



Scrutiny Report

# Developing and Managing the Capital Programme

January 2008

[www.worcestershire.gov.uk](http://www.worcestershire.gov.uk)

## **Scrutiny Task Group Membership**

John Buckley (Chairman of the Overview and Scrutiny Steering Committee)  
Graham Ballinger  
Ed Moore  
Clive Smith  
Tom Wells

## **Officer Support**

Suzanne O'Leary, Overview and Scrutiny Manager  
Emma James, Overview and Scrutiny Officer  
Jo Weston, Overview and Scrutiny Officer  
Tony Dipple, Scrutiny Liaison Officer

## **Further copies of this report are available from:**

Overview and Scrutiny Team  
Legal and Democratic Services  
Worcestershire County Council  
County Hall  
Spetchley Road  
Worcester  
WR5 2NP  
Tel: 01905 766916  
E-mail: [scrutiny@worcestershire.gov.uk](mailto:scrutiny@worcestershire.gov.uk)  
Website: [www.worcestershire.gov.uk/scrutiny](http://www.worcestershire.gov.uk/scrutiny)

# Contents

	Page
<b>Foreword</b>	
<b>EXECUTIVE SUMMARY</b>	1
<b>Introduction</b>	3
Terms of Reference	
Background	
<b>Development of the Capital Programme</b>	5
Assessment of Needs	5
Role of the Corporate Property Strategy Group	6
Variations to the Programme	8
Non-Council Funded Schemes	8
Member input	9
• Cabinet members	9
• All councillors	11
• At other local authorities	11
<b>Management of the Capital Programme</b>	12
Project Management	12
Observations	13
Variances – Underspend/Overspend	15
<b>Conclusion</b>	16
<b>APPENDICES</b>	
Appendix 1: List of evidence sessions	17
Appendix 2: List of documents circulated to the task group	19
Appendix 3: Strategic capital investment process chart	21
Appendix 4: Bid form	23
Appendix 5: Summary of responses received from other authorities	30
Appendix 6: Extracts from the DCLG's report 'Evaluation of Corporate Capital and Asset Planning in Local Authorities	33
Appendix 7: Extracts from Franklin Andrews report	39
Appendix 8: Franklin Andrews report – progress statement from Property Services	41

## **Foreword**

Let's be honest, for many councillors, the Council's capital programme is not something given a great deal of time or interest. And yet for 2007/08 it represents £97.9 million, a substantial sum, which surely needs to be better understood? Who decides the capital programme? How is it put together? How are new projects added to the existing programme? What is the role of Cabinet? These are the sorts of questions, which prompted a request at Council to look at this area of the Council's business and lead to this scrutiny.

I am therefore very pleased to be able to present this report on behalf of my colleagues and do hope that our findings will raise the profile of the capital programme, and the important role of cabinet members in its development.

I would like to thank the members of this task group, for their time, participation and constructive debate. Thanks also to the cabinet members who provided input.

I am extremely grateful to all of the officers of Worcestershire County Council who contributed to this scrutiny. Particular thanks go to Malcolm Williams and Alan Stokes from Property Services, Colin Weeden and Geoff Roberts from Children's Services, for their open approach and provision of information, and to Tony Dipple in his capacity as Scrutiny Liaison Officer, for his patience and guidance through this complex subject area.

Finally, thank you to the Scrutiny Officers, Emma James, Suzanne O'Leary and Jo Weston, for their continued support and preparation, especially in the writing of this report.

**John Buckley**  
**January 2008**

# Developing and Managing the Capital Programme Scrutiny Report

## EXECUTIVE SUMMARY

### Terms of Reference

A scrutiny of Worcestershire County Council's capital programme was suggested at the meeting of Council in January 2007. The Developing and Managing the Capital Programme Scrutiny Task Group was then established in May 2007 to examine how the capital programme is developed and how capital projects are managed.

### Conclusion

Overall, the corporate business processes designed by officers to develop and evaluate the capital programme are found to be strong, well managed and committed to continued improvement. However, the capital programme is a complex process which, from a member perspective, is further complicated by a lack of transparency and accessibility. The main concern emerging from this scrutiny is the lack of a defined, formal process for political ownership and accountability of the capital programme during its development by cabinet members.

### Key Findings

- The role of cabinet members in the development of the capital programme lacks transparency, which in turn makes the process appear 'closed' and inaccessible to other members.
- It has proved difficult to ascertain how member examination of the development of the capital programme takes place and this has impacted on the ability of the task group to produce a comprehensive package of recommendations. The task group has been surprised by the low level of political understanding and ownership of the capital programme, given the authority's level of capital expenditure. Political ownership of the capital programme is vital for the democratic process and for public accountability.
- The awareness and involvement of cabinet members in the development of the programme varies greatly between directorates, but is felt to be too little, too late. It is recognised that in some cases cabinet members' involvement with the programme may occur informally, or via their involvement in service delivery issues. Nonetheless, there is no definable, formal procedure or audit trail set out to indicate this, prior to the cabinet member briefing itself, which takes place days before the cabinet 'budget' meeting.
- Given the late involvement of cabinet members in the development of the capital programme, it is unclear whether there is political awareness of bids, which have not been included in the programme.
- The profile and level of political scrutiny devoted to the revenue budget is far higher than for the capital programme. Currently the proposed programme does not feature in the annual programme of budget scrutiny by the Overview and

Scrutiny Steering Committee (OSSC); it is hoped to include this for the next programme.

- Development of the capital programme is predominantly an officer-led process, within an indicative financial envelope set by Cabinet.
- The overall corporate business processes designed by officers to develop and evaluate the capital programme have been found to be clear and strong. Capital bids are assessed against set criteria, which in principal link to corporate priorities.
- There is a commitment to developing a more corporate, strategic approach to capital planning in order for schemes to be managed more efficiently and effectively.
- The practice of clustering project jobs together (as opposed to individually) in reports that compare outturn expenditure with budget, impairs transparency and is unnecessary.
- It is accepted that development of the capital programme requires careful management of expectations. However, local members do not feel informed about developments within their area, and this impacts on their ability to deal with potential enquiries from the community. It has also been suggested that in some cases projects may have benefited from the local knowledge and input of local members at an appropriate stage.
- Many capital projects are financed by specific funds received direct from central government. The task group is concerned at the lack of political input to externally funded projects. They do not flow through the Council's bidding system for the capital programme, as they are required to meet the funders' criteria. The proportion of self-funded schemes is likely to grow, and although centralisation of funding may be beyond members' control, it would be beneficial for members to be kept better informed about what is being funded and why.
- Variations are made to the capital programme during the year, including self-funded additions. It is unclear whether such schemes are subject to the same degree of evaluation and political scrutiny as the remainder of the programme.

### **Recommendations**

That Cabinet reviews and formalises its role in overseeing the development and management of the capital programme, in order to clarify the process, and create a visible audit trail.

That the Overview and Scrutiny Steering Committee (OSSC) considers how to incorporate the capital programme into its scrutiny of the budget.

The Developing and Managing the Capital Programme Task Group submits the evidence and key findings contained in this report as a tool to initiate this process.

# **Developing and Managing the Capital Programme Scrutiny Report**

**JANUARY 2008**

## **INTRODUCTION**

1. Over ten years, Worcestershire County Council's capital programme has changed dramatically. A decade ago the capital programme budget was £13.7 million, whereas for 2007/08, it stands at £97.9 million. It has changed beyond recognition, not only in terms of budget, but also in its scope, complexity and, crucially, in the availability of grants and funding streams. The Council has assets valued at £1 billion, including the ownership of around 800 properties.

### **Terms of Reference**

2. In May 2007 the Overview and Scrutiny Steering Committee (OSSC) agreed to set up a Scrutiny Task Group to examine how the capital programme is developed and how capital projects are managed. This followed a request made at Council in January 2007.

3. The task group has carried out a series of in-depth discussions with officers responsible for the processes behind the development and evaluation of bids for the Council's capital programme, and met with cabinet members.

### **Background**

4. The size of the capital programme is dependent on the Cabinet's recommendation to Council each year on what is affordable. The main sources of funding come from:

- Borrowing
- Capital receipts
- Revenue contribution to capital expenditure
- External funding
- Public / Private Partnerships and Private Finance Initiatives

5. The Council's planning and management systems have had to evolve, to cope with a complicated system, involving numerous funding streams such as borrowing, private finance initiative (PFI) and government grants. Currently, the capital programme makes use of 19 funding streams and 13 government grants. An example, is the current Worcester library and History Centre project, which is being funded from a range of sources, including the Department of Culture, Media and Sport, the Office of the Deputy Prime Minister, the Higher Education Funding Council for England, Advantage West Midlands, the University of Worcester and Worcestershire County Council.

6. Management of the capital programme contributes to the Council's scoring under the Government's comprehensive performance assessment (CPA).

7. Ten years ago the capital programme was much narrower, consisting mainly of work associated with schools and roads. These two areas continue to take up a large proportion of budget in relation to the capital programme, and to generate high levels of public and press attention. In comparison, the Adult and Community Services' Directorate has a much smaller asset base, and therefore spending is less. The changes to capital programme expenditure are set out in the table below:

Summary of changes over 10 years

	<b>1997/98</b>	<b>2007/08</b>
<b>Capital Programme - Total expenditure</b>	£13.7m	£97.7m
<b>Capital spend on schools</b>	£8m	£62m
<b>Capital spend on roads</b>	£7m	£21m
<b>Number of funding streams</b>	5	19
<b>Borrowing</b>	£8.5m	£50m
<b>Government Grants</b>	£1.6m	£33m

8. A summary of the capital programme for 2007/08 across the directorates is set out below:

Directorate Estimates for 2007/08 £000

Children's Services	61,964
Environmental Services	20,693
Adult and Community Services	5,424
Corporate Services	6,942
Planning, Economy and Performance	528
Financial Services	2,226
<b>TOTAL</b>	<b>£97,777</b>

Financing £000

Borrowing	51,860
Capital Receipts	6,920
Government Grants:	
-Children's Services	23,086
-Environmental Services	8,714
-Adult and Community Services	705
Capital Reserve	128
Third Party Contributions	1,200
S 106 Contributions	438

Revenue Budgets	4,726
TOTAL	<b>97,777</b>

Information supplied by the Directorate of Financial Services

### **Capital Spending – changes made by Part I of Local Government Act 2003**

9. One reason for the growth in local government capital expenditure is changes made by central government to the financial system used by local authorities. The Local Government Act 2003 (Part I) brought in a new capital finance system, known as the new prudential code. Essentially, the new code allows councils to decide their own borrowing limits for capital projects, where previously local authorities had only been able to use borrowing and credit up to government specified limits. The Chartered Institute of Public Finance and Accountancy (CIPFA) sums up this change:

*‘The key feature of the new system is that local authorities should determine the level of their capital investment – and how much they borrow to finance – based on their own assessment of what they can afford.’*

10. In the case of Worcestershire County Council, actual long-term borrowing has increased by £97 million over the 3 years 2004/05 to 2006/07. The removal of such restrictions gives even greater importance to careful capital and financial planning and the necessity of strong asset management.

### **DEVELOPMENT OF THE CAPITAL PROGRAMME**

11. The task group interviewed several senior officers about the development of the capital programme, and is very grateful for their time, and in particular, for the clarity and availability of the information provided. Appendices 1 and 2 list the evidence sessions and information circulated to the task group. Discussions have centred on the directorates of Corporate Services, which oversees the majority of capital projects, and Children’s Services, where capital expenditure is high. We chose not to focus on the Environmental Services Directorate, as one of its highest capital spending areas, highways, had recently undergone a separate scrutiny exercise, and there was a scrutiny already underway on the Council’s professional design services contract with Halcrow.

#### **Assessment of Need**

12. Members explored how the capital programme is developed. The Council’s assets need to be maintained and kept fit for purpose. Directorates assess their asset needs. The condition of buildings, such as schools, is assessed for their maintenance needs, which drive the maintenance programme by their order of priority. A scatter diagram is produced which indicates levels of condition against suitability, according to the criteria outlined below:

- those that are in good condition and suitable for their purpose
- those that are suitable but in poorer condition
- those that are in good condition but not very suitable
- those that are not fit for purpose and in poorer condition.

13. Staff from each directorate seek to optimise available grants and keep abreast of changes in government policy, allocation of funding and the investment needs of their services and assets. These teams then draw up possible schemes, which are submitted to a cross-directorate team, headed by Property Services. The Chief Officers Management Board (COMB) is also able to identify potential opportunities or problems. Proposed bids, which are prioritised and affordable, are submitted to Cabinet, and as such are accessible to all members via the cabinet and council agenda papers. The capital programme is then endorsed by Cabinet and agreed by Council in February each year.

### **The Role of the Corporate Property Strategy Group**

14. The Corporate Property Strategy Group (CPSG) is a cross-directorate team, which reports to COMB, and has a central role in developing the capital programme. It acts as a filter system, into which bids are scored, evaluated and prioritised. The CPSG, which is also responsible for the Council's strategic property issues, comprises officers from each directorate, and meets 4 times a year. The group's membership is agreed by COMB and representation from Corporate Services is high because much of the necessary expertise comes from this directorate. The current membership of the CPSG across directorates is summarised below:

#### Current Make-up of CPSG

<b>Directorate</b>	<b>No of Officers</b>	<b>(of which Head of Service)</b>
Corporate Services	4	1
Adult & Community Services	2	1
Children's Services	1	0
Environmental Services	1	1
Financial Services	1	1
Planning Economy & Performance	1	1

15. During this scrutiny exercise, Property Services provided the task group with a comprehensive bank of evidence relating to the development of the capital programme, including the planning process, the bid scoring system and the operation of the CPSG. To put forward a bid, a standard form is completed and scored. This produces a rank of schemes and a line is drawn under what is affordable. The scoring approach is evaluated each year. Assessment of bids is described as an interactive process, in which financial services staff challenge the long-term viability of a scheme, and not just the start-up costs. Bids are assessed against set criteria, the main ones being links to corporate and service objectives, followed by asset management plans and financial considerations. Bonus points are eligible of schemes, which meet additional criteria. The make-up of the bidding score form used by Property Services is set out below:

## Summary of breakdown of scoring criteria for council funded bids

Policy/Service Objectives	50 points maximum
Asset management criteria	20 points maximum
Financial considerations	30 points maximum

Bonus points may also be eligible for the following factors:

- Meet the Audit Commission's KPIs
- Arise out of urgent unforeseen circumstances
- Reflect a statutory duty or legal commitment
- Address cross-cutting issues

16. Appendix 3 shows a flowchart of the process for developing the programme. Appendix 4 shows a blank bid form.

17. Officers from Property Services outlined the process for the task group as follows:

*'Once all bids have been received and moderated, the CPSG will prepare a schedule of bids, assembled in evaluation score order and with red or amber risk management issues flagged up, which is forwarded to the Director of Financial Services (DFS). The DFS, in consultation with COMB and cabinet members, will review the list in order to identify any anomalies or projects where the addition of bonus points may be appropriate. This will produce a final draft priority list of schemes for the capital programme. In parallel, the DFS will review the capital spending commitments and likely level of future spending that will be affordable. This will be fed into the budget setting process.'*

18. The Strategic Procurement Manager recently commissioned an evaluation by consultants Franklin Andrews, specifically to look at the delivery of construction services by the department, based on the processes involved. Their report, issued in June 2007, contained a number of recommendations and actions, which are now in hand and are intended to pave the way for the service to progress to becoming 'best in class'. Further reference will be made to the Franklin Andrews' study in the later section of this report 'Management of the Capital Programme'.

19. The task group has discussed at length the system devised by the CPSG to collate and evaluate potential bids from directorates. Overall these processes are found to be strong and based on clearly laid out procedures. The task group finds that there is a committed approach to developing and improving asset management, in order for development and maintenance to be prioritised with greater efficiency. **The overall corporate business processes designed by officers to develop and evaluate the capital programme have been found to be clear and strong.**

20. Capital bids are assessed against set criteria, which in principal link to corporate priorities. Feedback from Property Services' officers indicates that they

enjoy complete freedom to manage evaluation of capital bids according to the policy agreed by Council, and that this facilitates an efficient, non-biased system. The officers feel that the current process has been made as transparent as possible, recognising the sensitivity of the potential issues involved, and the preference of 'celebrating the projects which can be afforded, rather than causing disappointment by publicising those which cannot.'

21. However, despite the robustness of the corporate bidding process, the task group is concerned that for late additions to the capital programme, or for non-council funded schemes, that the links to corporate and asset planning criteria are not as strong and are primarily driven by the availability of funding itself. This issue is addressed in the following section of this report.

### **Variations to the Programme**

**22. During the year variations or additions are made to the programme, including self-funded additions. It is unclear whether such schemes are subject to the same degree of evaluation and member examination as the remainder of the programme.** In the task group's view, this aspect of the capital programme needs clarification.

23. Variations or additions to the programme may be for several reasons, such as the availability of new funding, or changes to central government policy. It is recognised that the Council is active and successful in its pursuit of viable funding opportunities. Sometimes funds become available which may not target the areas of greatest need, but the Council has no control over changes of direction from central government and realistically, officers cannot be deterred from pursuing all sustainable funding opportunities. Opportunities may arise which are simply too good to miss, or will mean long-term savings.

24. The growing range of funding sources will undoubtedly require increased flexibility of the capital programme, in order for the Council to maximise such funding opportunities. The task group feels that the capital planning process should therefore be expanded to formalise appropriate channels of consideration and reporting of variations / additions which occur outside of the annual approval of the programme. A scheme should only fast-track these channels in exceptional circumstances and when this occurs the reason should be made clear.

### **Non-Council Funded Schemes**

25. Not all capital financed schemes flow through the corporate bidding system managed by the CPSG. Non-council funded schemes, such as those found within Children's services and Environmental Services are developed within the directorates themselves. This stems from the fact that funding comes directly from central government.

26. For example, in the case of Children's Services, many schemes are funded directly by the Department for Children, Schools and Families (DCSF), in response to data, which the directorate has to provide them. The use of these funds may also be governed by guidance from the funding body. The directorate is required to submit an outline of how it intends to spend funds, but does not

have to submit detailed plans. Use of the funds is subject to external audit. Where it is not possible to apply for external funding, applications are submitted to the Council's capital programme, and follow the corporate process overseen by Property Services.

27. Non-council funded schemes are not exposed to the corporately managed filtering process and appear to have minimal cabinet member involvement. For schemes within Children's Services, there is a working group, which incorporates directorate officers, school representatives from each phase of education and diocese representatives, but no members. Information relating to the finalised capital programme is also posted on the schools' accommodation section web page. In this way, there are appropriate communication channels for schools, but the task group considers that communication to cabinet members and local members is lacking. The information included in the annual budget consultation papers is not always very detailed.

**28. Many capital projects are financed by specific funds received direct from central government. The task group is concerned at the lack of political input to externally funded projects. They do not flow through the Council's bidding system for the capital programme, as they are required to meet the funders' criteria. The proportion of self-funded schemes is likely to grow, and although centralisation of funding may be beyond members' control, it would be beneficial for members to be kept better informed about what is being funded and why.**

## **Member Input**

### Cabinet Members

29. There is recognition by both officers and members that the development of the capital programme is predominantly an officer-led process, within an indicative financial envelope set by Cabinet.

**30. It has proved difficult to ascertain how members examine the development of the programme and this has impacted on the ability of the task group to produce a comprehensive package of recommendations. The task group has been surprised by the low level of member understanding and ownership of the capital programme, given the authority's level of capital expenditure. Political ownership of the capital programme is vital for the democratic process and for public accountability.**

31. As outlined in this report, behind the development and management of the capital programme lies a complicated arrangement of funding streams, asset management data and assessment criteria. This topic has proved complex and difficult to get to grips with, but as the scrutiny progressed a stark contrast emerged between the clarity of evidence presented from the officers and from the cabinet members. The task group finds that the programme is well led, but we are concerned at the lack of clarity and defined process regarding member involvement, crucially from cabinet members. This aspect of our investigations became the overriding issue and area of concern.

32. The officers from Property Services involved in the capital programme assumed that directorates made arrangements to keep cabinet members and local members informed. There was also a perception that Cabinet's input to the capital programme takes place during corporate strategy week in September, the annual planning and review programme by Cabinet and COMB. However, from the evidence gathered, the capital programme is only looked at in very general terms, as time does not allow for a scheme-by-scheme discussion.

**33. The task group found that the awareness and involvement of cabinet members in the development of the programme varies greatly between directorates.** The task group met with several cabinet members and received very different descriptions of their roles relating to the capital programme. For example, the point at which the proposed 'wish list' of bids is shared with each cabinet member is very different between directorates, varying from before corporate strategy week (in September), to the receipt of annual budget papers (in December). There appeared to be no detailed knowledge of bids being developed within their directorates. The personalities and working practices of individual cabinet members and directors clearly play a part in determining the dynamic of member-officer working and communication.

34. It is recognised that in some cases cabinet members' involvement with the programme may occur informally, or via their involvement in service delivery issues, but is felt to be too little, too late. For example, one cabinet member was unaware of a proposed capital bid, but very aware of the related service issue. In theory, capital bids spring from service issues, which flow from the Corporate Plan in which cabinet members have the opportunity to be involved. What surprised the task group was the lack of perceived need by cabinet members for them to be involved in the detail of the directorate bids, before Cabinet's discussion of the proposed programme as a whole, which occurs towards the very end of the process.

**35. The task group has found that there is no consistent, definable, formal procedure or audit trail for cabinet member involvement prior to the cabinet member briefing itself, which takes place days before the Cabinet 'Budget' meeting in December.** Given the lack of a formally set out process for Cabinet's role and the late involvement of cabinet members in the development of the capital programme, it is unclear what discussion takes place prior to consideration of the full proposed list of schemes and whether there is political awareness of bids that have not been included in the programme.

**36. The role of cabinet members in the development of the capital programme lacks transparency, which in turn makes the process appear 'closed' and inaccessible to other members. This leads the task group to conclude that the role of the Cabinet in the development and management of the capital programme needs review and clarification, and that the Cabinet itself would be best placed to do this.**

## All Councillors

37. From a member perspective, the capital programme lacks transparency, which restricts local member understanding and involvement. Currently local members' discussion with directorates would only occur at a stage when the programme has effectively already been proposed.

38. However, during the scrutiny anecdotal evidence was given of instances in the past where greater local member involvement had had a negative effect and distorted the impartiality of the planning process. There had also been problems where expectations had been raised unrealistically.

**39. It is accepted that development of the capital programme requires careful management of expectations. However, local members do not feel informed about developments within their area, and this impacts on their ability to deal with potential enquiries from the community. It has also been suggested that in some cases projects may have benefited from the local knowledge and input of local members at an appropriate stage.**

40. Increasing members' engagement and crucially, their awareness in capital schemes could be achieved through a variety of methods such as seminars or via bulletins. Often local members simply need to be kept informed of the key relevant facts for their area and therefore it is important to devise information channels, which are streamlined and efficient. A good example is the recently re-introduced 'Highways News', an infonet bulletin that has proved an efficient and successful means of keeping local members up to date with developments across Worcestershire.

**41. The profile and level of member attention devoted to the revenue budget is far higher than for the capital programme. Currently, the proposed capital programme does not feature in the annual programme of budget scrutiny by the Overview and Scrutiny Steering Committee (OSSC); it is hoped to include this for the next programme.**

## At Other Local Authorities

42. The task group has contacted other local (nearest neighbour) authorities, specifically on the role of Cabinet in their respective capital programmes. Appropriate local authorities were selected using the recommended comparison list of shire counties for comparing our performance with others (as supplied by the Audit Commission). A summary of the responses received is set out in Appendix 5.

43. This is a complex area to analyse, but the information received gives an insight into the different systems used elsewhere. The feedback indicates that the role of Cabinet at Warwickshire County Council is similar to Worcestershire. The system used at Gloucestershire County Council indicates a higher level of involvement by Cabinet and a more detailed presentation of potential schemes by officers to members.

44. At Gloucestershire, cabinet members are aware of bids for the capital programme within their relevant directorates. The full programme for the following year goes to Cabinet for consideration well in advance, usually in November,

ready for the New Year. Cabinet members see the draft schemes for their directorates. Although they cannot officially approve a scheme, they are required to endorse ones that are to go ahead so officers have the opportunity to explain the thinking behind the proposals. Any major schemes (£500k or more) require the submission of a business case to Cabinet before they can spend on the full scheme. This is even for schemes that have been approved for spend by Council and is an attempt to ensure that the Council only commit significant spend to schemes that are fully worked up.

45. The task group feels that the level of involvement by cabinet members at Gloucestershire County Council should be considered as a model for Worcestershire.

## **MANAGEMENT OF THE CAPITAL PROGRAMME**

### **Project Management**

46. In order to look at the management of projects within the capital programme, the task group has held interviews with key senior officers from Corporate Services and from Children's Services. As stated earlier in the report, the task group elected not to look specifically at the Environmental Services Directorate, as at the time of this scrutiny exercise, a separate scrutiny was examining the Council's contract with Halcrow, a professional design consultancy. Additionally, a scrutiny of Highways had recently taken place, which is one of Environmental Services' highest capital spending areas.

47. Once started, the management of a capital scheme becomes the responsibility of its lead officer from the relevant directorate. Each project is assigned an account and accountants, and all expenditure passes through the accountancy system, which picks up any variations in projected and actual costs. Variations are queried with the project manager and would sometimes be unavoidable due to market changes.

48. As stated earlier in this report, the Council's Property Services team plays a key role in implementing capital schemes. When a capital project is approved, a team of people is involved in its delivery. This includes an architect, mechanical and electrical engineer, a quantity surveyor and possibly others depending on the nature of the project. The fees for this team are taken from the capital funding. Each project has a manager from the 'client' side and a manager from the 'property' side, the relationship between the two being of crucial importance. The same set-up would occur with a private contractor.

49. From its review, the task group finds that overall, management of capital projects is competent and committed to improvement. Projects such as the Worcester Library and History Centre demonstrate a growing trend for joint working with other partners, and for projects to involve more than one funding stream and partner. In order to meet the challenges this presents, Corporate Services is looking to develop a more corporate, strategic approach to asset and project management. This will also give the Council a clearer focus on where to invest funds within Worcestershire.

## Observations

50. It is evident that the Council has some excellent project managers, but the task group stresses the need to utilise and extend their skills and expertise across the full range of council projects. Members identified some areas in particular where it is felt further improvement is required. In many cases it is recognised that work is already in hand to increase effectiveness. Some of the work in progress stems from the recommendations and action points included in the previously mentioned consultant's report by Franklin Andrews on Property Services 'Benchmarking the supply of construction work'. During this scrutiny exercise the task group identified the following areas of concern:

### Consistency of Approach – expanding the corporate approach

51. The task group has found that management practices vary across the Council, with some directorates managing projects in the same way and others differently. In part, this would seem unavoidable, given the range of projects undertaken by the Council and the variety and source of required expertise. However, the task group's view is that greater consistency across the board would bring significant benefits.

52. Evidence from the task group indicates that smaller projects in particular, and those involving more than one contractor, would benefit from more controlled management. Examples of smaller projects include repairs to buildings and installation of new traffic signs.

53. The intention of Corporate Services to develop and promote a more corporate and strategic approach to project management is fully supported by the task group. It is also reflected in the Department of Communities and Local Government's study 'Evaluation of Corporate Capital and Asset Planning in Local Authorities', which is referred to later on in the next section of the report.

### Best Practice

54. Property Services play a key role in managing the capital programme. The department keeps abreast of national developments in their field and consults other authorities where appropriate.

55. In November 2007 the Department for Communities and Local Government (DCLG) published the results of its study on the development and implementation of corporate capital strategies and asset management plans by local authorities - 'Evaluation of Corporate Capital and Asset Planning in Local Authorities'. This study reflects evidence gathered over a six-year period, including visits to 36 case study authorities. The main recommendations for local authorities from the report are attached at Appendix 6, including 12 good practice processes and a series of recommendations for local authorities.

56. The DCLG report highlights three 'critical success factors' in developing a more corporate and strategic approach to capital and asset planning, which the task group would like to draw attention to:

- a. corporate culture and working
- b. buy-in at senior officer and elected member level
- c. effective leadership at all levels

### Personnel

57. The task group received anecdotal evidence of several projects where changes in key staff had caused delays and impaired effective communication. Consequently the need for consistency of personnel for the duration of a project must be stressed.

### Start-up processes

58. The evidence gathered by the task group indicates that it is especially important to have clear and consistent processes for the start-up of a project, such as how to set up governance arrangements and how to get the initial specification right. This is a crucial period, when the fundamental elements of a project are established to ensure it progresses smoothly, efficiently and within budget.

### Importance of an accurate specification

59. During the task group's investigation, this issue emerged repeatedly as being vital, in order to reduce variances between projected and achieved project costs. A suitable example is the implementation of the Council's special educational needs policy started in 2004, where changes to the initial specification saw overall costs rising from £5 million to £10.2 million. All of the officers who contributed to the scrutiny recognised the importance of getting the initial specification as accurate and clear as possible. Preparation at this stage helps to ensure that the completed project is fit for purpose, and makes cost estimates as accurate as possible. The task group would like to emphasize this need, particularly in view of increasing budget pressures.

60. The task group is reassured that Property Services plans to further improve cost estimates. The recommendations contained in the previously mentioned report by Franklin Andrews pave the way for the Property Services Department to reach 'a standard commensurate with "best in class" and comparative commercial practitioners'. The recommendations include action points to reduce estimate to final account variance and a proposal that the team which draws up the specification and budget, should also be responsible for delivery of the project at final account. The relevant extracts from the report are attached at Appendix 7.

61. Property Services have provided an indication of progress against the consultants' recommendations to date, at Appendix 8. Property Services has provided regular progress reports to the Overview and Scrutiny Steering Committee and the task group would recommend consideration of further updates of improvements against the consultant's recommendations at an appropriate time.

## Procurement

62. At the time of the scrutiny, new procurement strategies were being developed to reflect changes in best practice. Crucially, this involved building longer-term relationships with a small group of suppliers, and moving away from the practice of only giving a contract to the lowest tender. This approach is also highlighted in the Franklin Andrews report. It is believed that the advantages of this would include better relationships with the contractor, leading to improved project management. This technique had been used in Birmingham, Hampshire and Norfolk with significant success.

## Use of Contractors

63. Corporate Services advised the task group that it is working towards gaining a clearer understanding of what work should be done 'in house' and what is better contracted out. A good example of a recent step towards achieving this is arrangements for dropping kerbs. Instead of paying a contractor a fee in excess of £1000k to carry out the work, a list of approved companies was being compiled, allowing the public to make their own arrangements directly once permission had been given. An example of a council contract is that with Halcrow, a consultancy specialising in planning, design and management for the Environmental Services Directorate. Halcrow currently provides a range of services to the Council, such as design and supervision of highway improvements and this service provision is being looked into by another scrutiny task group. Outcomes from the Halcrow scrutiny may influence how the Council oversees its use of contractors.

## Communication with Contractors and Other Parties / Change Management

64. Members cited instances where an aspect or change to a project had not been well communicated to all parties involved, or had been misunderstood. The task group finds this to be particularly apparent for smaller projects, or where more than one contractor is involved in the project, for example where one contractor is responsible for the design and another for the construction. The task group is concerned that smaller projects, perhaps because of their lower profile, are not as carefully managed. A recent example was highlighted in the press in December 2007, about a new pedestrian crossing in Kidderminster, where the white zig-zags for the crossing extended into an existing bus stop. It is understood that the error was caused by the contractor misinterpreting the designs supplied from the Council.

## **Variances – Underspend/Overspend**

65. Members have discussed the fact that the original capital programme is agreed by Council (following approval by Cabinet), as part of the budget proposal– but that variances are not always subsequently reported back to Council, only to Cabinet. Application to a particular project of funds from composite sums included in the capital programme, might not give rise to a reported variance, although the cost of the project may have increased beyond that originally approved in the capital programme.

66. There is an issue that if the final cost of a project varies greatly, such as in the case of the implementation of the Council's special educational needs policy, this may have influenced the original decision to include the scheme in the capital programme. **The task group feels it is important for members to know if a project is growing beyond its original budget.**

**67. The task group also has concerns that the practice of clustering project jobs together (as opposed to individually) in reports that compare outturn expenditure with budget, impairs transparency and is unnecessary.**

68. Overall officers felt that variances were within reasonable limits and often resulted from a poor estimation of costs. Average project overspend reported by Property Services is 2%, which the Task Group praised.

## **CONCLUSION**

69. Overall, the corporate business processes designed by officers to develop and evaluate the capital programme are found to be strong, well managed and committed to continued improvement. However, the capital programme is a complex process, which, from a member perspective, is further complicated by a lack of transparency and accessibility. The main concern emerging from this scrutiny is the lack of a defined, formal process for political ownership and accountability of the capital programme during its development by cabinet members.

### **Recommendations**

That Cabinet reviews and formalises its role in overseeing the development and management of the capital programme, in order to clarify the process, and create a visible audit trail, in time for Cabinet's input to capital programme planning for 2008/09.

That the Overview and Scrutiny Steering Committee (OSSC) considers how to incorporate the capital programme into its scrutiny of the budget.

The Developing and Managing the Capital Programme Task Group submits the evidence and key findings contained in this report as a tool to initiate this process.

## APPENDIX 1

### List of Evidence Sessions

27 June 2007	Introductory discussion with Tony Dipple, Head of Financial Appraisal
13 July 2007	Mike Weaver, Director of Financial Services Martin Finch, Head of Financial Practice and Standards
1 August 2007	Malcolm Williams, Head of Property Services Alan Stokes, Strategy and Policy Unit Manager
29 August 2007	Patrick Birch, Director of Corporate Services Michael Howard, Strategic Procurement Manager Stephen Clee, Cabinet Member with Responsibility for Corporate Services
7 September 2007 (informal)	Malcolm Williams, Head of Property Services Alan Stokes, Strategy and Policy Unit Manager
7 September 2007 (informal)	Liz Eyre, Cabinet Member for Children and Young People
28 September 2007	Colin Weeden, Head of Raising Achievement and Access to Learning, Geoff Roberts, Service Development Manager, Access and Accommodation
5 October 2007	Adrian Hardman, Cabinet Member for Finance
5 October 2007	Peter Parkes, Head of Strategic Projects
31 October 2007	Task Group Meeting
14 December 2007	Task Group Meeting

[THIS PAGE HAS BEEN LEFT DELIBERATELY BLANK]

## APPENDIX 2

### List of Documents Circulated to the Task Group

Copy of mind map compiled during the first task group meeting
Development of Revenue and Capital Resources (known as the budget book) – extracts from 2003/04 to 2007/08
Bundle of papers from Property Services: <ul style="list-style-type: none"><li>• Asset management<ul style="list-style-type: none"><li>➤ Property audit spreadsheet</li><li>➤ Summarised performance spreadsheet</li><li>➤ Scatter diagram</li></ul></li><li>• Capital planning<ul style="list-style-type: none"><li>➤ Capital planning process</li><li>➤ Extract from the capital investment plan</li><li>➤ Capital bid form (blank)</li><li>➤ Example of completed capital bid form</li><li>➤ Draft schedule of capital bids</li></ul></li><li>• Implementation of capital schemes<ul style="list-style-type: none"><li>➤ gateway process – feasibility</li><li>➤ example of budget estimate</li><li>➤ gateway process – design development</li><li>➤ example of PC41</li><li>➤ schedule of performance<ul style="list-style-type: none"><li>○ estimate to external benchmark</li><li>○ cost control during project development</li><li>○ fee costs</li></ul></li></ul></li></ul>
Report by Franklin Andrews, Construction Economists 'Worcestershire County Council – Benchmarking the Supply of Construction Work'
Supplementary bundle of papers from Property Services: <ul style="list-style-type: none"><li>• Capital planning – current programme bid 'wish list'</li><li>• Corporate Property Strategy Group<ul style="list-style-type: none"><li>➤ typical agenda</li><li>➤ membership of group</li><li>➤ minutes of meeting</li><li>➤ information on frequency of meetings</li></ul></li></ul>
Comments sheet from the Cabinet Member for Children and Young People
Report from Children's Services – Funding Prioritisation Development and Implementation of the Capital Investment Programme
Supplementary bundle of papers from Children's Services: <ul style="list-style-type: none"><li>• Working Group on the Development of the Capital Programme<ul style="list-style-type: none"><li>➤ typical agenda</li><li>➤ typical minutes</li><li>➤ terms of reference</li></ul></li></ul>

- example of capital programme update
- Examples of asset management plan data required by DCSF

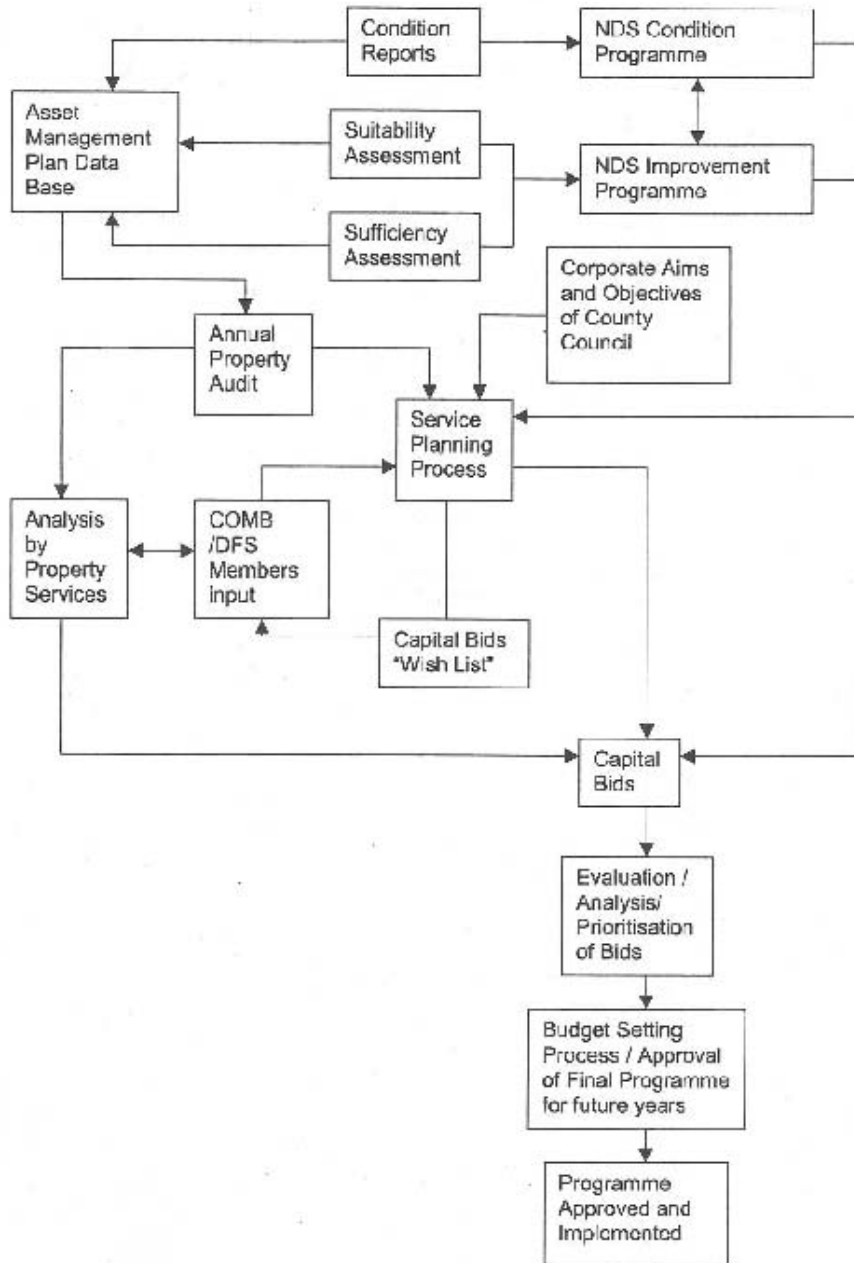
Summary of responses from other authorities

# APPENDIX 3

Worcestershire County Council

Property Services Division

## Strategic Capital Investment Process



Prepared for Franklin and Andrews Review - October 2006

[THIS PAGE HAS BEEN LEFT DELIBERATELY BLANK]

**APPENDIX 4**

**CAPITAL PROGRAMME BID FORM  
FINAL FORMAL SUBMISSION**

**Bid Year  
200 /200**

**PROJECT NAME:**

**BRIEF PROJECT DESCRIPTION:**

<b>PREPARED BY:</b>	<b>TELEPHONE NO./EMAIL</b>	<b>DIRECTORATE:</b>
---------------------	----------------------------	---------------------

**JUSTIFICATION AND PERFORMANCE INFORMATION:**  
SERVICE/CORPORATE POLICIES AND OBJECTIVES MET BY THIS PROPOSAL:

MEASUREABLE OUTCOMES:

CONSEQUENCES OF PROJECT NOT PROCEEDING:

BRIEF OUTLINE OF OPTIONS CONSIDERED AND OPTION APPRAISAL:

**RISK MANAGEMENT**

Does this proposal address any identified and evaluated risk management issues?

**YES**

Please complete this section

**NO**

Go to Resource and Programme Implications Section

Description of Risk	Evaluation of Impacts			
	Existing		If Proposal Approved	
	Category	Score	Category	Score
	Red		Red	
	Amber		Amber	
Green		Green		

## RESOURCE AND PROGRAMME IMPLICATIONS

Is project suitable for PPP/PFI or any alternative funding arrangement? Yes / No  
 Explain:

<b>CAPITAL EXPENDITURE *</b>	Base date for Budget: _____			
	<b>County Council</b>	<b>Specific Grant</b>	<b>Partners Contribution</b>	<b>Total</b>
Land	_____	_____	_____	_____
Building	_____	_____	_____	_____
Furniture & Equipment	_____	_____	_____	_____
Fees	_____	_____	_____	_____
Sub Total	_____	_____	_____	_____
Likely Capital Receipts	_____	_____	_____	_____
<b>Total</b>	_____	_____	_____	_____
	-----	-----	-----	-----

\*Figures should relate to the option with the lowest Whole Life Cycle Cost

State source of grants or partners' contribution:

<b>REVENUE EXPENDITURE</b>	Full Year	IDENTIFY ANY EXISTING PROPERTY USED:
County Council	_____	SUMMARY OF RELEVANT AMP DATA:
Partnership	_____	
Other	_____	
Income (state source)	_____	
Net Cost	_____	

TARGET OCCUPATION DATE (buildings)	CONSEQUENCES OF SLIPPAGE	CAN SCHEME BE PHASED

## CAPITAL PROGRAMME BID – PROJECT EVALUATION

<b><u>PROJECT TITLE</u></b>	FORM COMPLETED BY (Extn.)
-----------------------------	---------------------------

<b>Policy / Service Objectives Met</b>		
<b>Objective</b>	<b>Evaluation (max. 5 for each category)</b>	<b>Total</b>
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		

<b>Asset Management Plans</b>		
<b><u>Criteria</u></b>	<b>Evaluation (max 5 for each category)</b>	<b>Total</b>
Condition		
Sufficiency		
Suitability		
Efficiency of Occupation		

<b>Financial Considerations</b>		
<b>Criteria</b>	<b>Evaluation (see tables for points allocation)</b>	<b>Total</b>
Capital Costs		
Revenue Costs		
Partnership Funding		

**Summary**

<b><u>Criteria</u></b>		<b>Score</b>
Policy/Service Objectives Met		
Asset Management Plans		
Financial Considerations		

## Background

The main objective of the capital planning process is to provide a robust, transparent and fair system for prioritising the allocation of scarce capital resources. Priority is given to schemes that;

- Clearly demonstrate a strong link to achieving corporate and services stated objectives and priorities
- Address issues of good governance and risk management
- Are demonstrably efficient in their approach, use of capital and revenue resources
- Leverage contributions from partner organizations or sources of funding
- Are properly thought through and deliverable

The use of resources is a key factor in the assessment of an authority's performance under Comprehensive Performance Assessment, (CPA). The system for Capital Planning has been reviewed in the light of recent experience of its operation and with a view to strengthen the linkages between this process and other corporate initiatives such as risk management, option appraisal and best value obtained through the whole life costing approach.

## Process For Bid Preparation

Capital resources are always limited. Preparing capital bids is a time consuming process and only a relatively small proportion of bids can be included in the programme. It is therefore, important that Directorates critically review development plans and only promote bids, which are their highest service priorities.

To achieve this it is suggested that individual service manager wishing to promote a capital bid should outline the proposal and submit this in outline to DMT's for "in principle" approval. This process should be completed **no later than June**. DMT's should then consider the range of outline bids made to them and filter out any proposals that are unlikely to reflect the Directorate's highest priorities. DMT should then specifically sanction the further development of the proposal and completion of submission of the bid forms.

At this point DMTs should advise Property Services of the number and scale of bids it wishes to prepare in detail **by the beginning of July**. (submitting likely bids on DRAFT OUTLINE CAPITAL BID PRO FORMA, for the attention of Head of property Services). This will enable an advisory report to be taken to the first COMB meeting in July, alerting it to the likely level of capital bids for the following year. COMB, in the knowledge of the likely headroom, (or lack of it), in the capital spending plans, may then form an initial view on the likely level of demands for capital funding in future years.

**During July, August and September** capital bids will need to be prepared in detail. Please note that in many cases input from colleagues in Property Services, Financial Services & Information and Business Systems may be required. Resources in these areas are limited and this work therefore needs to be properly planned and co-coordinated.

The CPA assessment on the use of resources will include an analysis of quality of an authority's capital planning processes and decisions. There is an expectation that all capital spending proposals will have been subject to a formal option appraisal. There is an implication here for resources, since alternative options will need to be identified and worked through in sufficient depth to enable a proper appraisal to be undertaken. In addition, there needs to be evidence that the process for option selection will have included consideration of Whole Life Cycle Costs. This too has resource implications since it is likely to place considerable strain on the limited resources available to undertake such work. This reinforces the need to be very selective in identifying the bids that are put forward.

**The date for final submission of bids to the Capital Planning Officer is the last day of September.** Bids received after that date will not be considered for inclusion in the following years Capital Programme unless specifically sanctioned by COMB.

## **Bid Evaluation**

All capital bids must be accompanied by an assessment of how closely the proposal meets the County Council's stated objectives. The assessment is completed by the person promoting the bid and, by structuring the assessment to standard evaluation criteria, is intended to provide an impartial method of "valuing" the contribution that the proposal will make to the County Council's overall objectives. All self-assessments will be subject to a review by the Corporate Property Strategy Group, (or an individual nominated by that group), in order to provide consistency.

The self-evaluation process uses the following headings;

### **1. Policy/Service Objectives Met**

This category represents 50% of the total possible score for the bid. Specific County Council or service objectives or policies are identified and the degree to which this proposal meets this is individually assessed. Where a proposal meets an objective in full a maximum score of 5 is possible for that objective. Where it meets it in part, a view must be taken on the degree to which it does so and a score between 1 and 4 given to it. A maximum of 10 policies, objectives or specific Risk Management benefits may be referred to in this section. The maximum score of this category is therefore 50, although experience suggests that total scores in excess of 35 would be very unusual.

## 2. Asset Management Criteria

Where proposals affect existing properties the Asset Management Plan should be consulted to identify issues relating to the following:

- Condition
- Sufficiency
- Suitability
- Efficiency of Occupation

Where a proposal affects any of these issues, it should be evaluated within the range 1-5 for each applicable category.

Where the proposal does not relate to AMP issues (new facility or not building related), an overall score of 10 for this category should be recorded.

The maximum score in this section is 20.

## 3. Financial Considerations

Projects should be evaluated against the following criteria;

- Capital Costs (that is, the County Council's share)
- Revenue Costs (again, only the County Council's share)
- Attracting Partnership Funding

The scoring regime is outlined in the following table. The maximum score for this section is 30.

<b>Capital Costs</b>		<b>Revenue Costs</b>		<b>Partnership Funding</b>	
<b>Cost</b>	<b>Score</b>	<b>Cost</b>	<b>Score</b>	<b>Funding %</b>	<b>Score</b>
0	10	10k+	0	0 - 5%	0
200,000	9	7.5k – 10k	1	5% - 10%	1
400,000	8	5.0k – 7.5k	2	10% - 15%	2
600,000	7	2.5k – 4.5k	3	15% - 20%	3
800,000	6	0 – 2.5k	4	20% - 25%	4
1,000,000	5	- 2.5k – 0	5	25% - 30%	5
1,200,000	4	- 5.0k – 2.5k	6	30% - 35%	6
1,400,000	3	- 7.5k – 5.0k	7	35% - 40%	7
1,600,000	2	- 10k – 7.5k	8	40% - 45%	8
1,800,000	1	- 12.5k – 10k	9	45% - 50%	9
2,000,000	0	- 12.5k +	10	50% +	10

## **Bonus Points**

Schemes may be eligible to receive bonus points if they meet the following criteria

1. Meet the Audit Commission's KPI's
2. Arise out of urgent or unforeseen circumstances
3. Reflect a statutory duty or legal commitment
4. Address cross-cutting issues

The Corporate Property Strategy Group can recommend the award of bonus points but these must be confirmed by COMB.

## **General Notes**

It is unlikely that any proposal will be able to meet a full complement of objectives, hence maximum scores in any section will be very rare. The scheme promoter should, however, try to identify as many objectives as possible so that the full benefits of the proposal can be taken into account.

## **Capital Planning Process**

Once all bids have been received and moderated, the CPSG will prepare a schedule of bids, assembled in evaluation score order and with red or amber risk management issues flagged up, will be forwarded to the Director of Financial Services, (DFS). The DFS, in consultation with COMB and Members, will review the list in order to identify any anomalies or projects where the addition of bonus points may be appropriate. This will produce a final draft priority list of schemes for the capital programme.

In parallel, the DFS will review the capital spending commitments and likely level of future spending that will be affordable. This will be fed into the budget setting process. The final shape of the capital programme will not be known until Council approves the budget in the February preceding the programme year.

## Comparison with other authorities

The following questions were asked of 5 other authorities (the top 5 from the Audit Commission's list of comparable shire counties)

1. Are cabinet members aware of bids for the capital programme within their relevant directorate and if so, at what stage?
2. How is the capital programme finalised?
3. What role do cabinet members have in this process?

Authority	Are CMRs aware of bids for the programme within their directorate – at what stage?	How is the programme finalised?	What role do CMRs have in the process?
Gloucestershire	Cabinet members are aware of bids for the capital programme within their relevant directorates. The full programme for the following year goes to Cabinet for consideration well in advance, usually in the next month (Nov) or so, ready for the new year. Ad hoc additions to the programme require Portfolio Holder endorsement before they are considered for being added to the programme during the course of the year.	The capital programme is finalised by Full Council in February, along with the rest of the budget setting for the new year. Any major schemes (£500k or more) require the submission of a business case to Cabinet before they can spend on the full scheme. This is even for schemes that have been approved for spend by Full Council and is to attempt to ensure that we only commit significant spend to schemes that are fully worked up.	Cabinet members approve the draft programme before it is agreed by Council. If they don't approve it then the programme is reworked to a form that is approved by them. Cabinet members see the draft schemes for their Directorates. Although they cannot officially approve a scheme they are required to endorse ones that are to go ahead so Officers have the opportunity to explain the thinking behind the proposals.

<p>Warwickshire</p> <p>Operate a rolling 3 year programme and schemes are added in a variety of ways</p>	<p><b>Government approved allocations for Education/Transport</b> - it is current policy to increase the capital programme by the level of these allocations. These are notified to Cabinet/Council in specific reports and the policy reconfirmed each year. Initially these are approved as block allocations. This is then split into a programme of individual projects via Cabinet approvals either as subsequent specific reports or as part of quarterly monitoring.</p>	<p><b>Government approved allocations for Education /Transport</b> - For transport this allocation to individual projects is scrutinised/prioritised by area committees.</p>	
	<p><b>Self-financing schemes</b> - these are schemes where the service is proposing to fully fund any capital financing costs from savings/redirection of resources within their revenue budget.</p>	<p><b>Self-financing schemes</b> - Because these increase the level of overall borrowing the reports approving such schemes have to go to both Cabinet and Council.</p>	
	<p><b>Fully-funded schemes</b> - these are schemes that are fully funded by external grant/third party contributions.</p>	<p><b>Fully-funded schemes</b> - Because these increase the level of overall borrowing the reports approving such schemes have to go to both Cabinet and Council.</p>	

## APPENDIX 5

	<p><b>Capital bids</b> - in addition to the above there is an annual budget allocation process where Directorates can bid for capital resources. These are considered alongside bids for revenue resources as the critical impact for the authority is the revenue costs resulting from the capital spend. Directorates prioritise both their revenue and capital bids into a single prioritised list.</p>	<p><b>Capital bids</b> – The prioritised directorate list (revenue and capital bids) goes through a range of scrutiny processes - first at officer/strategic director level (where they are ranked/scored according to agreed criteria) then by members either as Cabinet in making their budget proposals or by the political groups in developing their resolutions/amendments to proposals.</p>	<p>The formal capital programme for the following 3 years is approved as part of the budget resolution by full council. It summarises where we have got to in each of the categories outlined. This is then monitored by cabinet during the year and amended as appropriate through the normal quarterly monitoring process.</p>
Staffordshire	No information provided		
Cheshire	No information provided		
Cambridgeshire	No information provided		

Extract from study by DCLG, December 2007

### 6 Evaluation of Corporate Capital and Asset Planning in Local Authorities

#### Good Practice Processes and Outputs

5. We have identified 12 good practice processes, organised under the following five headings. These processes have been informed by discussion with Local Government and represent an integrated set of good practice, most of which should be relevant to most local authorities.

#### Corporate Management

- Establish corporate management arrangements that provide strategic leadership, involve all the key players, have a culture of challenge, and have clear reporting lines to a strong corporate centre.
- Ensure that political governance arrangements focus on strategic property issues and facilitate effective decision-making in this area.

#### Capacity Building

- Develop a first rate property management service that supports effective capital and asset planning.
- Establish a corporate approach for supporting a larger and more complex capital programme based on project management tools and capacity, and including a systematic approach to undertaking post-implementation reviews.

#### Information and Evidence

- Gather, store, maintain and update, on an ongoing basis, information on the size, value, condition, suitability and sufficiency (and other relevant details) of property holdings.
- Consider, identify and calculate property performance indicators that are appropriate to the local context, regularly review performance, and draw on the experience of asset planning from other organisations.
- Consult with partners/stakeholders, service users, the general public and staff on the capital programme and the use of property assets.
- Develop a medium/long term Property Strategy that is an integral element of the authority's approach to business planning.
- Develop a strategic approach to the use of office space, including flexible working and co-location with partners/stakeholders.

- undertake property reviews aimed at improving service delivery and the performance of property assets and facilitating cross-service and cross-organisation working.

### **Capital Programme**

- Develop a formal corporate approach to the appraisal of the options available for meeting the objectives of proposed capital projects.
  - Develop a formal corporate approach to the prioritisation of capital projects in line with corporate objectives and priorities and incorporating the results of option appraisal.
6. The aim of introducing a more corporate and strategic approach to capital and asset planning is to ensure that desired outcomes are delivered in the most effective way. Putting in place the good practice processes is a means to this end, but is not the end itself. Moreover, there is a necessary, but not a sufficient, relationship between putting in place these processes and generating the desired outcomes.
  7. Generally, the processes that are currently areas of strength for local authorities are: effective and well-resourced arrangements for property management; ongoing collection and use of property data; property reviews; and prioritisation of capital expenditure.
  8. Our work shows the processes that are currently areas of weakness for authorities are: project management systems, skills and capacity; property performance management; medium/long term Property Strategy; and a formal approach to option appraisal.
  9. Of these weaknesses, the most significant is the general absence of a medium/long term Property Strategy. This strategy should outline clearly the objectives for the property portfolio and how the authority proposes to move from where it is now to where it wants to be. The strategy should also underpin activity such as asset disposals and expenditure on repair and maintenance.

### **Process Outputs**

**10.** We have identified the following six process outputs as being key to the success of local authorities in effectively managing their capital resources and property assets:

- Elected members are engaged with strategic decision-making on property issues;
- decisions regarding the use, retention and maintenance of property are

based on evidence from databases, property performance indicators and the experience of external organisations;

**18.** In relation to the four aims of the modernisation of the capital finance framework for local authorities highlighted earlier (see paragraph 2), the research shows that there is evidence for better long term planning of capital investment and the better use and management of assets (and especially the former). However, there has only been a limited impact to date in relation to greater local decision-making and accountability (the silo-driven allocation of capital resources from central government to local authorities is still a significant barrier in this context) and enhanced cross-service strategic working in partnership with other organisations.

**19.** It is difficult to be precise about the current position on this learning curve of 388 different local authorities. The evidence from the research suggests that it is a normal distribution, with the best performers already generating significant outcomes and those at the opposite end of the spectrum having made little, if any, progress in this area. Most authorities are somewhere in the middle, having addressed a number of important process issues but not yet being in a position to generate outcomes to any significant degree.

**20.** In this context, it is instructive that a senior officer in one of the best performing councils commented that, to date, his authority had not made much progress in challenging the use of existing assets. This is indicative of both the scale and scope of the agenda still facing most authorities, and also the fact that authorities have made more progress in adopting a more corporate and strategic approach to the creation of new assets than to the management of their existing ones.

**21.** The evidence from the research suggests that there are three critical success factors in developing a more corporate and strategic approach to capital and asset planning. These factors are related to the overall way in which the authorities operate, rather than being specifically and directly related to capital and asset planning:

- corporate culture and working – an organisation with a culture that supports effective corporate working and a willingness to embrace and implement change. Authorities in which the corporate centre is relatively weak, individual service areas are powerful, and senior officers see themselves as working for a service area rather than one corporate organisation are not well-placed to introduce a more corporate and strategic approach to capital and asset planning;

- buy-in at a senior officer and elected member level – the commitment, enthusiasm and skills of officers in finance, property and individual service areas is important. However, unless there is a buy-in to the implementation of a more corporate and strategic approach to capital and asset planning amongst both senior officers and elected members progress is likely to be limited. Any future ‘guidance’ on capital and asset planning needs to target these senior key players;
- leadership – effective leadership at all levels in the organisation in order to implement the required changes. In particular, strong leadership from the Chief Executive and the other members of the senior management team is vital if the required momentum of change in relation to capital and asset planning is to be achieved/maintained.

**22.** The consultations undertaken as part of the research have revealed there is a widespread (but mistaken) perception amongst local authorities that the Department has ‘lost interest in asset management’. This perception initially stemmed from the ending of the requirement for authorities to submit their corporate capital strategies and asset management plans annually to the Government Offices and, later, their property performance indicator data to the Department. It has persisted despite, for example, the Local Government White Paper 2006 re-affirming the importance of effective asset management by local authorities and linking it to the wider themes of the White Paper on more responsive services and the empowerment of local communities.

**23.** It would be helpful to the continued progress of a more corporate and strategic approach to capital and asset planning in Local Government if the Department could exploit all available opportunities to counter this widespread perception and to signal that corporate asset management is still very much on its policy agenda. Any future initiatives in relation to capital and asset planning in Local Government need to be focused on the generation of outcomes rather than, as in the past, being process driven.

## **Recommendations**

**24.** We have made the following recommendations for the Department and local authorities.

### **Communities and Local Government**

- Use the results of the research to inform thinking about the way in which the Audit Commission includes capital and asset planning in the performance framework for future rounds of the Comprehensive Performance Assessment (and successor assessment frameworks).

- Promote the 12 good practice processes to local authorities, whilst emphasising the need for them to focus increasingly on generating outcomes from the implementation of these processes.
- Use every opportunity to emphasise to local authorities the continuing importance of capital and asset planning in the context of, for example, the Comprehensive Performance Assessment process, the prudential capital finance regime, the introduction of whole of government accounts and depreciation-based support, and the Gershon, Lyons and Quirk reviews.

### **Local Authorities**

- Review periodically the corporate management arrangements for capital and asset planning against the seven elements of good practice to ensure that they remain fit for purpose and are driven by a culture of challenge.
- Designate a member of the Cabinet (or streamlined committee chair) as the property portfolio holder who is actively engaged with strategic property and asset management issues.
- Seek to involve the scrutiny and review functions of elected members in a pro-active and positive way in relation to the capital and asset planning.
- Seek to involve 'backbench' elected members on issues related to the capital and asset planning, such as involvement in property reviews.
- Strengthen the corporate component of property management arrangements and provide adequate resources, especially in terms of staffing and appropriate information technology.
- Introduce corporate project management systems, which are appropriate to the scale and complexity of the capital programme. These systems need to be underpinned by an effective corporate process necessary to secure its consistent implementation and by access to the full range of specialist skills required.
- Undertake post-implementation reviews for all capital projects that are proportionate to the scale and complexity of the projects.
- Establish an ongoing process for the collection of relevant property data and an effective mechanism for holding this data, provide staff with appropriate training on accessing and using the data, and use the data to drive decision-making.
- Collect and monitor a suite of the relevant property performance indicators drawn from the Association of Chief Corporate Property Officers in Local Government (COPROP) framework, supplemented

with local indicators where appropriate, in order to drive a process of continuous improvement in the management of their property assets.

- Engage with other organisations on their experience with asset management in order to drive a process of continuous improvement in the management of their property assets.
- Consult with partners and other stakeholders on capital and property schemes and take appropriate actions on the basis of the results of these consultations.
- Develop a medium/long term Property Strategy. The strategy should outline clearly the objectives for the property portfolio and how the authority proposes to move from where it is now to where it wants to be. The strategy should also identify and articulate the property implications of future service provision and provide a clear strategy for the disposal of surplus assets and expenditure on repair and maintenance.
- Develop a procurement strategy in line with modern good practice.
- Establish clear strategic approaches to the utilisation of space and flexible working, and co-location with partners and stakeholders.
- Undertake a formal programme of property reviews linked to achieving their corporate priorities and objectives, challenging the use of property assets, and focused on improving the quality of service delivery.
- Develop a formal corporate approach to option appraisal (including whole life costing) and use it in a way that is proportionate to the scale and complexity of the projects being appraised.
- Develop a formal corporate approach to the prioritisation of capital projects in line with corporate objectives and priorities. This approach should cover most, if not all, capital projects, be fit for purpose, allow a process of challenge to project proposals, include moderation and review, be integrated with a formal approach to option appraisal, and allow interpretation of the results by senior officers and elected members.

## APPENDIX 7

### Extract from report by Franklin Andrews, June 2007 'Benchmarking the supply of construction work'

### 3 Recommendations

1. Use KPI's [see OGC gateway process] to measure the improvement in the process leading to the selection of procurement strategies and budget setting to reduce Estimate to Final Account variance to within +/-5%.
2. Using a pre-selected contractor framework to improve value for money through continuous improvement, determine greater supplier integration throughout WPSD procurement processes. This should be focused on the development of a Partnering approach with stakeholders and suppliers to the Council. This approach will bring direct benefit to the Council in the improved risk management of projects and the ability to better define liability transfer achieved through improved understanding amongst stakeholders.
3. Use KPI's based on time, cost and communication, to drive continuity of management throughout projects, making the team who derive the specification and budget responsible for delivery of the project at Final Account. They should also reconcile change at each stage and each month give feedback against the original sponsors brief.
4. Appoint consultants from a pre-selected competitive framework to demonstrate value for money and drive continuous improvement. Use external service level costs as a benchmark against which internal department costs are measured.

### 4 Actions

1. Embrace and manage development of the department against the initiatives set out in "Achieving Excellence in Construction Procurement." Using the following KPI's:-
  - a. Report each project monthly to sponsors including as a minimum; Cost certainty, Time certainty and communication performance between the parties.
  - b. Report each project monthly to sponsors on performance against firm WPSD internal cost targets set within CUPID and compared to likely out turn.
  - c. Reconcile, for 95% of projects by value, estimated costs to tendered costs to out turn costs.
  - d. Maintain to within +/-5%, variance in estimating from budget to final account of base costs.
  - e. Reduce to within +/-3%, variance in out turn base construction costs from national benchmarks.
  - f. Reduce to within +/-10% variance in fee costs compared to national benchmarks.
2. Introduce a stage-gate [OGC] approval system so that projects are unable to move to the next stage until cost, strategy and delivery plan are reconciled and signed off by the review team. A risk register, also subject to sign off, should replace contingencies.

## **Actions cont'd**

3. Employ Whole Life Costing to demonstrate to customers / Sponsors the impact of specification and design choices made at inception/scheme design to demonstrate how these decisions can impact on the final maintenance and running costs of the building.
4. Integrate consultant deliverables to provide a robust data stream that can be used to drive improvements within the current estimating norms and provide checks against future fee levels for projects.
5. Integrate consultants and WPSD staff to provide feedback from post contract project reviews in a format that enables greater accuracy in assessing buildability and on costs used in the estimating process.
6. *Hold post completion project audits with "regular existing contractors" to establish if the contract conditions are the most appropriate for scheme types and the benefits of recognised alternatives.*
7. Commission audits of exceptionally high fee payments (over 20%) on existing projects to determine causes.
8. Benchmark fee expenditure for projects and implement a "fee cost management" system to maintain fees and internal costs within benchmarked levels and use actual data to feed back into the estimating process.
9. Set stricter approvals processes for additional funding post estimate/budget set related to changes to brief only.
10. Make Project Managers constant for the life of a project.
11. Standardise briefing from sponsoring departments using generic pro-forma and train brief taking throughout the Project Management staff.
12. Train contracts and procurement staff in a wider range of contract forms to allow appropriate allocation of liability including the use of NEC 3 the OGC approved contract form.
13. Improve efficiency through targeted changes to CAD and CUPID use.
14. Set up a task force to investigate the use of modern modular solutions for provision of some of the delivered portfolio.
15. Review the WPSD structure and roles to reflect the needs of their customers to improve value for money to the sponsoring departments.

## APPENDIX 8

### **Property Services Progress on Addressing Issues Raised in Franklin and Andrews Report “Benchmarking the supply of construction work”, June 2007**

#### Background

The report entitled “Benchmarking the supply of construction work”, issued by Franklin and Andrews on 14 June 2007, compared the performance by Property Services in delivering capital schemes during 2005-6 with national benchmarks in the following key areas:

- Budget cost of new build projects.
- Budget cost of alteration projects.
- Final out turn costs compared with initial budget costs
- Total cost of Professional Fees

The actual performance achieved during 2005-06 was as follows;

- New Build Projects - 2.2% above national benchmarks.
- Alteration Projects - 20.9% below national benchmarks.
- Final out turn costs - on average show a variance of 0% against project approvals.
- Fees - using a weighted average the fee costs for the whole programme was 0.19% above national benchmarks. (The BCIS benchmark for fees is 11.51% with Property Services delivering fees to 11.7%).

Since the report was published, Property Services is in the process of analysing the performance for 2006/07. It is not possible to report the outcome of this study as a number of significant projects are still under construction. However, early indications are that performance during 2006-07 will be very similar to the previous year.

#### Analysis and Response

Notwithstanding the relatively good performance figures in relation to delivering the capital programme, the F&A report acted as a catalyst to improve the structure and management systems within Property Services.

There are perceived to be four principle areas where improvements are likely to bring the greatest benefits. These are

- Better focus on performance management
- Improved clarity of project objectives and business case for projects at the outset
- Continuity and consistency of project management applied across the scheme as a whole

- Closer and more stable long term working relationship with a smaller number of contractors.

In order to address these issues, Property Services has undertaken, or is in the process of undertaking, the following actions

- All project budgets are now referenced back to nationally recognised cost benchmarks and delivery performance is expected to improve, (F&A Action 1, 9)
- A relatively small panel of consultants for the provision of construction related design services has been procured competitively and now receives all external commissions. This has introduced cost and time efficiencies and affords the opportunity to capture learning and re-apply it to future schemes. (F&A action 4, 8, 9)
- A “Gateway” project delivery process similar to that recommended by OGC has been developed and is in the process of being agreed corporately and rolled out across the organisation. (F&A Action 2, 3, 9,11).
- Restructuring Property Services to identify a group of staff with the specific responsibility for target setting and collating data on performance, (F&A Action 5, 6, 7)
- Four schemes have been specifically identified to trial the use of modern modular solutions for building needs. The outcome of these projects will be evaluated and compared with alternatives, (F&A Action 14)
- Work is underway to develop a contractor framework, (similar to the consultant framework), to enable earlier involvement of contractors, reduced time and cost of procurement, secure access to quality construction resources and to capture learning for future schemes, (F&A Action 3, 6, 12)
- Restructure to identify specific project management resource that can be available from inception through to final completion, (F&A Action 10, 15)
- Greater standardisation is being introduced to the management and application of CAD systems to enable greater efficiencies to be extracted from its use, (F&A Action 13).

Some of these actions fall squarely within the purview of Property Services and are being acted upon. However, where other initiatives impact on the work or responsibilities of other Directorates it is necessary to negotiate changes and therefore putting them into effect takes a little longer. Property Services remains committed to securing improvements and achieving “best in class” status