

# The Highland Council

## Major capital investments in councils: a follow-up report



Prepared for The Highland Council  
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# Key messages

## Introduction

1. As part of our 2013/14 audit we undertook a targeted follow up review of the impact of Audit Scotland's *Major capital investment in councils* national performance audit report. The purpose of targeted follow up reviews is to assess how far individual public bodies have improved performance as a result of the national performance audit, and to report the results to audited bodies and stakeholders to reinforce and encourage improvements in performance.
2. The *Major capital investment in councils* report was published March 2013<sup>1</sup> and set out the findings from the first comprehensive review of major capital investment in councils. The report contained 14 recommendations to help councils improve their performance in this area.

## Key findings

3. The council considered the recommendations from the *Major capital investment in councils* report at the June 2013 meeting of the Finance, Housing and Resources Committee. Members agreed a number of actions following consideration of the report's findings but it is not clear how these have been taken forward. Review of subsequent committee minutes did not find any evidence of progress being reported back to members, and the actions were not included in the council's performance and risk management system.
4. In June 2013, members approved a ten year capital programme covering the period 2013/14 to 2022/23. The programme reflects the council's strategic priorities as set out in the council's corporate programme 'Working together for the Highlands 2012-17', and is consistent with paragraph 18 (developing a capital plan) of the good practice guide. The capital programme is currently being refreshed to reflect updated costs for the council's capital projects and how expenditure on these will be phased and funded in the coming years.
5. The council has developed a template which services are required to follow in the preparation of outline business cases for capital investment projects. Detailed and robust business cases are prepared for every project covering aims, intended benefits, option appraisal, risk assessment, cost, time and scope targets, and key project milestones.
6. There are a number of areas where the information provided to support members' scrutiny and decision making could be improved:
  - although business cases are prepared for each project, the council does not have a consistent approach to revisiting and updating the original business case throughout the course of its major capital projects. Revisiting business cases helps to ensure that the aims and objectives remain clear and that that project benefits remain relevant

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<sup>1</sup> The national report and its supporting documents can be found on Audit Scotland's website at [http://www.audit-scotland.gov.uk/work/local\\_national.php?year=2012](http://www.audit-scotland.gov.uk/work/local_national.php?year=2012)

- accurate cost estimates are important from the outset of major capital projects as weak estimating can undermine the successful delivery of a project and its potential to achieve value for money. The council has acknowledged that it needs to improve the way it estimates costs for major capital projects so that these reflect what it expects to pay when it delivers the project rather than what it would cost to deliver the project at today's prices
- the Resources Committee receives quarterly reports of expenditure against the general fund and housing revenue account annual capital budgets. The monitoring information is not, however, provided on a consistent basis for both capital programmes
- more detailed reports are submitted to the individual service committees which provide annual financial information on a project by project basis. No information, however, is provided on performance against project milestones, time, scope targets, risk or intended and realised benefits as recommended in the national report
- reports on significant capital projects are also prepared and presented to members as considered appropriate by officers. Previously we highlighted that, given the scale of investment required in the West Link Road project, it was important that members continue to receive regular updates on cost so that they could effectively monitor developments. An update on the costs of this project was reported to the Planning, Development & Infrastructure Committee in February 2015. Prior to this, the last costs update members had received on this project was in September 2013
- paragraph 7.5 of the council's Financial Regulations requires that *'at the completion of each project on the capital programme service directors will provide relevant strategic committees with a report on the total cost of the project against the original budget and timescale'*. Our review of committee minutes found no evidence that service directors were complying with this financial regulation
- post-project evaluations should be undertaken within six months of a project being completed. Our review found that project debriefs are undertaken within the Infrastructure and Development service but that these do not assess whether the intended benefits set out in the business case have been achieved. Other services do not undertake post-project evaluations or debriefs
- financial training for members should provide a greater focus on capital investment to help increase their knowledge and expertise so that they can more effectively challenge and scrutinise capital investment plans
- the council has yet to use the good practice guide or the checklist for project managers published with the national report. Elected members should use the questions included in the good practice guide to support their challenge and scrutiny of the council's refreshed capital plan and significant capital projects, including the West Link Road.

## Risk exposure and planned management action

7. This report summarises the findings from our review and identifies the areas where the council may be exposed to risk. The action plan included as the Appendix to this report details the areas where continued risk exposure requires management action.

# Introduction

8. As part of our 2013/14 audit we undertook a targeted follow up review of the impact of Audit Scotland's *Major capital investment in councils* national performance audit report. The purpose of targeted follow up reviews is to assess how far individual public bodies have improved performance as a result of the national performance audit, and to report the results to audited bodies and stakeholders to reinforce and encourage improvements in performance.
9. The *Major capital investment in councils* report was published March 2013<sup>2</sup> and set out the findings from the first comprehensive review of major capital investment in councils. It focused on major capital projects over £5 million and assessed how well councils direct, manage and deliver capital investments. The report contained 14 recommendations to help councils improve their performance in this area. These included 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.
10. In addition, two report supplements were published: a good practice guide containing a number of questions for elected members aimed at reinforcing and promoting effective scrutiny and challenge of major capital projects and programmes; and a good practice checklist to promote detailed review and reflection which is aimed at project managers.

## Audit approach

11. The overall aim of our follow up work was to consider to what extent the council had improved the management of its capital investment programme. In doing this, we considered the following questions:

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<sup>2</sup> The national report and its supporting documents can be found on Audit Scotland's website at [http://www.audit-scotland.gov.uk/work/local\\_national.php?year=2012](http://www.audit-scotland.gov.uk/work/local_national.php?year=2012)

- have the recommendations from the *Major capital investment in councils* report been considered and effectively implemented ?
  - does the council have a sustainable capital investment plan which reflects strategic priorities ?
  - are elected members provided with sufficient information to support effective scrutiny and decision-making ?
12. Our audit also considered the extent to which the council is using the good practice guide and checklist to help improve the management and delivery of their major capital projects and programmes and to support effective scrutiny of plans. We did not cover how capital projects are funded. This will be covered by the forthcoming performance audit *Borrowing and treasury management in local government*, to be published in March 2015.

## Risk exposure and planned management action

13. This report summarises the findings from our review and identifies the areas where the council may be exposed to risk. Although this report identifies certain risk areas, it is the responsibility of management to decide the extent of the internal control system appropriate to the council. We would stress, however, that an effective control system is an essential part of the efficient management of any organisation. The risk areas highlighted in this report are only those that have come to our attention during our normal audit work in accordance with our Code of Audit Practice and are, therefore, not necessarily all of the risk areas that may exist.
14. The action plan included at the Appendix to this report details the areas where continued risk exposure requires management action.

## Acknowledgements

15. The contents of this report have been discussed with senior officers to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

# Main findings

## Consideration of the national report

16. All national performance reports published by Audit Scotland are presented to the relevant Strategic Committee to enable members to consider and agree the action proposed in response to the report's recommendations. Each report is also submitted to the Audit and Scrutiny Committee as its remit includes ensuring that appropriate action was taken by individual Strategic Committees in response to national reports. All reports going to Committee are also discussed at the senior management team's weekly business meeting.
17. The Depute Chief Executive/Director of Housing and Property presented a report to the Finance, Housing and Resources Committee on 5 June 2013 informing members of the findings and key messages contained within the *Major capital investment in councils* report, and setting out the actions that would be taken to address the national report's recommendations. Following discussion, the Committee:
  - noted the findings and recommendations of the *Major capital investment in councils* report
  - agreed that in-house training for members relating to financial issues be developed to increase the focus on capital investment
  - noted that services would be required to report on delivery and outcomes of major capital projects to Strategic Committees, in line with the Financial Regulations
  - agreed that the findings of the report be considered as part of the council's procurement review currently underway, taking account of the outcome of the Scottish Government's national construction procurement review
  - approved the use of a completed checklist (as presented in the good practice guide accompanying the report) to aid analysis of the recommendations of the report and identify any actions which could be implemented where this would lead to improvements on current practice.
18. It is not clear how these agreed actions have been taken forward. We have reviewed subsequent minutes of the Finance, Housing and Resources Committee but have not found any evidence of progress being reported back to Committee members. There is also no evidence that these actions have been included in the council's performance and risk management system.

### Risk area 1

19. The Head of Internal Audit & Risk Management presented a report to the Audit and Scrutiny Committee on 26 September 2013 which set out recent Audit Scotland reports and the action taken by the Strategic Committees (including the Finance, Housing and Resources Committee) to address the recommendations included in these reports. The Audit and Scrutiny Committee noted the actions being taken by the respective Strategic Committees to address Audit Scotland's national reports.



## Capital investment plan

20. In June 2013, members approved a ten year capital programme covering the period 2013/14 to 2022/23. The first five years of the programme were set out on a firm basis, with an identified funding package in place, and affordability assessment undertaken. The second five years were set out on an indicative basis, pending a future assessment of affordability. The programme reflects the council's strategic priorities as set out in the council's corporate programme 'Working together for the Highlands 2012-17', and is consistent with paragraph 18 (developing a capital plan) of the good practice guide.
21. The council has developed criteria to identify which projects will be put out for public consultation. These are advertised on the council's website together with information on the project, the financial implications, and the stage of consultation that the project is at.
22. The council has a history of joint working with other councils, the Highland Community Planning Partnership and other public bodies to improve the efficiency of their capital projects. Examples include:
  - engineering consultancy services have been jointly procured with Comhairle Nan Eilean Siar, Orkney, Argyll and Bute, Moray and Shetland
  - the establishment of a community planning partnership property group to enable more effective planning across partners for future capital works
  - the co-location of police front counters and council service points.
23. The council's ten year capital programme includes three significant projects: Ness Flood Alleviation Works, Inverness West Link and replacement schools. The capital programme is currently being refreshed to reflect updated costs for the council's capital projects and how expenditure on these will be phased and funded in the coming years. The updated capital plan, which was originally due to be submitted to the December 2014 council meeting, will now be submitted to the March 2015 council meeting for member consideration and approval.

## Inverness West Link

24. The Inverness West Link is a major section of road aimed at removing traffic congestion from Inverness city centre and allowing completion of the city's outer neighbourhoods. During 2013/14, we reviewed progress made on this high profile capital project and reported our findings in our Report on the 2013/14 Audit. The council spent £1.9 million on the Inverness West Link project in 2013/14.
25. The planning application for the Inverness West Link was submitted on 17 October 2013, and granted in April 2014. Compulsory purchase orders were published on 12 November 2013, with supplementary orders published in September 2014 to correct minor anomalies.
26. The council received four objections to its compulsory purchase orders, although two were subsequently withdrawn. As a result, a public local inquiry will be held, before an independent reporter appointed by Scottish Ministers, to consider the remaining objections.

27. The reporter will consider all objections, representations and material presented at the inquiry and then weigh up how the council's proposals would benefit the public against the interests of the owners and other people affected. The reporter will then write a report for Scottish Ministers setting out his/her conclusions and recommendations. The inquiry is due to commence on 20 May 2015 unless the remaining objections are withdrawn. The objectors have indicated that they intend to withdraw their objections subject to satisfactory discussions with the council.
28. In order to construct the West Link Road, modifications to the existing road layout will be required together with localised changes to footpaths. To enable these changes to be implemented Road Orders were published on the 12th September 2014. No objections were received to these. Six representations were, however, made to the Footpath Orders and the reporter has confirmed that these will be considered at a hearing which is likely to follow the compulsory purchase order inquiry referred to above. Until the inquiry and hearing are concluded, no material progress can be made with this project.

## Governance arrangements and information for decision making

### Governance arrangements

29. Following the recent management restructuring, the Director of Development and Infrastructure has responsibility for overseeing the whole capital programme. The council has set up an officer group, the Capital Planning Officer Group, to consider and challenge the capital plans of each individual service. Since 2010, an outline business case is required to be prepared for each capital project which is then scored by the Capital Planning Officer Group using a scoring methodology linked to the council's priorities. The projects are then ranked by score, and included in a spreadsheet together with the project description and estimated costs for consideration by members at a meeting of the council.

### Information for decision making

#### Business cases

30. In order to support decision making and help to hold decision makers to account, business cases need to be good quality and realistic, particularly at the initial approval stage. Key performance information on aims, cost, time, scope and risk also need to be clearly defined. The council has developed a template which services are required to follow in the preparation of their outline business cases for capital investment projects. Detailed and robust business cases are prepared for every project covering aims, intended benefits, option appraisal, risk assessment, cost, time and scope targets. Key project milestones are also included.

31. Accurate cost estimates are important from the outset of major capital projects as weak estimating can undermine the successful delivery of a project and its potential to achieve value for money. The council has acknowledged that it needs to improve the way it estimates costs for major capital projects so that these reflect what it expects to pay when it delivers the project rather than what it would cost to deliver the project at today's prices. As noted at paragraph 23, the council's ten year capital programme is currently being refreshed to reflect updated costs and how these will be funded in the coming years. The Director of Finance has confirmed that these updated costs will be based on what projects are anticipated to cost when they are to be delivered.
32. The council should revisit its business cases throughout the course of its projects, particularly if things change such as developments in financing arrangements; adjustments to the scope of the project; or there are external delays that affect the project. Although business cases are prepared for each project, the council does not have a consistent approach to revisiting and updating the original business case throughout the course of its project. Currently, changes are either updated through the original business case or collated, evaluated and approved at project manager level with base project information updated. Revisiting the business case will help to ensure that the aims and objectives remain clear and that 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.

## Risk area 2

### Capital monitoring

33. The national report recommended that councils should improve the quality of capital programme and project 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.
34. The Resources Committee receives quarterly reports of expenditure against the general fund and housing revenue account annual capital budgets. Our review of these reports noted that the monitoring information is not provided on the same basis for the general fund and housing revenue account. The housing revenue account is monitored on a gross basis (gross expenditure and how that will be funded) whilst the general fund capital programme is monitored against the net capital budget after deduction of expected developers' contributions and some specific grants. Information on how the general fund capital programme will be funded (and progress against this) is not included.

## Risk area 3

35. More detailed reports are submitted to the individual service committees which provide annual financial information (annual budget, spend to date, projected spend and estimated out-turn) on a project by project basis. No information is, however, provided on performance against project milestones, time, scope targets, risk or intended and realised benefits.

**Risk area 4**

36. Reports on significant capital projects are also prepared and presented to members as and when considered appropriate by officers. Last year in our Report on the 2012/13 Audit we highlighted that, given the scale of investment required in the Inverness West Link project, it was important that members continue to receive regular updates on cost so that they could effectively monitor developments. An update on the costs of this project was reported to the Planning, Development & Infrastructure Committee in February 2015. Prior to this, the last costs update members had received on this project was in September 2013.

**Post-project evaluation**

37. Identifying lessons learned from capital projects after they are completed, both in terms of success and failure, are key to improving the way future projects are delivered. Each project should be assessed to ensure that it meets business requirements and provides good-quality design and functionality. The results should be reported publically.
38. The Highland Council's Financial Regulations, at paragraph 7.5, require that *'at the completion of each project on the capital programme service directors will provide relevant strategic committees with a report on the total cost of the project against the original budget and timescale'*. Our review of committee minutes found no evidence that service directors were complying with this financial regulation.

**Risk area 5**

39. The national report recommends that post-project evaluations should be undertaken within six months of a project being completed. Our review found that project debriefs are undertaken within the Development and Infrastructure Service but that these do not assess whether the intended benefits set out in the business case have been achieved. The results of these reviews are not shared with other services or reported to members. Other services do not undertake post-project evaluations or debriefs.

**Risk area 6**

**Member training**

40. Increasing the knowledge and expertise of members on capital investment issues will help them to better scrutinise and challenge capital investment plans. As noted in paragraph 17, the Finance, Housing and Resources Committee agreed that in-house training for members relating to financial issues should be developed to increase the focus on capital investment. Two training courses (treasury management and a finance workshop) have been provided by the council's finance team since June 2013. Neither of these courses provided detailed training on capital investment.

**Risk area 7**

## Good practice guide and checklist

41. In addition to the national report, two supplements were published to support good practice in the management of councils' capital investment:
  - a good practice guide containing a number of questions for elected members aimed at reinforcing and promoting effective scrutiny and challenge of major capital projects and programmes
  - a good practice checklist to promote detailed review and reflection which is aimed at project managers.
42. As part of our audit we considered the extent to which the council is using the good practice guide and checklist to help improve the management and delivery of its major capital projects and programmes and to support effective scrutiny of plans. We found that the council has yet to use either of these supplements. As noted at paragraph 23, the council's ten year capital plan is currently being refreshed. Elected members should be encouraged to use the questions set out in the good practice guide to support their scrutiny and challenge of the refreshed capital plan.
43. The good practice guide also includes questions for elected members to consider in relation to major capital projects. Members should consider using these to help support their scrutiny and challenge of the council's significant capital projects, including the Inverness West Link.

**Risk area 8**

# Action plan

No	Para	Issue and risk	Management response & proposed action	Responsible officer	Action date
1	18	<p>Although the national report, <i>Major capital investment in councils</i> was considered by the Finance, Housing and resources Committee in June 2013, it is not clear how the actions agreed by elected members in response to the report's findings have been taken forward.</p> <p><b>Risk: the identified areas for improvement are not actioned as agreed by elected members.</b></p>	<p>These actions will be addressed once the new Capital Plan is agreed by members in March 2015. Many of the specific points are covered below.</p>	Director of Finance	March 2015
2	32	<p>Although business cases are prepared for each project, the council does not have a consistent approach to revisiting and updating the original business case throughout the course of its project.</p> <p><b>Risk: there is a lack of transparency and accountability for amendments made to the original business case.</b></p>	<p>We do not believe that it is necessary to review every project, but will develop a consistent approach to reviewing all significant (greater than £5 million) capital projects.</p>	Director of Finance / Director of Development & Infrastructure	March 2015

No	Para	Issue and risk	Management response & proposed action	Responsible officer	Action date
3	34	<p>Our review of the quarterly capital monitoring reports presented to the Resources Committee noted that the monitoring information is not provided on the same basis for the general fund and housing revenue account capital programmes.</p> <p><b><i>Risk: members and senior officers do not have sufficient information to effectively monitor progress against capital investment plans.</i></b></p>	<p>Detailed reports are submitted to the appropriate Service Committee with only summary reports produced for Resources Committee. We will standardise the reporting for general fund and housing revenue account capital programmes.</p>	Director of Finance	March 2015
4	35	<p>The capital monitoring reports submitted to individual service committees only provide financial information (annual budget, spend to date, projected spend and estimated out-turn) on a project by project basis. No information is provided on performance against project milestones, time, scope targets, risk or intended and realised benefits.</p> <p><b><i>Risk: members and senior officers are not provided with all of the information necessary to inform their decision making.</i></b></p>	<p>This will be done for all significant (greater than £5 million) capital projects.</p>	Director of Finance	March 2015

No	Para	Issue and risk	Management response & proposed action	Responsible officer	Action date
5	38	<p>Paragraph 7.5 of the council's Financial Regulations requires that '<i>at the completion of each project on the capital programme service directors will provide relevant strategic committees with a report on the total cost of the project against the original budget and timescale</i>'. Our review of committee minutes found no evidence that service directors were complying with this financial regulation.</p> <p><b><i>Risk: the council does not have adequate systems and controls in place to ensure the proper administration of its financial affairs.</i></b></p>	<p>This will be done for all significant (greater than £5 million) capital projects.</p> <p>Financial regulations will be amended to refer to significant projects only.</p>	Director of Finance	March 2015



No	Para	Issue and risk	Management response & proposed action	Responsible officer	Action date
6	39	<p>Our review found that project debriefs are undertaken within the Infrastructure and Development Service but that these do not assess whether the intended benefits set out in the business case have been achieved. The results of these reviews are not shared with other services or reported to members. Other services do not undertake post-project evaluations.</p> <p><b><i>Risk: without post project evaluations, lessons will not be learned and applied to future projects.</i></b></p>	<p>This will be done for all significant (greater than £5 million) capital projects.</p>	<p>Director of Finance / Director of Development &amp; Infrastructure</p>	<p>September 2015</p>
7	40	<p>In June 2013, the Finance, Housing and Resources Committee agreed that in-house training for members relating to financial issues should be developed to increase the focus on capital investment. Neither of the finance courses provided since June 2013 provided detailed training on capital investment.</p> <p><b><i>Risk: members do not have the necessary knowledge and expertise to effectively challenge and scrutinise capital investment plans.</i></b></p>	<p>The two training courses have provided the link between definitions, accounting for capital expenditure, and project evaluation with affordability and funding of the capital programme. These really cover capital investment decisions. However, future training programmes will be considered following discussion with members.</p>	<p>Director of Finance</p>	<p>March 2015</p>

No	Para	Issue and risk	Management response & proposed action	Responsible officer	Action date
8	42 & 43	<p>Our review found that the council had yet to use either the good practice guide or the checklist for project managers published with the national report. The good practice guide includes questions for elected members on both the council's capital programme and on major capital projects. Elected members should use these to support their challenge and scrutiny of the council's refreshed capital plan and significant capital projects, including the Inverness West Link.</p> <p><b><i>Risk: the council's capital programme and its significant capital projects are not effectively challenged and scrutinised.</i></b></p>	<p>The good practice guide will be brought to members' attention as part of the report introducing the refreshed capital programme.</p> <p>Consideration will also be given to the use of the checklist for project managers.</p>	Director of Finance	March 2015