reviewing the benefits of investment	12
Engaging with others to deliver the programme.....	12
Financial information and reporting	13
Part 2: Good practice in capital project management.....	15
Key points	15
Recommendations	15
Setting vision and direction for projects	16
Planning successful projects	18
Project execution.....	20
Measuring and monitoring project progress and success	20
Business acceptance and assessing project outcomes	21
Part 3: Questions to support scrutiny and challenge.....	23
Questions for elected members on the capital programme.....	23
Questions for elected members on major capital projects.....	25

About our 'how councils work' series

The Accounts Commission, as part of its policy of encouraging improvement, seeks to support developments in best value and resource management, recognising these as two key components vital to the successful delivery of council services.

The purpose of the 'how councils work' series of reports is to stimulate change and improve performance. We select topics based on the recurring themes and issues from our Best Value and performance audit work, the work of local auditors and our annual overview report.

This is the fifth output in the series. The first, published in August 2010, examined roles, responsibilities and working relationships of councillors and council officers in achieving best value. The second report, published in June 2011, examined the relationships between councils and their ALEOs (arm's-length external organisations). The third report, published in May 2012, highlighted the importance of good-quality cost information in policy decision-making and scrutinising performance. The fourth report, published in October 2012, highlighted the importance of councils effectively managing performance and improvement to deliver efficient and effective services and show they are achieving best value.

This output forms a good practice guide on major capital project and programme management. It focuses on learning from our performance audit 'Major capital investment in councils' published in March 2013.

All Audit Scotland reports are available on our website: www.audit-scotland.gov.uk

Introduction

1. Our audit *'Major capital investment in councils'*, published in March 2013, assessed how well investment is directed, managed and delivered within councils. It considered the performance of a large number of recently completed major capital projects against time, cost and quality targets. It also reviewed the appropriateness of councils' capital programme management arrangements and made a number of recommendations to help councils improve in this area.
2. Delivering successful capital investment programmes and projects can improve the quality of services that councils provide. It can help achieve local outcomes and improve the overall efficiency of how the public sector estate operates and reduce costs in the long term. Poor planning and lack of accountability and leadership can undermine investment. To deliver successful capital investment, councils need to ensure plans are well-designed and well-executed. Good programme and project management increase the likelihood that investment is well-directed, delivered to time, cost and quality targets and provides the intended benefits.
3. Our audit reported that while governance structures for investment had improved, councils should improve the quality of the information they provide to assist the detailed scrutiny of major capital investment projects and programmes. Despite the pressure on public finances, councils continue to be responsible for significant major capital investment. This means effective scrutiny, and the need for councils to achieve value for money from their major capital programmes, is more important than ever.

Purpose of the guide

4. We have developed this guide from evidence and lessons learned from our audit. It is designed to help councils improve the management and delivery of their capital investment projects and programmes and to support effective scrutiny of plans.
5. The main audiences for the guide are those involved in the delivery, management and scrutiny of councils' major capital investment programmes and projects. In particular it is aimed at:
 - Elected members
 - Chief executives and directors of finance
 - Heads of service
 - Senior responsible owners and programme and project managers
6. The guide is intended to provide helpful and constructive advice on major capital programme and project management. It includes advice on governance arrangements, risk and benefits management. It aims to help identify key issues that councils should be aware of when developing their capital programmes and managing the projects within it.

What is in the guide?

7. The guide highlights good practice based on the key recommendations from our audit and is divided into three parts:
 - Part 1: Good practice in capital programme management
 - Part 2: Good practice in capital project management
 - Part 3: Questions to support scrutiny and challenge
8. Part 1 discusses and provides an overview of the various elements that are important for delivering a successful capital programme.
9. Part 2 provides an overview of good practice in major capital project management. It reflects our 2008 guidance on good practice in major capital projects, which was aimed at health and central government bodies.^{2 3}
10. Part 3 provides questions to support and promote effective scrutiny and challenge of major capital projects and programmes. They are aimed at elected members but may also be used by senior officials. The idea is that elected members and senior officials use these questions as a catalyst to help explore, challenge and improve their council's performance.
11. This guide is intended to provide support to councils. It does not replace councils' own financial guidance or guidance produced by other relevant authorities.⁴

² *Review of major capital projects in Scotland: Report supplement: Good practice checklist for public bodies*, Audit Scotland, June 2008.

³ Our 2008 guidance was aimed at health and central government bodies. It included a detailed self-assessment checklist - aimed at project managers rather than councillors - to promote detailed review and reflection and, if necessary, a basis for improvement. We have published on our website a revised version of this checklist for project managers tailored to be relevant to those working within councils

⁴ Other relevant guidance includes *A guide to asset management and capital planning in local authorities*, Chartered Institute of Public Finance and Accountancy, October 2008.

Part 1: Good practice in capital programme management

Key points

Because of its scale and impact, councils must clearly direct and rigorously manage their capital investment activity. To achieve this, they require to do the following:

- Be clear about the overall purpose and justification for spending and the benefits it will deliver. There should be a clear understanding of the links between investment, performance and outcomes.
- Establish priorities to help them decide which projects to choose taking into account what they can afford. Proposals for new investment should reflect these priorities. Councils should balance proposals for new projects with what they need to spend to maintain current properties and ensure they stay fit for purpose.
- Take a long-term view of their total investment spending so they can plan and coordinate it effectively.
- Put a clear and effective governance structure in place and ensure responsibilities are clearly defined, allocated and understood. The structure should provide scope for constructive challenge and effective scrutiny at all stages of the programme.
- Ensure financial and risk management are robust.
- Clearly define benefits and manage programmes to ensure they deliver the benefits. Monitor and report outcomes and learn lessons from programmes.

Recommendations

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 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.

- **consult with stakeholders on its capital programme to ensure stakeholders are fully aware of council capital spending priorities and plans. This may create opportunities to generate efficiencies over the whole programme rather than restricting it to project specific issues.**
- **improve the quality of capital project and programme information that is routinely provided to elected 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.**
- **consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary.**
- **improve how they manage risk and report on programme-level risk to members. Reports should provide details on the likelihood of risks occurring, potential impact and what proposals are in place to lessen the impact of risk.**

What is capital programme management?

12. Capital programme management is the delivery of a group of capital investment projects designed to achieve outcomes and benefits that are of strategic importance to the council. Projects in the programme can vary in size, type and value. For smaller councils, a programme may encompass all or most of their capital spending plans. Larger councils may have a range of programmes encompassing investment spending in separate areas such as transport and education.
13. Effective programme management should coordinate all capital investment projects to deliver the intended facilities and infrastructure necessary for local service delivery plans. It should coordinate project costs and set out how spending will be incurred over the duration of the programme.

Creating a vision for capital investment activity

14. Councils should have a clear vision for capital investment - aligning major capital investment activity to the strategic objectives of the council. A clear vision should focus on ensuring the right buildings, infrastructure and equipment are in place to support service delivery. Delivering sustainable services, achieving local outcomes and maintaining and developing the existing asset base should be the main drivers for major capital investment. Councils should specify the benefits and outcomes they are seeking from investment and how they will assess value for money.

Good practice - asset management

Councils need reliable information on the condition of existing assets to be able to make the best decisions on what capital investment they need to make in the future. Good asset management plans provide information on the condition of their assets, if these are suitable and if the council has enough for its needs. These plans should also assess energy efficiency, reflecting the rising price of energy and the need to reduce carbon emissions.

Developing the capital investment strategy

Good practice - capital investment strategies and plans

Capital investment is, by definition, a long-term activity. It is important that councils develop and maintain a clear strategy to direct and control their investment. To do this, they should produce an investment strategy with priorities to decide the level and nature of investment spending and develop plans to assess how they can finance and afford the spending.

15. The vision for major capital investment should be clearly set out in a capital investment strategy. The capital investment strategy should provide a robust framework for elected members to make potentially difficult decisions about priorities and consider the needs and constraints of investment over the longer term.
16. The capital investment strategy should cover 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. The strategy should identify a regular cycle for its periodic review to reflect any changes in the major capital investment environment. It should assign accountability for ensuring the strategy is maintained.
17. Strategies should:
 - show the council's consideration of its potential future service and community infrastructure needs and ambitions compared to the current position
 - show how investment may be financed sustainably and outline a method for choosing capital investment priorities within available resources and the overall financing strategy
 - provide clear links between investment objectives and the council's strategic objectives
 - identify and coordinate investment requirements from across each service area
 - provide clear links between individual projects and wider programmes
 - clearly outline investment plans over a number of years, including contractually committed and uncommitted projects
 - provide an assessment of the various financing options available to the council and how these may be used

- provide clear information on asset management activity and the overall condition of the council estate
- identify opportunities for collaboration with other councils, public bodies and the private sector.

Developing a capital plan

18. To support the investment strategy, councils should develop capital plans which outline annual investment commitments and plans over the medium term (typically 3-5 years). The capital plan should provide:
- the rationale for all the main capital investment projects identified as priorities within the plan period, including the expected benefits and any options around the selection of projects
 - details of planned annual project and programme costs
 - financing arrangements, including grant funding, borrowing, use of private finance
 - details of any shortfalls/surpluses in available funding and actions to address these
 - details of re-profiling of capital spend between years
 - details of project or programme slippage between years and how this affects the delivery of the plan
 - clear links between the overarching capital investment strategy and annual capital budget monitoring
19. Councils should review the capital plan on a quarterly basis. As well as the current year's annual capital budget monitoring, the review should consider the programme risk register and benefit strategy (discussed later at paragraphs 23-27) and financial management and reporting (paragraphs 32-34).

Ensuring sound governance arrangements are in place

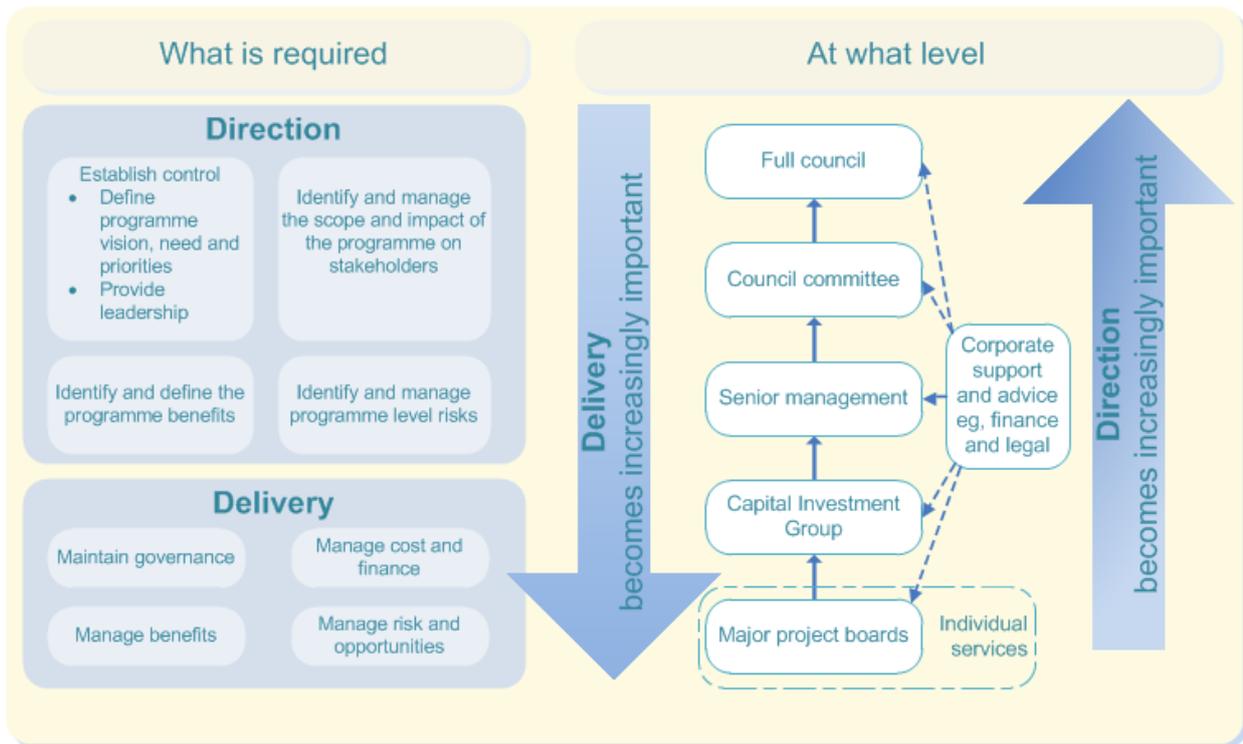
20. Councils must have sound governance arrangements to develop, oversee and deliver their capital programmes. Leadership and clear accountability for success are required at each level. Responsibility for setting the direction of the capital programme will ultimately remain with elected members.
21. Good governance arrangements also include having a corporate, officer-led capital group that considers and challenges the capital and asset management plans of individual services. The group should report and make recommendations to the council's senior management team, who in turn should report, make recommendations and answer to the relevant council committee ([Exhibit 1, next page](#)).
22. Having a good governance structure, however, does not guarantee effective delivery of capital investment plans and projects. At all levels of the governance structure, from project boards to full council, there should be clear arrangements for reporting and monitoring. Likewise all levels need to be supplied with robust, regular information on key aspects of the capital

programme including current performance, financial performance, risk management, assessment of benefits including policy considerations and links to strategic objectives. At all levels, information should be transparent and allow for decision-making on complete information. Without this, there is a risk that decision-making will not allow value for money to be achieved.

Exhibit 1

Good practice for managing capital programmes

Effective control of capital investment programmes requires councils to set clear direction and manage delivery at a range of levels



Source: Audit Scotland

Measuring, monitoring and dealing with risk

23. A robust approach to risk management is essential to delivering a successful capital programme. Councils should aggregate project-level risks and consider them at programme level. Developing a programme risk register will allow the council to oversee what risks face the capital programme as a whole. A programme risk register should include:

- Details of risks (*what are the risks, how will they affect services, when might they occur?*)
- Likelihood of risk occurring
- Financial implications of risk occurring
- Services affected
- Proposed actions
- Responsible officer

- Timetable.
24. The Capital Investment Group (or equivalent) should create and monitor a programme-level risk register and provide updates to the senior management team and the relevant council committee on a quarterly basis. An example of a programme-level risk is where the delivery of several projects is not coordinated to take account of suppliers' capacity to undertake the work. Without assessing programme-level risks, the council may only address risks on a project-by-project basis. Consequently, the council may fail to recognise or address the level of risks facing the overall programme, which may threaten a successful outcome.

Identifying, calculating and reviewing the benefits of investment

Good practice - identifying the benefits

It is important that councils clearly define the intended benefits of a project from the outset to justify the investment decision and provide a benchmark against which they can measure progress. By doing so, it allows councils to track, monitor and measure the delivery of benefits as a project progresses.

25. Investment projects and programmes are only successful if the intended benefits are realised. Councils should implement robust procedures for identifying, measuring and realising benefits from the early stages of planning.
26. Clearly defining the intended benefits from the outset is necessary both to justify the investment decision and to provide a benchmark for measuring progress. If benefits are undefined, tracking, monitoring and measuring benefits as the programme progresses will be difficult or impossible which, in turn, may weaken or undermine their achievement.
27. Intended benefits should clearly link to the council's strategic objectives. In many cases identifying the benefits is straightforward and they are directly measurable. Less tangible benefits can be more difficult to measure, nevertheless the council should seek to identify performance indicators to compare performance 'before' and 'after' the completion of the programme or project.

Engaging with others to deliver the programme

Joint working

28. Collaborating with other councils, public bodies and private sector organisations can help generate significant savings, improve the facilities and infrastructure for local service delivery and reinforce stronger community planning. It can take many forms, including asset sharing, joint projects, joint procurement or sharing good practice.
29. There is no standard approach for collaborating on major capital investment activity. It is the responsibility of each council to actively seek opportunities to engage with other bodies and explore the possible benefits of collaboration. Elected members and senior council officers

should demonstrate clear commitment to joint working approaches and should assess the potential costs and benefits of the various options explored.

Stakeholder engagement

30. Every capital programme has a number of key stakeholders. These can cover a range of different groups including local residents, businesses, employees, service users and suppliers. Engaging and consulting with stakeholders is essential in achieving the successful delivery of the programme and should be a vital component of developing the capital programme from the outset.
31. Councils should communicate with stakeholders on their capital programmes to ensure they are fully aware of capital spending plans and priorities. This can:
 - be of particular value to potential suppliers and contractors to gain an insight into potential future procurement opportunities
 - create opportunities to generate efficiencies over the whole programme rather than restricting it to project specific issues.
 - promote engagement, scrutiny and challenge of significant spending proposals.

Financial information and reporting

32. All councils need sound financial management systems in place to help them monitor and control their capital spending and ensure they are delivering value for money. Arrangements should cover how financial information is reported, including frequency, level of detail and audience, including information reported in public. Financial information reported on a regular basis to elected members and senior officers should cover:
 - **Annual spend:** analysis of annual capital spend against budget, identifying profile of spend throughout the year and covering slippage of planned spend and any agreed re-profiling into future years. Councils should continue with generally well-established reporting in this area.
 - **Project spend:** project-by-project analysis of spend against each milestone, including spend against budget, how it is paid for, reasons for any movements in cost and future projected costs and details of the project's physical progress. Councils need to develop better systems for preparing and using business cases (see Part 3) to underpin clear and consistent project reporting. In particular, councils should report progress against business case targets and milestones.
 - **Programme spend:** analysis of the overall capital programme and its financing, including spend against budget, profile of spend over the duration of the programme (including future projections), how it is paid for, for example, from capital grants or borrowing. Councils that have many projects in progress simultaneously may need to reconsider how reporting will ensure there is clear oversight of the investment programme as a whole, including slippage, re-profiling and interdependencies of projects.

33. Financial information should also cover details on the sustainability of borrowing for capital purposes and the impact of current and future payments in respect of private finance contracts. It should also provide clear links between capital spending and other council financial activity such as treasury management and revenue spending.
34. External factors such as the UK and Scottish budget settlements, construction inflation, interest rates and other market factors should be included to give a comprehensive level of reporting. Without comprehensive information, it will be difficult for elected members and senior officers to make effective decisions about key aspects of the capital programme.

Part 2: Good practice in capital project management

Key points

Good project management increases the likelihood that projects will deliver to time, cost and scope targets and provide worthwhile benefits. Project plans should be well-researched and well-defined with robust estimates of timetables and associated costs from the outset.

Recommendations

Councils should:

- establish standard criteria for the content of business cases that reflects good practice and establish 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
- prepare detailed and robust business cases for every project. These should cover the intended aims and benefits, options appraisal, risk assessment and cost, time and scope targets
- carry out early assessments of risk and uncertainty to improve the accuracy of early-stage estimating of the cost and time of projects. Each risk assessment should take into account experience and expertise gained from previous projects and the potential for higher risks with projects that are relatively novel
- 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
- carry out post-project evaluations within six months of a project being completed to find out if the projects have delivered, or are on course to deliver, the intended benefits and to learn lessons. The results should be reported publicly
- ensure lessons learned from projects are shared across services and other councils to help improve the successful delivery of future projects to time and cost targets.

35. The 'Project Wheel' shown below is a suggested framework for assessing the capability of any organisation to deliver and control projects well ([Exhibit 2, next page](#)). The central wheel reflects the five key stages of a well-run project. The outer wheel highlights key areas of good practice that should be considered depending on both where the project is in the lifecycle and specific project issues.

Exhibit 2

The Project Wheel



Source: Audit Scotland

36. The remainder of this part discusses each of the five main areas of good practice. Each section highlights key considerations while highlighting some risks and potential pitfalls which good practice should help avoid.

Setting vision and direction for projects

37. Vision and direction is about getting the fundamental goals of the project right. In particular, it should ensure:
- Projects are aligned with aims of the capital programme and the strategic objectives of the council
 - Councillors and senior management support the project
 - The organisational structure is robust, flexible and responsive
 - There is clear ownership of the project's business case, with associated accountability for ensuring that the required change takes place and expected benefits are realised.
38. The business case process is fundamental to setting and maintaining a clear vision and direction. It is essential for evaluating the affordability of the project, in line with achieving value for money, before the decision to proceed with the project is made. Good quality business cases are vital for project scrutiny, decision-making and transparency.

Good practice - business cases

Good-quality business cases are vital for project scrutiny, decision-making and transparency. The business case should develop as each project develops. It should provide the basis for all important project decisions. Good practice is that councils should develop business cases over the following stages:

- **A Strategic Business Case (SBC)** to confirm the strategic context of the proposal and provide an early indication of the proposed way forward.
- **An Outline Business Case (OBC)**, including the council's preferred option for getting the best value for the money available. It should also provide details of a procurement strategy.
- **The Full Business Case (FBC)** to revise the OBC and provide important project information including a recommendation following discussions with key stakeholders, including potential suppliers.

Councils should revisit the business case throughout the course of a project, particularly if things change. These changes could include developments in financing arrangements, adjusting the scope of the project or dealing with an external delay that affects the project. Revisiting the business case will help to ensure that the aims and objectives remain clear and that project benefits remain relevant. It is also a good basis for transparency and accountability, by making sure councils are seen to be continually monitoring progress against the business case.

39. The business case should be developed over time as each project develops. It should summarise the results of all necessary research and analysis and provide the basis for all important project decisions ([Exhibit 3, next page](#)). Should initial project plans change significantly in scope, timing or cost, the business case should be updated accordingly and it may be necessary to revisit the initial investment decision to ensure the project remains relevant to the council's objectives.

Exhibit 3

The contents of a business case

Area	What should be included
Project objectives	Outlines the strategic context for the project and details the service reasons and justification for it.
Stakeholder engagement plan	The purpose, method and frequency of consultation. The identity of key stakeholders including partner service providers, service users, elected members, staff, local businesses, wider community.
Project design	The design options and locations, including the preferred option. Assessment of site conditions, with results feeding directly into the risk assessment noted above.
Options appraisal	Details of the various options to deliver the project objectives including the preferred option. Options including new buildings or infrastructure, refurbishment of existing assets and 'do nothing'. All options should be assessed in line with both service-level and council-wide objectives.
Benefits	The intended benefits should drive the investment decision. Clarity over intended benefits should be sought from the outset, with plans to track and monitor benefits realised developed and refined over the course of the project.
Costs	The costs for each option, including whole life costs and impact on future capital and revenue budgets. Details of any assumptions made. At early stages, there should be an assessment of the costs of the 'do nothing' option.
Risk assessment	The risks associated with each option, including the likelihood of occurrence, financial implications and proposed mitigating action.
Project organisation	Management responsibilities, governance and reporting arrangements. A delivery plan with confirmation that management resources are adequate. An assurance plan including any Gateway Review requirements.
Timetable	Timetable for all stages of the project, including planning and design, procurement, delivery and completion (including plans for post-project evaluation work).
Procurement strategy	Best value assessment of the various procurement routes as well as the preferred option. Details of the evaluation criteria to be used in the assessment.

Source: Audit Scotland

Planning successful projects

40. Planning is about organising, governing and controlling the major resource inputs to the project, to promote successful delivery of the tasks and related outputs.
41. Planning requires the practical alignment of business aspirations with potential organisational capability. It requires good organisation and strong leadership. It includes successfully managing change in the project, which depends on a clear and agreed vision of future outcomes. Clarity about the various roles and responsibilities for the project is essential, with

clear reporting lines to facilitate prompt decision making. The key project roles are outlined in Exhibit 4.

Exhibit 4

Key project roles

Role	Description
Senior Responsible Owner (SRO)	<ul style="list-style-type: none"> • Ultimately accountable for the success of the project • Responsible for developing the business case • Chairs the project board • Holds project team to account • In control of scope changes or the decision to close the project
Project Board	<ul style="list-style-type: none"> • Chaired by the SRO with senior representatives for users and the suppliers or specialist input • Supports the SRO, who remains the key decision-maker • May not be required for smaller projects • Helps to provide the project with overall direction and management and overcome any problems • Helps ensure effective stakeholder engagement (though may need to be supplemented by a stakeholder forum to avoid the board becoming too large)
Project Sponsor	<ul style="list-style-type: none"> • Provides link between council officers and project team • Promotes the project and provides significant leadership • Represents the project's interests and is clear on the project direction, strategy and risks • Understands the required outcomes of the project, how they will be achieved, in what timescale and using which resource • Ensures that budgets are realistic and a robust system of checks and measures is in place.
Project Manager	<ul style="list-style-type: none"> • Responsible for day-to-day detailed management of the project • Acts as the interface between the sponsor and suppliers • Provides regular reports to the SRO on progress.

Source: Audit Scotland

42. In planning major capital projects, councils need to ensure good risk management at all levels. The council should consider what are acceptable levels of risk in strategic, financial, regulatory and reputational terms. Project risks should be consistent with the council's risk framework and be reported as part of a two-way process between the project team and the council. Senior council officers have an important role to play in managing and controlling the strategic risks. The Project Board should establish tolerance levels and clear escalation procedures should any risk exceed agreed levels.
43. Choosing the correct procurement strategy for a project is essential for good competition, minimising costs and maximising value for money. An options appraisal should take place with the risks associated with each potential procurement route clearly documented. Senior officers should recommend a procurement decision to elected members for approval and where

appropriate, take industry advice to ensure the chosen method is attractive in current market conditions. Risks from the chosen method should be incorporated in the appropriate risk registers.

44. Councils face challenges in getting assurance about delivery performance in terms of cost, time and risk exposure. Independent expert reviews at key stages of a project - commonly known as Gateway Reviews - can help provide some assurance by identifying potential problems. It is important that an early decision can be made on the need for such reviews and when they can best take place to support satisfactory project progress. SROs should not rely solely on independent reviews to indicate if a project is in difficulty. Any review represents a point in time assessment and is only one of several sources of information to help assess project performance.
45. The council's audit committee or scrutiny panel may also play an important role in providing confidence about the delivery of major capital projects. The audit committee should not be a decision-making forum for a major project and should not replace any project or independent third party reviews. But the audit committee will wish to get assurance about the value of independent reviews and that suitable procedures have been adopted.

Project execution

46. Good project execution is concerned with the quality and availability of project management, resources and people to deliver the project. It also includes having good competition to select a supplier and a solution offering value for money.
47. A key decision is the selection of the project manager. The decision needs to reflect leadership ability as well as experience or technical competence as the basis for choice. Evidence from successful projects is that leadership is essential and applies to the overall project manager or the contractor's project manager.
48. A key discipline in project execution is to ensure that all project activity is properly planned and assessed at key stages to validate the approach before cost is committed to subsequent stages. The project sponsor is responsible for managing the change process with the agreed tolerance levels set by the SRO.
49. Meaningful cost and performance data is important to support effective project execution. Close links between the project team and the finance function are necessary to convey information about cost and performance and the overall status of the project. It is necessary to assess whether the financial reporting systems provide reliable information on a timely basis for the project manager.

Measuring and monitoring project progress and success

50. Measuring whether a project is a success or a failure can only be achieved if the intended benefits have been made clear at the outset. The business case should reflect any changes to the project and the likely benefits as the project progresses. The business case should include

a clear statement and targets for the benefits to be achieved and outline how these will be measured.

51. The project sponsor is responsible for ensuring that project monitoring is well organised and that progress reports are prepared and submitted to the SRO and others, as required. Where there is more than one project, the council should establish standard reporting mechanisms across all projects to enable senior management to assess progress across the whole capital programme. Where a project board is in place, it is the responsibility of the project sponsor to ensure board members have a good understanding of project progress. In doing so, the project sponsor needs to be aware that the role of each member on the board is secondary to their main function within an organisation.
52. As noted above (paragraph 44), there is value at key stages in using an independent team with relevant expertise to provide assurance about project progress - Gateway Reviews. However, this process does not remove the need for well-organised and systematic reporting mechanisms across all capital investment projects.

Business acceptance and assessing project outcomes

53. It is critical that all benefits highlighted during the development of the business case are realised during implementation and post-completion. There are a number of post-completion reviews to be undertaken following completion to support this. The Post-Project Evaluation (PPE) focuses on any lessons learned and is undertaken within six months. In addition, where applicable, the Post Occupancy Evaluation (POE) should be undertaken 12 months after completion, focusing on whether the building is fit for purpose and has achieved the required outcomes.
54. Every project has stakeholders. These can cover a range of different groups including local residents, businesses, employees, service users, suppliers and public sector bodies such as health boards. Engaging and consulting with stakeholders is essential in achieving a successful project outcome. Stakeholders' interest in a project can have both positive and negative effects on its progress. Their concerns may also create additional risks to a project's outcome. Engaging with stakeholders effectively is important and should be a vital part of project planning from the start. Consulting with stakeholders can often be a lengthy process, but it can shape the project at an early stage and help ensure a more successful outcome.
55. Establishing an effective and comprehensive stakeholder engagement plan early in the project will help enable approval of changes to the project. A critical initial step is the development of a stakeholder map identifying all stakeholder groups, both internal and external. This will enable a continuing and two-way approach to communications between the project and its stakeholders to secure commitment and maintain momentum.
56. Managing stakeholders' expectations and multiple goals are significant challenges. Often stakeholders within a project have differing and complex views as to what constitutes a priority, success or failure. A communication plan should be agreed by the SRO, and regularly

updated so as to inform stakeholders. In addition, the project sponsor will communicate with stakeholder groups on the achievement of project objectives.

Part 3: Questions to support scrutiny and challenge

Questions for elected members on the capital programme

Creating a vision for capital investment activity

- Is the capital investment strategy linked to future service delivery requirements and achieving local outcomes and priorities over the next 10-15 years?
- How can the council demonstrate that it has clearly identified and understood its long-term investment needs, challenges, ambitions and choices? Is all capital investment supporting the council's top priorities?
- What information is available on the overall condition and suitability of the council's estate? How is this expected to change in the future? How will the council ensure a proper balance between investment in new infrastructure and maintenance of existing assets? How is the information used?
- How has the council analysed the affordability of future investment plans, including the financial impact of borrowing and private finance options? How has it assessed the impact of debt and other finance servicing costs on revenue budgets over the long term?
- How well is all of this documented and reported? How easy is it for members and stakeholders such as council tax payers and service users to get and make use of the information?

Ensuring strong governance arrangements are in place

- What are the key roles and responsibilities for capital investment at each level of the council (Exhibit 1 on page 11)?
- Is the governance structure clearly defined, understood and allocated? How is accountability demonstrated in practice at each level?
- Are members provided with regular, good-quality information on the capital programme including: any changes to its scope or objectives, programme progress and performance, financial performance, risk management and assessment of benefits? Is information sufficient for decision-making purposes?
- What training is available to support members and to assist their oversight of capital investment decisions and performance? Does this help you provide scrutiny and challenge? How could training in this area be extended or improved?

Measuring, monitoring and dealing with risk

- How are risks to the capital programme identified, reported and mitigated?
- Does risk information aggregate individual project risks and cover: likelihood of risks occurring, financial implications of risks occurring, services affected, proposed actions and timescales?

Identifying, calculating and reviewing the benefits of investment

- How is the success of the capital programme measured? What evidence is there of success?
- How are planned benefits of the capital investment programme documented, monitored and reviewed?
- Are there performance indicators to compare performance 'before' and 'after' the completion of the programme?

Engaging with others on the programme

- How are key stakeholders (for example, service users, service providers, suppliers) consulted when developing the capital investment programme?
- What is the process for engaging with other councils and other public bodies in developing and delivering the capital programme?
- How can joint working be increased to improve efficiency? What are the barriers to coordinating and sharing investment planning with other public bodies and how can these be reduced or removed?

Financial information and reporting

- How is the financial performance of the capital programme monitored and reported?
- Do financial reports provide sufficient details about programme spending, individual project spending against earlier estimates (including progress against business case targets) and annual spending against budgets?
- Are satisfactory analyses and explanations provided for all significant changes in costs and projected costs?
- How is slippage in the capital programme identified and reported? Is slippage identified at an early stage to allow spending to be transferred and accelerated in other projects?
- How could financial information be improved to support decision-making and scrutiny?

Questions for elected members on major capital projects

Setting vision and direction for projects

- How does the project align to the council's strategic objectives and local outcomes?
- What evidence is there of support from senior officers?
- What evidence is there of engagement and consultation with service users and other stakeholders - and their support for the project?
- Who is accountable for the successful delivery of the project?
- Has a business case been developed and approved?
- Does the business case cover all areas highlighted in Exhibit 3 (page 18)?
- What plans are in place to revise the business case as the project progresses? Who is responsible for ensuring this happens?
- Should the project change significantly in scope, timing or cost: are there plans to revisit the initial investment decision?

Planning projects to promote success

- What are the key roles and responsibilities of those involved in delivering the project? How is accountability demonstrated at each level?
- How are risks to the project identified, mitigated and reported? What are the main risks to success (delivery and benefits) and how will they be controlled?
- What assessment of the procurement route for the project has been done? How will the procurement help to ensure the project represents value for money?
- Will you seek independent constructive challenge of the progress and effectiveness of the project at key stages (Gateway Reviews), to help assure its success?

Project execution

- What resources and skills do the project team have to allow successful delivery of the project, taking into account its challenges and risks?
- What evidence is there that all project activity is properly planned and assessed at each stage before costs are committed?

Measuring and monitoring project progress and success

- How is performance reported? Is reporting information easily-obtainable, clear, usable, well-focused and provided at regular intervals?
- Does information allow a clear understanding of progress and challenges faced?
- Do project cost and performance data indicate it is on track compared to the business case? Are the data sufficient for elected members to provide scrutiny and challenge?
- How can elected members provide informed challenge and support to the project team? What information and advice do members need to facilitate this?

Business acceptance and assessing project outcomes

- Who are the key stakeholders for the project? Is there a stakeholder map (paragraph 55) and how have stakeholders been involved at each stage of the project (from inception to post-completion)?
- How are lessons learned captured and communicated to other services, public bodies and service users?

Major capital investment in councils

Good practice guide

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