

Aberdeen City Council

Follow-up report: Major capital investment in councils



Prepared for Aberdeen City Council
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Executive Summary

Purpose

1. In March 2013, Audit Scotland's report on '*major capital investment in councils*' was published on behalf of the Accounts Commission. It focused on major capital projects over £5 million each and assessed how well councils direct, manage and deliver capital investments.
2. As part of the 2013/14 audit, local government auditors carried out targeted follow up work on Major Capital Investment in councils. The aim of this work was to assess to what extent councils had improved performance in managing their capital investment programmes. The follow up work covered two stages:
 - **Stage 1:** Auditors provided information on the extent to which the report and good practice guidance and checklist were considered by the relevant council and any action taken as a result.
 - **Stage 2:** For a selection of councils, including Aberdeen City Council, auditors were required to provide an assessment of the council's management of its capital investment programme.

Key Findings

3. Our overall conclusion is that the council has strengthened the management of its capital investment programme and demonstrated many aspects of good practice. It assessed existing arrangements against the recommendations contained in the national report and made a number of improvements as a result including enhancing its business case arrangements.
4. The council launched its Strategic Infrastructure Plan (SIP) in October 2013 and continues to enhance governance arrangements to ensure the SIP is properly supported and progress against the plan is reported and monitored at programme, service and corporate level including elected members. The SIP shows many of the good practices suggested by the national report including the identification of priorities, the involvement of a range of stakeholders, a longer term timescale and a consideration of how projects might be financed.
5. This is however a period of transition as several existing capital projects commenced under previous project management arrangements and so there is some variation in the form of project documentation. This may affect the ease with which the risks and benefits of older projects can be identified. Historically, some projects were perhaps accepted into the capital plan with less realistic assumptions about timing or cost.
6. While service heads and departments remain accountable and responsible for their own projects, they deliver them within a governance and reporting framework defined by the Programme Management Office (PMO). Project reporting is carried out by the PMO, and capital financial reporting by the Asset Management and Finance team. Elected members and senior officers are regularly informed of progress.

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7. The national report highlighted the importance of post-project evaluations (PPEs) within six months of a project being completed to find out if the project had delivered or was on course to deliver the intended benefits and to learn lessons. PPEs depend upon the retention of explanations for cost, time and changes to scope. The council is putting arrangements in place through the project management toolkit, project reporting and corporate records management to strengthen the quality and value of PPEs. A number of important processes have been developed but due to their infancy have not yet been applied to capital projects
 8. Due to the evolving nature of the SIP, there are a number of arrangements around managing capital projects which continue to evolve or have recently been introduced but have not yet been embedded. Rather than attach an action plan to this report, we will keep these new arrangements under review as part of our ongoing audit work. Examples include:
 - The introduction of Project Proposal Documents
 - end of project reporting including benefits delivered
 - refreshed governance structure ensuring appropriate monitoring and scrutiny by an officer led group, corporate management team and elected members
 - risk management at capital programme level.

Acknowledgements

9. The assistance and co-operation received from officers during the course of our audit work is gratefully acknowledged.

Introduction

Background

10. 'Major capital investment in councils' was published on behalf of the Accounts Commission in March 2013. The report provided the first comprehensive review of major capital investment across all councils in Scotland. It focused on major capital projects over £5 million each and assessed how well councils direct, manage and deliver capital investments.
11. The report contained 14 recommendations aimed at councils to help them improve in this area. Some of the key recommendations were 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.
12. In addition, two report supplements were published:
 - A [good practice guide](#) designed to help councils improve the management and delivery of their capital investment programmes and projects. The guide also contains 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](#) for project managers, aimed at promoting detailed review and reflection and, if necessary, a basis for improvement.

Audit scope and objectives

13. The overall aim of the follow-up work was to answer the question: *to what extent have councils improved performance in managing their capital investment programmes?*
14. The specific audit questions were:
 - Have the recommendations from the report *Major capital investment in councils* been considered and effectively implemented?

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- Do councils have sustainable capital investment plans which reflect strategic priorities?
 - Are elected members provided with sufficient information to support effective scrutiny and decision-making?
15. The follow-up work covered two stages:
- **Stage 1:** All auditors were required to provide information on the extent to which the report and good practice guidance and checklist were considered by the relevant council and any action taken as a result.
 - **Stage 2:** This involved a selection of councils only, including Aberdeen City. Auditors were required to provide an assessment of the council's management of its capital investment programme. This was based primarily on the areas covered by the recommendations from the report and included the following:
 - Capital Investment Strategy
 - Risks and Benefits Management
 - Governance Arrangements.
16. The following sections of this report set out our findings from both stages of the review at Aberdeen City Council.

Findings

Council consideration of the Audit Scotland national report

Has the council formally considered the '*Major capital investment in councils*' report?

17. The '*Major capital investment in councils*' report was published by Audit Scotland in March 2013. The council used the report's recommendations and good practice guide to review and update its existing procedures regarding capital programme management.
18. Officers from Asset Management and Finance reviewed the report's findings, as well as assessing compliance with the good practice guide. From this, a number of recommended changes to capital programme management were agreed by the council's Corporate Asset Group (CAG) in August 2013.
19. In addition, the outcome of this review was considered by the council's Finance, Policy & Resources Committee in September 2013 when it approved the following recommendations to enhance the council's arrangements for developing business cases:
 - projects should only be considered for possible inclusion in the capital programme when an up to date business case has been submitted
 - in the event members add projects to the capital programme which are not subject to normal procedures, a full business case is to be prepared as soon as possible.
20. We are satisfied that the council responded positively to the report and there is evidence that the council identified steps to address recommendations contained in the report.

Capital Investment Strategy

How does the capital investment strategy set out the needs and constraints for local capital investment?

21. The capital investment strategy is documented within the Strategic Infrastructure Plan (SIP), which was approved by the council in October 2013. The vision of the SIP is to focus on 'the development of the enabling infrastructure needed to realise the city's aspirations by creating a unified and cohesive proposal that is needed to deliver growth'. The plan is linked to the council's overall strategic vision 'Aberdeen – the Smarter City', and to the 5 year business plan. Projects contained within the plan show how they will contribute to the overall strategic objectives of the city and in turn the business cases for individual projects are required to provide links with the council's strategic priorities.

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22. The SIP displays the majority of the good practice features of a capital investment strategy set out in the national report including consideration of proposed funding mechanisms. The SIP aims to deliver infrastructure investment over 15 to 20 years that contributes to economic growth. Potential priorities were reached using a 19 point scoring mechanism. This ultimately led to the identification of five long-term goals for investment and fourteen short to medium-term infrastructure projects which were evaluated in terms of their impact on the strategic goals.

Does the council have established priorities to help them decide which projects to take forward?

23. The council uses a rolling five-year business planning horizon to set priorities for services which, from 2014, take account of the SIP. Services complete service Asset Management Plans (AMPs) which then feed into the corporate Asset Management Plan. The corporate AMP takes account of the council's vision and strategic priorities.
24. Outline Business Cases (OBC) are prepared for each potential project following the standards set by Asset Management and Finance. OBCs are required to explain how projects are linked to strategic priorities.
25. There is a clear process for potential projects to complete before they are accepted for inclusion on the Capital Plan. The Corporate Asset Group (CAG) was responsible for ensuring that business cases are aligned with strategy and that projects reflect council priorities.
26. As with other aspects of capital investment set out in this report, this area is evolving. A Project Proposal Document has recently replaced the OBC and the Capital Review Group has replaced the CAG. More on governance is included in paragraphs 39 and 40.

To what extent are stakeholders consulted during development of the strategy?

27. A wide range of interested parties were consulted in the development of the SIP. Relevant stakeholders were invited to attend a Visualisation Day. This included leaders and representatives from all major sectors in Aberdeen including oil and gas, construction, transport and academia. The SIP incorporates the result of surveys, discussions and polls associated with the workshop.

To what extent does the council explore opportunities for joint working to improve the efficiency of its capital programme?

28. The council has a strategic aim to reduce the level of its borrowing and this may help to encourage collaboration with other organisations. Each OBC included a section for consideration of joint working. Examples of joint projects, shared resources and joint procurement include:
- Aberdeen Western Peripheral Route project
 - Grampian Public Sector Strategic Property Asset Group
 - Central Purchasing Unit (CPU) shared with Aberdeenshire Council
 - Aberdeen Sports Village – joint venture with University of Aberdeen
 - Aberdeen Community Health & Care Village with NHS Grampian.
29. In addition, the council is working in partnership with industry and the private sector to progress other significant projects, for example the Aberdeen Hydrogen Project and the Marischal Square development.

Risks and Benefits Management

Does the council carry out appropriate early assessments of risk?

30. The council's Programme Management Office (PMO) has developed a standard process for managing all large projects. When a project is defined, an outline business case (OBC) is prepared. If the OBC is approved, assessments of risk and cost are revised when the full business case is prepared. To proceed, a full business case must demonstrate its strategic fit before it can be approved.
31. Improving the quality of business cases is recognised as an on-going process. The Project Management Toolkit adopted by the council requires business cases to be kept up-to-date and reassessed if there are significant changes. Each case requires consideration of benefits from the project, risks, time and costs associated with the project.

Are elected members provided with good quality information on capital project and programme risks?

32. Capital monitoring reports are presented regularly to service committees showing the overall progress and expenditure profile of each project. Routine reports are focused on actual expenditure and budget, and the expected profile of future expenditure.
33. From September 2014, a new report in the form of a performance 'dashboard' was introduced to assess the SIP's project progress. In addition, to recent milestones, the dashboard shows the status of a number of attributes in respect of each project in the SIP, for example timeline, risk, budget, resource, scope benefits and quality. The report is updated monthly and considered by the SIP programme manager and the corporate management team before being presented to the Finance, Policy and Resources Committee. The information is based on regular status reports from project managers compiled by the PMO and includes notes that

highlight risks and corrective action. This report should provide elected members with effective information on projects and risks.

To what extent does the council evaluate the overall performance of its capital investment programme?

- 34. Traditional capital outturn reports presented to members focus on financial aspects of capital investment. Both the council's Non Housing and HRA capital plans cover a 5 year period. However, the SIP provides wider measures against which performance can be monitored through the 'dashboard'. At this stage, the SIP is relatively new and therefore most projects are at an early stage in their delivery.
- 35. The 2013/14 general fund capital budget was £100.9m, but only £43.5m was spent. The slippage was due to delays in projects caused by a number of reasons including the unexpected withdrawal of partners who were to provide the site for new waste management facilities, delays caused by landowners electing to defer payment for land vested particularly in respect of the Western Peripheral Route, and technical problems identified in the initial delivery of hydrogen buses which postponed delivery of the remainder of the fleet. The scale of slippage might suggest that the council has more to do to improve the accuracy of estimates of time-scale and expenditure profile. Unrealistic estimates of timescale especially at an early stage in projects may give rise to over-ambitious targets and short term budget estimates that are too high.
- 36. Information provided to elected members has recently been developed to show delivery of projects against total budget and timeline rather than being restricted to annual in-year spending. This is a useful change which will maintain a focus on a whole project and its milestones and enable a better understanding of progress and linkages across the complete programme.

Are elected members provided with good quality information on the intended benefits of capital investment projects and programmes?

- 37. The SIP and individual business cases and other reports provide members with information on intended benefits analysed according to whether they are financial, quantitative (output, efficiency, etc.) or qualitative (customer satisfaction, compliance, etc.).
- 38. As post-project reporting is relatively new, and the benefits identification process is changing with improvements to project management practice, it is too early for good quality information on realised benefits of completed projects to be in place.

Governance Arrangements

Does the council have a clear and effective governance structure in place to support the capital investment programme?

39. The governance structure is clear and responsibilities are well defined but with the introduction of the SIP, it has been refreshed. Key groups include;
- full council approves capital plans and service committees receive regular capital monitoring reports
 - the Property Sub-committee sets and monitors an asset management strategy for the Council, scrutinises performance of the strategy and undertakes overall management of the Council's property at the stage of acquisition or disposal
 - the Corporate Asset Group provided governance, oversight and a forum for coordinating the delivery of capital projects between services
 - the Programme Management Office (PMO) supports the management and implementation of all projects, including capital. Its main role is to provide consultancy and support to services rather than actually managing projects.
40. Since the introduction of the SIP, the Capital Project Monitoring Group has reviewed and carried out updates in respect of the plan. Responsibility for the review of the SIP and the capital plan will now be brought together under the Strategic Infrastructure and Capital Plan Review Group which is intended to ensure there is an appropriate level of scrutiny and involvement by corporate and service management teams.

Does the council have standard criteria for the content of business cases that reflects good practice?

41. Standard criteria for outline and full business cases are determined by the PMO. Templates are available which conform to the good practice identified in the national study and include intended aims and benefits, options appraisal, risk assessment and cost, time and scope targets. In addition, guidance notes have been prepared to support the development of business cases.

Does the council have clearly defined project milestones for monitoring and reporting on capital projects?

42. A standard project process has been developed by the PMO for use in all types and sizes of projects. The process clearly sets out four approval gateways. These are the outline business case, the full business case, the project initiation document and project closure. Projects with an approved project initiation document are included in the capital plan. As outlined earlier, performance against SIP milestones will be measured through the 'dashboard'.

Does the council have a policy to collect and retain information on capital projects, including time and cost information?

- 43. The policy for collecting and retaining information on capital projects continues to evolve as the requirements for monitoring SIP delivery are implemented and embedded and corporate records management practices are developed.
- 44. The Project Management Toolkit currently requires project documentation to be accessible, kept up-to-date and subject to change control and archiving.

Does the council have a policy to carry out Post Project Evaluations (PPEs) within six months of a project being completed?

- 45. To date, PPE has been largely restricted to summary reports prepared for the Corporate Asset Group. However, the council has taken steps to improve its evaluation of completed projects through the development of an end of project report (EPR) by the PMO which is designed to record benefits realisation, delivery, quality, follow-on actions and lessons learned. The purpose is to review the expected outcomes against the outcomes of the completed project. While this process has yet to be applied to a completed capital project, the PMO has routinely completed EPRs in respect of improvement projects.

Does the council provide training to elected members on capital issues?

- 46. The need for training is recognised and provided when necessary. CIPFA delivered training to members of the incoming council on capital planning and monitoring in 2011. Training on corporate asset management and capital planning was also offered as part of the Member Development Programme in 2014.