

# Major capital investment in councils – targeted follow-up: Issues and investigations matrix

The overall aim of this targeted follow up audit is to assess to what extent councils have improved performance in managing their capital investment programmes and projects since the publication of the original report. This includes actions taken to strengthen monitoring arrangements, use of the checklists and whether councils have applied lessons learned to their latest capital projects. We will not review funding of capital projects in detail as this was covered by the *Borrowing and treasury management in local government* report, published in March 2015.

In particular, the audit will:

- Consider any significant developments in councils' approach to managing capital investment since the publication of the first report.
- Review whether the councils have considered and effectively implemented the recommendations outlined in the original report. Within this, we will assess the extent to which councils have made use of 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.
- Provide an update on the fifteen projects in progress we reviewed in our first report. It will also assess whether the original report's recommendations been implemented for a sample of capital projects that have started after June 2013, however this will be subject to any such projects being in existence in the nine councils selected for a targeted follow-up.



**Audit question 1: How has councils' capital spending changed since the publication of the original report?**

Issue	Sub-issue	Methodology
<p>1.1 How much have councils spent on capital investment since 2012/13?</p>	<p>1.1.1. What have councils spent on capital investment since 2012/13?</p> <ul style="list-style-type: none"> <li>• In total (cash terms and real terms)?</li> <li>• By service (also split between HRA and general fund)?</li> <li>• By council?</li> <li>• How can this be compared to councils' capital spending trend between 2000/01 and 2011/12?</li> <li>• Has councils' capital spend increased or decreased since 2012/13 as compared to their revenue spending?</li> </ul> <p>1.1.2. What proportion of total public sector capital investment have councils provided each year since 2012/13?</p> <p>1.1.3. To what extent are the SG and the SFT involved in these projects?</p> <ul style="list-style-type: none"> <li>• Did they offer financial support?</li> <li>• Did they offer expertise/staff?</li> <li>• Did they review these projects at any stage?</li> </ul> <p>1.1.4. What difference has the investment made to councils' asset base (value, changes in asset condition etc.)?</p>	<ul style="list-style-type: none"> <li>• Review and analyse published statistics on councils, including SG and CIPFA publications</li> <li>• Analyse total spend versus council spend, year on year</li> <li>• Review councils' financial statements and capital investment reports</li> <li>• Interview SG officials as necessary (I&amp;I unit, local gov. unit, statisticians)</li> <li>• Interview Directors of Finance of the nine councils selected for the targeted follow-up</li> <li>• Review SG updates to PAC on major capital projects (includes all local gov. projects over £20 million that the SG is part funding)</li> </ul>
<p>1.2 What is the total value of capital investment planned in councils?</p>	<p>1.2.1 What is the total value of capital investment planned by councils in 2014/15 and 2015/16?</p> <ul style="list-style-type: none"> <li>• Is capital investment matched to funding sources?</li> <li>• What action is proposed to address any shortfalls in funding in any given year?</li> </ul> <p>1.2.2 To what extent are councils planning to use the innovative methods of financing capital investment?</p> <p>1.2.3 What is the planned SG allocation of capital grant to councils</p>	<ul style="list-style-type: none"> <li>• Review and analyse stage 1 and targeted stage 2 assessments performed by councils' local auditors</li> <li>• Supplement the analysis of stage 1 and stage 2 assessments with a review of councils' minutes and capital investment plans where necessary</li> <li>• Review SG finance circulars – local gov. finance settlements</li> </ul>

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	for 2014/15 and 2015/16? <ul style="list-style-type: none"> <li>• How does this compare to the previous years?</li> </ul> 1.2.4 To what extent do SG allocations affect councils in terms of: <ul style="list-style-type: none"> <li>• prioritisation of projects?</li> <li>• borrowing levels?</li> <li>• using innovative financing methods?</li> </ul>	<ul style="list-style-type: none"> <li>• Interview Directors of Finance of the nine councils selected for the targeted follow-up</li> </ul>

**Audit Question 2: Have councils considered and effectively implemented the recommendations outlined in the original report and have they made use of the good practice guide and checklist to aid their improvement?**

Issue	Sub-issue	Methodology
2.1 Did councils formally consider the report Major capital investment in councils following its publication in March 2013?	2.1.1 Was the report considered by full councils, audit committees, other committees, senior management teams, or other? 2.1.2 To what extent was the report considered (i.e. was it noted or discussed)? 2.1.3 How have councils responded to the recommendations in the report? <ul style="list-style-type: none"> <li>• Have councils developed an action plan to address the recommendations?</li> <li>• What progress has been made against the recommendations (i.e. what processes have been put in place etc.)?</li> </ul> 2.1.4 To what extent have councils used the good practice guidance and checklist?	<ul style="list-style-type: none"> <li>• Review and analyse stage 1 assessments performed by councils' local auditors</li> <li>• Supplement the analysis of stage 1 assessments with a review of councils' minutes where necessary</li> <li>• Interview Directors of Finance of the nine councils selected for the targeted follow-up</li> <li>• Interview elected members</li> </ul>
2.2 Do councils have long-term capital investment strategies in	2.2.1 Which period do capital investment strategies typically cover and how often are they reviewed? 2.2.2 How do capital investment strategies reflect councils'	<ul style="list-style-type: none"> <li>• Review and analyse stage 1 and targeted stage 2 assessments performed by</li> </ul>

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place?	<p>strategic priorities?</p> <ul style="list-style-type: none"> <li>• Is there a clear link between investment, performance and outcomes?</li> <li>• Do councils have established priorities to help them decide which projects to take forward?</li> <li>• Do proposals for new investment projects reflect these priorities?</li> <li>• How do capital investment strategies set out the needs and constraints for local capital investment?</li> </ul> <p>2.2.3 Are councils' capital investment strategies supported by capital investment plans?</p> <ul style="list-style-type: none"> <li>• If 'yes', which period do they typically cover? If 'No', why?</li> <li>• Do the plans meet the features of good practice as outlined in the good practice guide (paragraphs 18 to 19)?</li> </ul> <p>2.2.4 To what extent are stakeholders (such as service users and suppliers) consulted during the development of investment strategies?</p> <p>2.2.5 Are there explicit references to the capital investment plan within the Annual Treasury Management Strategy?</p> <ul style="list-style-type: none"> <li>• What arrangements are there to facilitate joined up planning etc?</li> <li>• Are there good internal communications between staff monitoring the capital programme and those in treasury management?</li> </ul>	<p>councils' local auditors</p> <ul style="list-style-type: none"> <li>• Supplement the analysis of stage 1 and stage 2 assessments with a review of councils' minutes and other corporate documents (e.g. corporate plans, SOAs and other strategic documents ) where necessary</li> <li>• Interview Directors of Finance of the nine councils selected for the targeted follow-up</li> </ul>
2.3 How do councils explore opportunities for joint working with other councils, community	<p>2.3.1 Do capital investment strategies explicitly state the councils approach to considering:</p> <ul style="list-style-type: none"> <li>• joint projects?</li> </ul>	<ul style="list-style-type: none"> <li>• Review and analyse targeted stage 2 assessments performed by councils' local auditors</li> </ul>

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Issue	Sub-issue	Methodology
<p>planning partnerships and public bodies to improve the efficiency of its capital programme?</p>	<ul style="list-style-type: none"> <li>• sharing resources (staff, facilities etc.)?</li> <li>• joint procurement?</li> </ul> <p>2.3.2 Are there any barriers to joint working and if so, what are they?</p> <p>2.3.3 Are there any good practice examples in joint working?</p>	<ul style="list-style-type: none"> <li>• Supplement the analysis of stage 2 assessments with a review of councils' minutes and capital investment plans and policies where necessary</li> <li>• Interview Directors of Finance of the nine councils selected for the targeted follow-up</li> </ul>
<p>2.4 Does financial information provided to elected members and senior officers support effective decision-making and scrutiny?</p>	<p>2.4.1 Are elected members and senior officers provided with regular, appropriate and accurate information to support investment decision-making? Does information include:</p> <ul style="list-style-type: none"> <li>• sufficient detail on profiled annual spend against the capital budget?</li> <li>• project-by-project spend against each milestone for each project?</li> <li>• an analysis of overall capital programme spend and its financing, including future projections and how it is paid for (i.e. from grants, borrowing or other)</li> <li>• an assessment of external factors such as UK and Scottish budget settlements, construction inflation, interest rates and other market factors?</li> </ul> <p>2.4.2 Are elected members provided with sufficient reasons for any movements in planned spending? Are reasons given for any changes to:</p> <ul style="list-style-type: none"> <li>• annual spend against annual budget?</li> <li>• individual project spend against project budget - annual and across years?</li> <li>• overall capital programme spend against programme</li> </ul>	<ul style="list-style-type: none"> <li>• Review and analyse stage 1 and targeted stage 2 assessments performed by councils' local auditors</li> <li>• Supplement the analysis of stage 1 and stage 2 assessments with a review of councils' minutes where necessary</li> <li>• Interview Directors of Finance of the nine councils selected for the targeted follow-up</li> <li>• Interviews with elected members</li> </ul>

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	budget – annual and across years? <ul style="list-style-type: none"> <li>• expected grant funding, income from other sources, levels of borrowing?</li> </ul>	
2.5 What arrangements for the management of risks and benefits do councils have in place?	2.5.1 Do councils carry out appropriate early assessments of risk and uncertainty to improve the accuracy of early stage estimating of the cost and timescales of capital projects? <ul style="list-style-type: none"> <li>• Do assessments adequately reflect councils’ experience of delivering such projects?</li> <li>• Is greater attention given to projects that are more complex or relatively unique?</li> </ul> 2.5.2 Are elected members provided with good quality information on capital project and programme risks? Do reports include sufficient information on: <ul style="list-style-type: none"> <li>• risk identification?</li> <li>• risk likelihood?</li> <li>• financial impact?</li> <li>• actions proposed and taken?</li> </ul> 2.5.3 Are elected members provided with good quality information on the intended benefits of capital investment projects and programmes? 2.5.4 Are elected members provided with good quality information on realised benefits of investment? 2.5.5 To what extent do councils evaluate the overall performance of its capital investment programme, and are any findings reported to, and scrutinised by, elected members?	<ul style="list-style-type: none"> <li>• Review and analyse targeted stage 2 assessments performed by councils’ local auditors</li> <li>• Supplement the analysis of stage 2 assessments with a review of councils’ minutes, capital investment plans and policies and other council documents (e.g. risk management arrangements, performance measurement policies and others as applicable) where necessary</li> <li>• Interview Directors of Finance of the nine councils selected for the targeted follow-up</li> <li>• Interviews with elected members</li> </ul>
2.6 Do councils have clear and	2.6.1 Are roles and responsibilities clearly defined and	<ul style="list-style-type: none"> <li>• Review and analyse targeted stage 2</li> </ul>

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Issue	Sub-issue	Methodology
<p>effective governance structures in place to support their capital investment programmes?</p>	<p>understood?</p> <ul style="list-style-type: none"> <li>• Do councils have Capital Programme Management Officers (PMOs) in place for managing and overseeing major capital projects and if so, what governance arrangements are in place for PMOs?</li> </ul> <p>2.6.2 Is there sufficient scope for constructive challenge and effective scrutiny at all stages of the programme?</p> <p>2.6.3 Do councils collect and retain information on all capital projects including explanations for cost, time and scope changes and lessons learned?</p> <ul style="list-style-type: none"> <li>• Is this information reported in public?</li> <li>• Is this information shared across services and with other councils?</li> </ul> <p>2.6.4 Do councils provide training to elected members on capital issues?</p> <ul style="list-style-type: none"> <li>• Is the training a one-off or part of an on-going programme?</li> <li>• Does the training involve the use of independent external advisers?</li> <li>• Can members influence the training provided to ensure this is appropriate and allows effective scrutiny?</li> </ul>	<p>assessments performed by councils' local auditors</p> <ul style="list-style-type: none"> <li>• Supplement the analysis of stage 2 assessments with a review of councils' capital investment plans and policies and other council documents (e.g. governance arrangements, training programme for elected members and others as applicable) where necessary</li> <li>• Interview Directors of Finance of the nine councils selected for the targeted follow-up</li> <li>• Interviews with elected members</li> </ul>
<p>2.7 Do councils have appropriate capital investment procedures in place?</p>	<p>2.7.1 Do councils have standard criteria for the content of business cases that reflects good practice?</p> <ul style="list-style-type: none"> <li>• Is the content comprehensive and consistently applied?</li> <li>• Does this cover both outline business cases (initial approval stage) and full business cases (contract award stage)?</li> </ul>	<ul style="list-style-type: none"> <li>• Review and analyse targeted stage 2 assessments performed by councils' local auditors</li> <li>• Supplement the analysis of stage 2 assessments with a review of councils' capital investment plans and policies and</li> </ul>

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	<p>2.7.2 Do councils have clearly defined project milestones for monitoring and reporting on capital projects?</p> <ul style="list-style-type: none"> <li>• Does this include a clear process for preparing and approving business cases as a key part of decision making and review of all major capital projects?</li> </ul> <p>2.7.3 Are Gateway Reviews regularly carried out and their recommendations implemented effectively by councils?</p> <p>2.7.4 Do councils carry out post-project evaluations (PPEs) within six months of a project being complete?</p> <ul style="list-style-type: none"> <li>• Have PPEs been carried out, or planned, for all recently completed major capital projects?</li> <li>• To what extent are lessons learned from PPEs reported in public and shared with other service areas?</li> </ul>	<p>other council documents (e.g. performance measurement policies and others as applicable) where necessary</p> <ul style="list-style-type: none"> <li>• Interview Directors of Finance of the nine councils selected for the targeted follow-up</li> </ul>

**Audit Question 3: What changes in councils' performance in delivering individual major capital projects to cost and time have taken place since the first report?**

Issue	Sub-issue	Methodology
<p>3.1 How have the 15 projects in progress, outlined in the first report, progressed since then?</p>	<p>3.1.1 For those projects now completed:</p> <ul style="list-style-type: none"> <li>• what was the performance against cost and time targets?</li> <li>• did performance vary by council or by the asset type?</li> <li>• what were the main reasons for significant variations between outturn and target, if any?</li> <li>• were projects subject to post-implementation reviews?</li> <li>• what reasons for success or failure have councils</li> </ul>	<ul style="list-style-type: none"> <li>• Send questionnaire to the local auditors of the relevant nine councils or to the councils directly</li> <li>• Review and analyse the most up-to-date project documentation (such as forecasts, monitoring and project review documentation as applicable)</li> <li>• Analyse data (e.g. % of sample projects</li> </ul>



**Audit Question 3: What changes in councils' performance in delivering individual major capital projects to cost and time have taken place since the first report?**

Issue	Sub-issue	Methodology
	<p>identified, if any?</p> <ul style="list-style-type: none"> <li>• have any lessons learned been identified and shared within or with other councils to promote best practice?</li> </ul> <p>3.1.2 For those projects still in progress:</p> <ul style="list-style-type: none"> <li>• what are the current forecasts to time and cost and how do these compare with the original forecasts and those at the time of publication of our first report?</li> <li>• what (if any) problems have occurred since we last reviewed the projects before the publication of the original report?</li> <li>• is progress reported to stakeholders (such as elected members) on a regular basis?</li> </ul>	<p>completed on time and within cost targets, variance against cost targets, average time variance, variance on cost and time at Outline Business Case and Full Business Case)</p> <ul style="list-style-type: none"> <li>• Interview appropriate officers of the relevant nine councils</li> </ul>
<p>3.2 Have the report's recommendations been implemented for a sample of capital projects over £5 million that have started after June 2013 (i.e. a few months after the first report was published)?</p>	<p>3.2.1 What projects with a capital value over £5m that started after June 2013 are currently in progress in the nine councils selected for the targeted follow-up:</p> <ul style="list-style-type: none"> <li>• by council?</li> <li>• by asset type?</li> </ul> <p>3.2.2 Do projects clearly align with the councils' strategic priorities?</p> <p>3.2.3 Are projects based on robust business cases with clarity about timescales, project value and benefits and with responsibility for leadership clearly allocated?</p> <ul style="list-style-type: none"> <li>• Are expected benefits set out clearly in early stages and/or business cases to allow future monitoring of progress towards outcomes?</li> </ul> <p>3.2.4 To what extent is the SG involved in these projects?</p>	<ul style="list-style-type: none"> <li>• Identify sample from the questionnaires that will be sent to the local auditors or to the councils directly for the nine councils selected for the targeted follow-up</li> <li>• Review and analyse project documentation (such as forecasts, monitoring, meeting minutes)</li> <li>• Analyse data (e.g. high-level analysis of variations between current time and cost forecasts and initial forecasts)</li> <li>• Interview appropriate officers of the nine councils selected for the targeted follow-up</li> <li>• Interview SG officials if necessary (I&amp;I unit)</li> </ul>

**Audit Question 3: What changes in councils' performance in delivering individual major capital projects to cost and time have taken place since the first report?**

Issue	Sub-issue	Methodology
	<ul style="list-style-type: none"> <li>• Have any projects been subject to the SG approval?</li> <li>• Did SG provide financial support?</li> <li>• Did it offer expertise/staff?</li> <li>• Did it review these projects/ business cases at any stage?</li> </ul> <p>3.2.5 Do projects have appropriate planning and control arrangements in place?</p> <ul style="list-style-type: none"> <li>• Are there clear and appropriate governance arrangements in place (i.e. accountability, clear roles and responsibilities)?</li> <li>• Are effective risk management arrangements in place?</li> <li>• Are there effective and clearly defined procurement strategies in place and is there sufficient commercial expertise within the project management teams?</li> <li>• Do project plans:               <ul style="list-style-type: none"> <li>- Clearly align to the business case?</li> <li>- Analyse the effects of slippage?</li> <li>- Clearly define project milestones?</li> <li>- Include a resource plan that is fit-for-purpose?</li> </ul> </li> </ul> <p>3.2.6 How do councils monitor, measure and report the progress of these major capital projects in progress?</p> <ul style="list-style-type: none"> <li>• What project monitoring tools are being used?</li> <li>• Is monitoring information both regular and comprehensive?</li> <li>• Are forecasts against time and cost targets based on robust information?</li> <li>• What are the current forecasts to time and cost? How does this relate to original forecasts and have any variations from target been explained/analysed/ acted upon?</li> </ul>	

**Audit Question 3: What changes in councils' performance in delivering individual major capital projects to cost and time have taken place since the first report?**

Issue	Sub-issue	Methodology
	<ul style="list-style-type: none"> <li>• What problems have occurred so far? How were they resolved?</li> <li>• Are Gateway Reviews regularly carried out? Are appropriate findings generated by the review process and is there evidence that any post-review recommendations are implemented to resolve identified problems or alter internal practices?</li> <li>• Are benefit realisation plans monitored throughout?</li> <li>• Is progress reported to stakeholders on a regular basis?</li> </ul>	