Renfrewshire Council

To: Audit Scrutiny and Petitions Board

On: 21st March 2016

Report by: Director of Finance and Resources

Heading: Audit Scotland follow up report "Major capital investment in councils"

---

1. Summary

1.2 Audit Scotland recently published a follow up report titled "Major capital investment in councils". The overall aim of this report is to follow up on the recommendations contained within the original report which was issued during March 2013.

1.3 This follow up report assesses to what extent councils have improved performance in managing their capital investment programmes and projects.

---

2. Recommendations

2.1 It is recommended that the Board note the contents of the report.

---

3. Background

3.1 Audit Scotland's recently published follow up report "Major capital investment in councils" seeks to assess to what extent councils have improved performance in managing their capital expenditure programmes and projects since the original report was published during 2013.

3.2 This follow up draws on baseline assessments undertaken by councils' external auditors during 2014/15. Audit Scotland has supplemented the work undertaken by external auditors by performing a detailed evaluation of a range of capital investment projects from eight councils. (Renfrewshire Council was not selected for this assessment).

The report, a copy of which is attached for reference in Appendix 1 is organised into three main parts;

- Part 1 : Capital investment in councils since 2013.
- Part 2 : Councils' management of capital investment programmes & projects.
- Part 3 : Appendices covering the targeted follow up, good practice examples, alternative funding methods and an update on those projects which were examined in the 2013 report.

4.0 Summary of the Key Messages

4.1 A summary of the key messages highlighted by Audit Scotland is detailed below. For each key message a statement on Renfrewshire Council's current and planned future position is shown in italics.

Key Message 1

Between 2012/13 and 2014/15, councils spent £7billion on capital investment. They have taken a range of actions in response to the recommendations contained within the 2013 report. These actions include implementing revised structures to help them manage and monitor of capital investment activity more effectively. There are examples of councils displaying aspects of good practice but, overall, they need to increase the pace of improvement to comply with the 2013 good practice guide.

In February 2015 the Leadership Board agreed management structure changes as part of the Better Council Change Programme. Changes were made to elements of the corporate landlord functions, including asset, energy and property and construction services by transferring them from Housing and Property Services to the Finance and Resources Directorate. This change brings the technical management of the significant elements of the capital programme closer to the management of the resources function and to provide a renewed emphasis on Property Services role as a key resource and a major strategic factor in delivering capital investment.

In addition to the above structural changes, the Council has, over a period of time, developed the strategic role of the Project Management Unit (PMU). The work of the PMU is primarily to support major reform projects as part of the Better Council Change Programme. The PMU has developed a robust project management framework which is based on the acknowledged project and programme management principles. This framework has been embedded within front line services and extensively used by capital project managers. The PMU also shares advice, processes, procedures and best practice with other council departments.

Key Message 2

Councils need to improve the quality of their capital investment strategies and plans. The strategies which exist demonstrate how planned capital investment is expected to contribute to councils' overall strategic priorities. But only just over a third of councils have a long term investment strategy in place and these do not identify opportunities for collaboration with other bodies. All councils have a capital plan outlining expected programme and project costs. The plans do not set out the rationale for prioritising and progressing major projects, and the expected benefits of these projects. Some councils choose to not have a separate capital investment strategy and plan. Instead they combine the features of both in a single document but these rarely demonstrate how capital investment contributes the councils' strategic objectives.

The principles governing Renfrewshire Council's approach to capital investment were approved by Council in September 2012. In considering its strategy for investment, the Council has sought to ensure capital spending remains affordable, financially stable and deliverable within the resources made available over the medium to longer term. In this context the Council agreed that the rational for the council's capital investment strategy should reflect the medium term financial planning outlook and should only progress on the basis of the following key principals:

a) *New capital investment must be underpinned by specific investment cases capable of delivering financial efficiencies which offset the associated cost of borrowing and/or those costs incurred to deliver sustainable revenue savings (spend to save initiatives).*

b) *Future capital investment decisions will continue to be prioritised to support the ongoing lifecycle maintenance and renewals programmes to ensure the assets the council holds continue to maximise their economic benefit in terms of service delivery to the council's citizens. These lifecycle maintenance and renewals programmes are prepared using information from asset condition surveys and asset management improvement plans all of which assist technical project managers to prioritise programmes within the approved resource limits to ensure the council maintains its duty of statutory compliance requirements in relation to physical assets.*

c) *In terms of prudent financial management capital investment will not rely on anticipated future years capital receipts. Commitments will only be taken forward on the basis of capital receipts being secured and actually received.*

In relation to collaborating with other local authorities it should be noted that Renfrewshire Council has collaborated with NHS Greater Glasgow & Clyde in the provision of Renfrew Health Centre, and also has a shared accommodation project at Johnstone Town Hall with Police Scotland and Macmillan Cancer Support. Further, Renfrewshire has recently joined with 4 other West of Scotland authorities in commissioning a third party provider to manage residual waste at a shared facility which will be operational in 2019.

Renfrewshire Council is also one of the eight local authorities participating in the City Deal agreement to improve the transport infrastructure/public transport network, provide new sites for housing and introduce schemes to generate employment. These significant projects will be delivered in partnership and collaboration other councils, and the Scottish and UK Governments over the next 6-7 years.

Key Message 3

There are some examples of where councils have improved their structures and processes to help them manage and monitor capital investment activity more effectively. But they need to do further work to comply fully with the 2013 good practice guide, such as developing processes to routinely revisit and review business cases throughout the life of every capital project. Similarly, most councils are not carrying out formal mid-term reviews of projects, or post project evaluations. Those that do so are not doing it regularly or in a consistent manner. This limits councils' ability to identify areas of good practice; share lessons learned and identify the benefits that individual projects have realised.

Renfrewshire Council's Project Management Unit (PMU) have developed and implemented a "Concise Guide to Project Management". This guide, which has been universally rolled out to departments, seeks to present a quality approach to managing projects. Project officers, whether they are based in the PMU or in service departments, use this guide and the associated templates to ensure a consistent approach to managing capital projects is delivered throughout the council. The guidance provides project managers with a step by step guide covering areas such as project success factors, drivers and objectives, options appraisal and business cases, milestones and planning, roles and responsibilities, risk and issue management, transition to business as usual and amongst other things benefits realisation. In addition, project managers from Property Services will also utilise the Royal Institute of British Architects (RIBA) gateway review process to manage major capital build projects – this is a nationally recognised process utilised by both contractors and commissioners in order to manage project lifecycles.

Key Message 4

Elected members are not able to scrutinise the performance of capital programmes effectively because they are not receiving adequate information on capital investment. The majority of councils' progress reports to elected members on major capital projects focus on reporting capital spending in the current year. Some councils do not report cumulative capital spending, covering several years, against the total capital budget for individual projects. Councils do not routinely report to elected members project risks or non financial information, such as benefits realised from capital investment activity. Councils provide some training to elected members on capital investment matters but no council has a continuing programme of training in place on capital issues.

The council has a well developed methodology for reporting the progress of individual capital investment projects and this is contained within the aforementioned "Concise Guide to Project Management". Members are provided with regular reports containing information in relation to annual performance against budgets. Larger scale projects, such as the Scottish Housing Quality Standards (SHQS) Investment Programme are subject to specific and detailed reports. These reports provide members with an update on progress of the project, the reports also identify any risks and mitigating factors within the project, they also report on any deviations from key project milestones and advise members of any management action required to complete or realise the full benefits (both financially and non financially) of larger scale projects.

The project management framework, as used by capital project managers, has a separate section "Benefits Realisation" and this highlights the benefits of any capital investment. In addition to this, adjustments to the revenue base budget as a result of capital investment(s) are made each financial year.

Arrangements exist to support the identification of individual elected member training requirements and these translate to targeted training and briefing sessions. A range of finance related training has been already been provided to members and this has covered topics such as capital investment, treasury and borrowing strategies.

5.0 Key Recommendations

5.1 As part of this follow up report, Audit Scotland has made a number of key recommendations to support the formulation of a long term capital investment strategy which should be used to demonstrate to members and service users how planned capital investment will assist the council to achieve its long term strategic proposals which are defined in corporate plans and the single outcome agreement.

The key recommendations made in the follow up report are detailed below. For each recommendation a statement on Renfrewshire Council's current and planned future position is shown in italics.

Key recommendation 1

Councils should ensure that they:

- **prepare business cases that comply with good practice for every capital project.**
- **revisit and monitor business cases throughout every capital project**
- **regularly carry out post-project evaluations to help establish whether planned benefits are realised and to identify good practice or lessons learned.**

- **Consider how best to review projects at key stages, using independent experts as necessary, to help provide assurance about project progress and to identify any potential problems.**

- **are proactive in sharing lesions learned from projects, both successful ones or those that ran into significant difficulties, within the organisation and with other councils.**

As previously advised Renfrewshire Council's capital investment strategy prioritises lifecycle maintenance and renewals programmes to ensure the assets the council currently holds continue to maximise their economic benefit in terms of service delivery to the council's citizens. Investment decisions of this nature are informed and prioritised via condition surveys and asset management plans and are aligned to business & technical cases to ensure legal conformity with statutory compliance responsibilities.

After providing for the ongoing lifecycle and renewals programme any other capital investment made is underpinned by specific investment cases. Capital investment projects in this category should be capable of delivering financial efficiencies.

As referred to earlier, the Council makes appropriate use of business cases to establish robust project cost estimates together with key milestones. The business case is used during the project lifecycle to monitor planned activity and to advise managers of any action required to ensure projects are delivered. Financial assumptions identified within the business case will be incorporated into the revenue setting budget process to allow revenue savings to be realised.

Projects should in every case be analysed at their close to evaluate that the business case benefits have indeed been realised. This post-project review will include an analysis of the benefits actually realised compared to that suggested in the business case – where benefits have not been achieved a clear explanation of the rationale for why this is the case is required.

The council has well established project governance and management arrangements which have served the Council well in supporting the effective and efficient delivery of major investment programmes. Many of the officers who are associated with the delivery of large capital investment schemes are technical project managers who have extensive experience of delivering design and build projects such as those investment projects contained within the School Estate Management Plan. Equally, the council has an independent Programme Management Unit which seeks to support large transformational change projects using up to date and fit for purpose project management initiation, risk and delivery techniques combined with best practice.

As previously mentioned the council has also made use of the RIBA independent gateway review process to provide an external assessment of the readiness of projects to move forward at each key stage in the project delivery process. This independent review has provided assurance of the readiness to move forward with *specific projects and it has also had the beneficial effect of identifying areas for improvements in the existing procedures and processes.*

<u>Key recommendation 2</u>

Councils should ensure that they provide members with regular, appropriate and accurate information to allow them to scrutinise properly capital investment activity. Within this councils should ensure that they develop their capital monitoring report to include:

- **cumulative spending against total capital budget and the progress of each significant project against key milestones.**
- **reasons for and consequences of slippage, or delays of capital projects and any changes in the timing of capital spending.**
- **clear outlines of the benefits that individual projects have realised and how these compare with the expected benefits outlined in the business cases.**
- **update of the risk associated with capital projects and programmes, including their financial and non financial implications.**
- **provide elected members with regular training on capital investment activity to enable them to scrutinise effectively capital investment activity.**

Current reports to Policy Board outline capital expenditure at a Board responsibility level only, however it is possible to provide additional detail with regards major projects, such as cumulative spend. A draft of a revised Board report format will be discussed with Policy Board Conveners with a view to having revised formats agreed for the 2016/17 financial year.

Governance measures/procedures are already in place where finance officers meet with project managers on a four weekly basis to discuss progress alongside current and projected expenditure on capital projects. If slippage is likely to occur a process is in operation that requires the responsible Head of Service to authorise any adjustments on an exceptions pro forma. These adjustments must be agreed in advance with Finance and Resources to inform and amend the overall capital monitoring report presented to committee on a routine basis.

Project Managers are required to follow the guidance as contained within “A Concise Guide to Project Management”. In following this guidance they will have already completed an “Options Appraisal and Business Case” and will also be required to complete a “Benefits and Realisation Case” which will inform if the anticipated benefits at the start of the capital project have been fully realised.

Again, the "Concise Guide to Project Management" requires project managers to prepare and update a "Risk and Issue Management" section throughout the life of the capital project.

As previously mentioned arrangements exist to support the identification of individual elected member training requirements and these translate to targeted training and briefing sessions. A range of finance related training has already been provided to members and covered topics such as capital investment, treasury and borrowing strategies which was delivered by the Council's treasury advisors.

Implications of the Report

1. **Financial** – None.

2. **HR & Organisational Development** – None.

3. **Community Planning** – None.

4. **Legal** – None

5. **Property/Assets** – None

6. **Information Technology** – None.

7. **Equality & Human Rights** -

   (a) The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report because for example it is for noting only. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.

8. **Health & Safety** - None.

9. **Procurement** – None.

10. **Risk** – None.

11. **Privacy Impact** – None.

List of Background Papers

(a) none

Author: **Director of Finance and Resources**