

Agenda Item	12
Report No.	FHR/75/13

Audit Scotland Report – Major Capital Investment in Councils

Report by Depute Chief Executive/Director of Housing and Property

Summary

This report informs Members of the findings and key messages contained within the Accounts Commission report entitled “Major Capital Investments in Councils”, and seeks approval of the recommended actions to be implemented in response to the recommendations.

1. Background

- 1.1 The Accounts Commission published a report on March 14th 2013 which assessed how well capital investment is directed, managed and delivered within councils. The report, prepared by Audit Scotland, 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 report is available at the following web address:

<http://www.audit-scotland.gov.uk/media/article.php?id=229>
- 1.2 This was the first comprehensive review of major capital investment in Councils and concluded that while Councils spend significant amounts of money on building and maintaining infrastructure - more than any other part of the public sector - they lack sufficient information for fully effective scrutiny.
- 1.3 The report also identified that Councils need to continue to improve planning and control of major capital projects. The report was accompanied by a good practice guide and a checklist for project managers which sets out practical steps councils can take to improve planning and control of capital spending.
- 1.4 Councils have invested £27 billion since 2000/01 on schools, social housing, sports and leisure centres and other projects. Most of this was paid for using capital budgets, with £4 billion provided through private finance contracts.
- 1.5 The report looked at the performance against planned time and cost targets of 63 major projects completed by Councils since 2009, including four from The Highland Council. Information about whether projects carried out by other Councils were on time and within budget was not always available. Where information was available, Councils completed most projects within or close to the contract cost, despite initial estimates being too low. Most projects also experienced delays.
- 1.6 While Councils were acknowledged as having improved their oversight of major capital projects in recent years and were acknowledged as being clear about their broad goals, they were found to rarely specify the expected benefits and how they will be measured. The conclusion was that Councils need to develop long term investment spending and financing plans. They also need better information to allow

effective scrutiny of major projects and whether they are completed to budget and on time.

2. Main Conclusions of the Report

- 2.1 Councils delivered most projects since 2009 within or close to contract cost, despite early estimates being too low. This is typical within the construction industry, as detailed requirements and site conditions are generally not known at outset. The importance of accurate cost estimates from the outset of major projects was emphasised, though estimating was acknowledged as improving significantly as projects advanced, plans became clearer and contracts were awarded. Estimating for school projects was better than for other projects.
- 2.2 Councils have improved their governance structures for investment planning in recent years but are not considered to have enough monitoring information for fully effective scrutiny.
- 2.3 Councils are clear about the broad goals for their investment projects. However they rarely specify the expected benefits or how these will be measured. In addition, there are some significant gaps in the information that councils have available to measure whether capital projects are completed to budget and on time. Many councils do not have established processes for developing and using business cases, which means key performance information on aims, cost, time, scope and risk may not be clearly defined.
- 2.4 While there are some examples of shared assets, joint procurement and joint projects, councils do not proactively seek opportunities to work with other councils or other public bodies in planning and delivering their capital programmes.

3. The Highland Council position

- 3.1 The four Highland Council projects considered by the Audit Commission were as follows:

- Highland Archive and Registration Centre
- Raasay Ferry Terminal
- Lochaber High School Phase 2 Refurbishment
- Highland Schools PPP2

3.2 Highland Archive and Registration Centre

- 3.2.1 The Highland Archive Centre was the only project recorded in the report where costs remained consistent from initial approved estimate through to out-turn. There was a 3 month delay to completion due to dealing with contract qualifications at tender stage and design complexities during construction.

3.3 Raasay Ferry Terminal

- 3.3.1 The report highlighted that delays do not necessarily result in higher project costs, and used the Council's project to build the new Raasay Ferry Terminal as an example.
- 3.3.2 The project took ten months longer to complete than expected at contract award but its final cost was £200,000 lower than the contract estimate. The 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.

3.4 Lochaber High School Phase 2 Refurbishment

3.4.1 Lochaber High School costs increased by approximately 4% between initial estimate and contract award, and by a similar amount at completion. The project was also delayed by 4 months. These increases reflect the difficulties of working in a major existing structure, where unanticipated expenditure is much more likely to be encountered. Contract contingencies could have been increased in anticipation of this.

3.5 Highland Schools PPP2

3.5.1 Highland Schools PPP2 costs increased significantly between initial estimate and contract award, but remained static from then through to completion. The cost increase took place over a considerable period of time and related mostly to variations to contract requirements and changes to the price base of the costs. The cost increase is emphasised by the long term nature of the contract and costs over 30 years being reflected as a single Net Present Value figure. The project was also significantly delayed from initial approval. However the final contract award completion date was achieved. This is consistent with other PPP projects.

4. Key recommendations of the Audit Report

4.1 The report recommends that Councils should:

- develop and confirm long-term investment strategies to set out the needs and constraints for local capital investment, and consult with stakeholders such as service users and suppliers as they develop these strategies
- develop and use clearly defined project milestones for monitoring and reporting. This should include a clear process for preparing and approving business cases as a key part of decision-making and continuous review of all major capital projects
- improve the quality of capital project and programme information that is routinely provided to elected members, including reporting of performance against cost, time and scope targets, risk and intended and realised benefits
- consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary
- actively look for opportunities for joint working with other councils, community planning partnerships and public bodies to improve the efficiency of their capital programmes. This should cover joint projects, sharing resources such as facilities and staff, sharing good practice and taking part in joint procurement

5. Highland Council arrangements and recommendations

5.1 The Council are about to consider a 10 year capital programme, which is a key outcome of a long term investment strategy. Services will be required to report on delivery and outcomes of approved major capital projects to Strategic Committees, in line with the Financial Regulations.

5.2 The Council requires Outline Business Cases to be prepared for all major capital investment, which take account of legal, financial and environmental criteria as well

as impact on the Council's Programme. These are scored by a Capital Programme Officers Group and this process helps inform Members' decisions about priorities. Improved working arrangements between HAPS and ECS and experience gained in delivering recent schools means that early cost estimates for schools tend to be more accurate.

- 5.3 The Council has a well-established arrangement for consultation on priorities and expenditure, as well as carrying out thorough local consultation on specific projects such as schools in line with legislative requirements.
- 5.4 The Council demonstrates good practice in applying governance to major and complex projects through the Major Projects Board, chaired by the Chief Executive. In addition, Housing and Property Service have implemented revised project management arrangements over the last three years which include sign off on key stages as well as change control mechanisms, and this information can be made available to clients for reporting purposes.
- 5.5 Although Members receive general financial training as part of their induction, this training would cover capital at a very high level only and may not satisfy the recommendations of the report. More detailed training could be delivered internally, with input from HAPS, Finance and TECS as required.
- 5.6 The Council convenes and chairs the Highland Public Sector Property Group, which involves property representatives from all of the public sector bodies in the Highlands. The Group is active in property rationalisation, data sharing, identifying and sharing good practice and is now moving to share information on capital programmes. In addition the Integration of Care in the Highlands (ICH) project has led to closer integration of property services for THC and NHS Highland particularly in terms of statutory maintenance responsibilities.
- 5.7 While the Council has moved some way towards improving its capital planning and monitoring arrangements over recent years, the report raises some specific areas where further development could help the Council achieve local outcomes and improve the overall efficiency of how its estate operates, while reducing costs in the long term.
- 5.8 It is recommended that the implementation of specific actions based on the findings of this audit report should be considered as part of the Council's current procurement review, as that review will also take account of the outcome of the Scottish Government's national review of construction procurement, which is expected to report over the summer. Both reports may include recommendations which affect the Council's approach to major capital projects.
- 5.9 It is also recommended that the detailed check list referred to in 1.3 be completed as a means of informing the Council's procurement review. Detailed analysis of the recommendations of both the audit report and the national procurement review will help identify any actions which should be implemented where this would lead to improvements on current practice.

6. Implications Arising from the Report

6.1 Resource Implications

- 6.1.1 The recommended actions can be delivered using existing resources.

6.2 Legal Implications

6.2.1 There are no legal implications arising from the report, as any actions will comply with procurement regulations.

6.3 Equality Implications

6.3.1 There are no equalities issues arising as a direct result of this report.

6.4 Climate Change Implications

6.4.1 There are no climate change issues arising from this report.

6.5 Risk Implications

6.5.1 Failure to adopt robust budgeting arrangements could lead to lost opportunities for additional investment.

7. Recommendation

7.1 Members are asked to:

- Note the findings and recommendations of the Audit Scotland report on Major Capital Investments in councils.
- Agree that in-house training for Members relating to financial issues should be developed to increase focus on capital investment.
- Note that services will be required to report on delivery and outcomes of major capital projects to Strategic Committees, in line with the Financial Regulations.
- Agree that the findings of the report be considered as part of the Council procurement review currently under way, taking account of the outcome of the Scottish Government's national construction procurement review.
- Approve the use of a completed check list (as presented in the Good Practice Guide accompanying the report) to aid analysis of the recommendations of the report and identify any actions which can be implemented where this would lead to improvements on current practice.

Signature:

Designation: **Depute Chief Executive/Director of Housing and Property**

Date: 28 May 2013

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