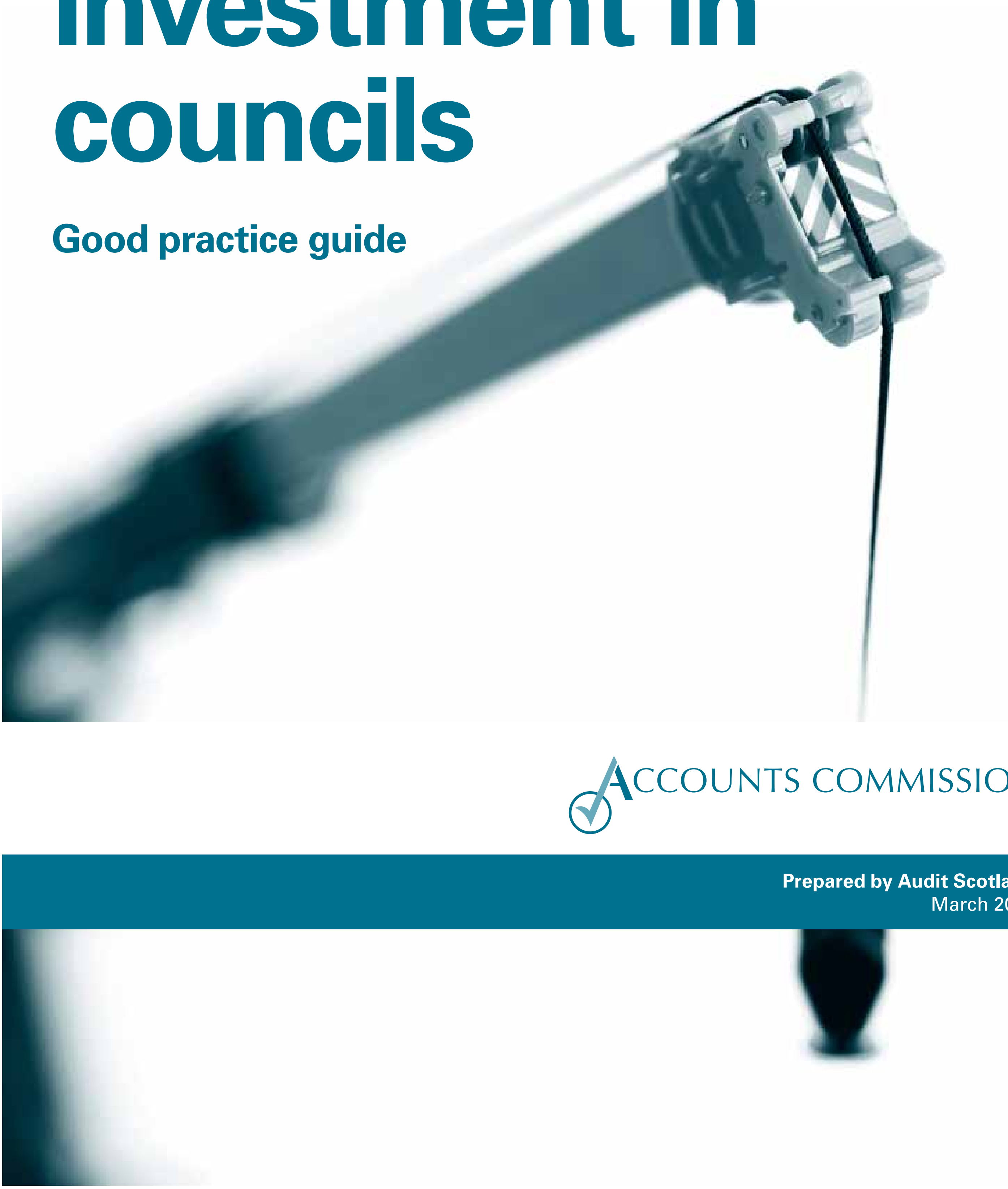
How councils work:
an improvement series for councillors and officers

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.

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

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).

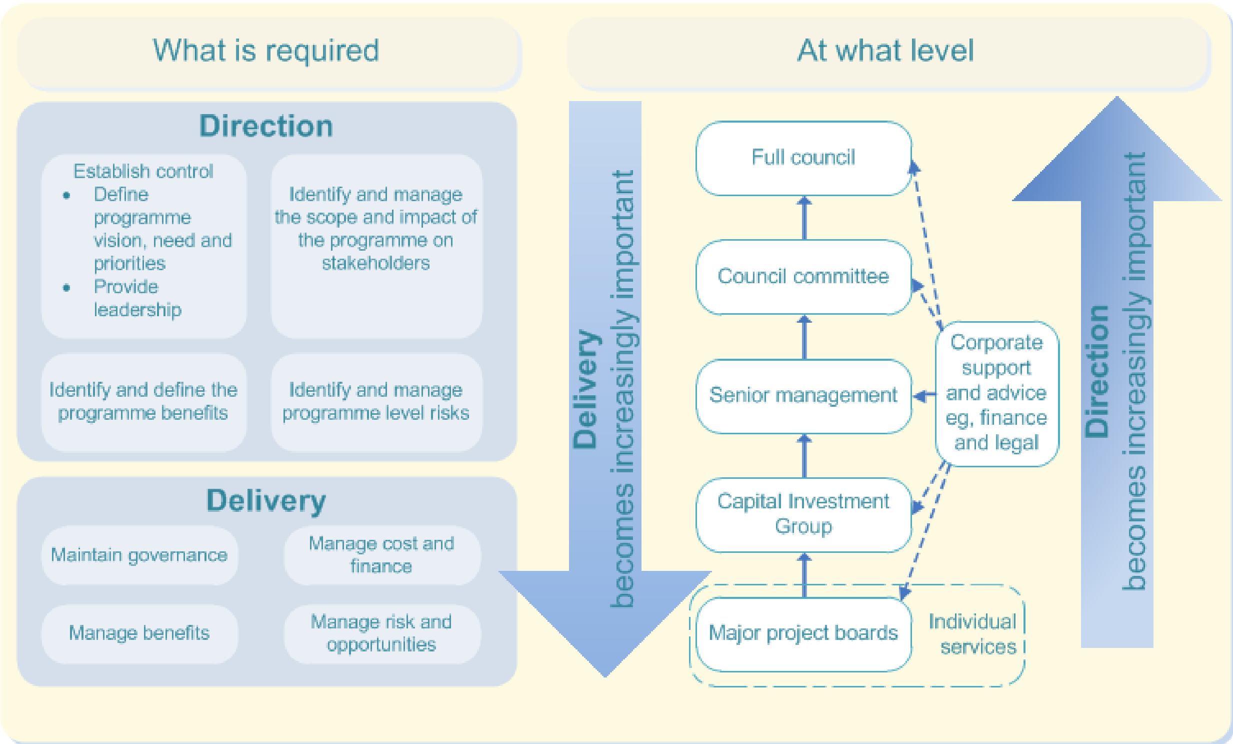
22. Having a good governance structure, however, does not guarantee effective delivery of capital investment plans and projects. At all levels of the governance structure, from project boards to full council, there should be clear arrangements for reporting and monitoring. Likewise all levels need to 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

Business Acceptance

- Benefits realisation
- Stakeholder satisfaction
- Optimisation
- Transition to operations
- Dispute resolution

Vision & Direction

- Quality Assurance
- Lessons learned
- Project financial management
- Reporting & communications
- Project assessments
- Benefits management

Measuring & Reporting

- Quality Assurance
- Lessons learned
- Project financial management
- Reporting & communications
- Project assessments
- Benefits management

Planning

- Project Plan
- Resource Plan
- Risk Management Plan
- Requirements & Specifications
- Change Control

Execution

- Project Management
- Design
- Cost management
- Resource
- Testing

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)	• 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	• 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	• 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	• 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

If you require this publication in an alternative format and/or language, please contact us to discuss your needs.

AUDIT SCOTLAND

Audit Scotland, 110 George Street, Edinburgh EH2 4LH
T: 0845 146 1010 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk