

Key messages

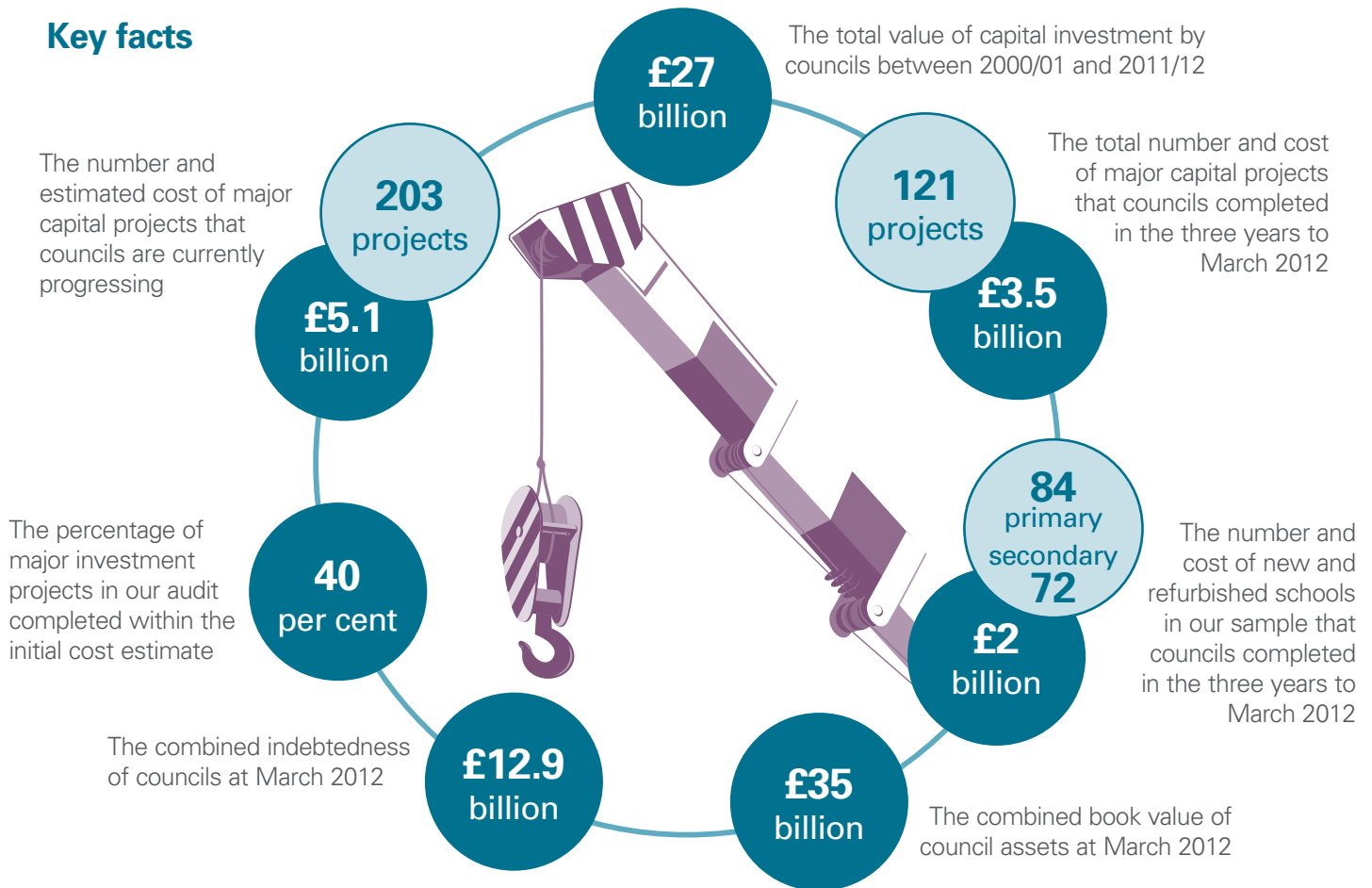
Major capital investment in councils

Prepared by Audit Scotland
March 2013

 ACCOUNTS COMMISSION



Key facts



What's this report about?

This audit provides the first comprehensive review of major capital investment in councils. It focuses on major capital projects over £5 million each and assesses how well councils direct, manage and deliver capital investments.

Since 2000/01, councils have invested £27 billion in real terms in building and maintaining assets and infrastructure, more than any other part of the public sector

- Councils invest large sums of money every year on property and other assets that they will use over many years to provide public services. Their capital spending almost doubled from £1.2 billion a year in 2000/01 to nearly £2.4 billion in 2011/12. Total capital spending between 2000/01 and 2011/12 was £23 billion. Councils also procured £4 billion of investment through the use of Private Finance Initiative (PFI) and Non-Profit Distributing (NPD) contracts.
- This investment was needed to address the backlog maintenance for councils' assets and to develop new infrastructure. Councils are

investing in new and refurbished schools, new social housing, sports and community centres and care homes. They are also investing to maintain and repair their existing property assets such as local roads, schools and council housing (see paragraphs 14-18 and 25-29 in the main report).

- Increasingly, councils have borrowed to pay for capital investment, spreading the cost over many years. The proportion of annual capital investment financed by borrowing has increased by around a half since 2000/01.
- Councils have also used Scottish Government grants to pay for capital investment. Grant levels peaked at more than £820 million in 2009/10 but have since declined in both cash and real terms (see paragraphs 19-24 in the main report).

Councils delivered most projects since 2009 within or close to contract cost, despite early estimates being too low

- Accurate cost estimates are important from the outset of major projects. Councils completed only two-fifths of projects that we examined within the initial cost estimates, and only a fifth within

the initial time estimate. However, estimating improved significantly as projects advanced, plans became clearer and contracts were awarded (see paragraphs 42-46 in the main report).

- Estimating for school projects was better than for other projects. A seventh of completed schools projects in our sample cost five per cent or more than the contract award estimate. This compared to almost half of non-schools projects (see paragraphs 47-52 and 60-62 in the main report).

Councils have improved governance structures for investment planning in recent years but do not have enough monitoring information for fully effective scrutiny

- Councils' investment and financing plans in the longer term are uncertain. To the extent that plans are available, councils anticipate that investment will decrease over the next two years but the position after this is unclear. Borrowing will remain the main source of finance for councils' investment spending (see paragraphs 76-83 in the main report).
- There are some significant gaps in the information that councils have to measure whether capital projects are completed to budget and on time. Many councils do not have established processes for developing and using business cases, which means key performance information on aims, cost, time, scope and risk may not be clearly defined. This may make it more difficult to hold decision-makers to account if problems arise on a project (see paragraphs 84-91 in the main report).
- Councils are clear about the broad goals for their investment projects. However, they rarely specify benefits expected or how these will be measured. About half of recently completed projects have been evaluated to assess if they have delivered the intended benefits (see paragraphs 87 and 92-94 in the main report).
- There are some examples of shared assets, joint procurement and joint projects. However, councils do not proactively seek opportunities to work with other councils or other public bodies in planning and delivering their capital programmes (see paragraphs 95-102 in the main report).

Key recommendations

Councils should:

- develop and confirm long-term investment strategies to set out the needs and constraints for local capital investment, and consult with stakeholders such as service users and suppliers as they develop these strategies
- develop and use clearly defined project milestones for monitoring and reporting. This should include a clear process for preparing and approving business cases as a key part of decision-making and continuous review of all major capital projects
- improve the quality of capital project and programme information that is routinely provided to elected members, including reporting of performance against cost, time and scope targets, risk and intended and realised benefits
- consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary
- actively look for opportunities for joint working with other councils, community planning partnerships and public bodies to improve the efficiency of their capital programmes. This should cover joint projects, sharing resources such as facilities and staff, sharing good practice and taking part in joint procurement.

What happens now?

The full report can be accessed on our website www.audit-scotland.gov.uk. We have also provided a good practice guide in the *How councils work* series to help councils make improvements where necessary.

The Accounts Commission is keen to see the issues raised in this audit discussed further by councils and other public bodies and interested parties.

We will also monitor progress against our recommendations through our audit work.

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If you would like to find out more on this topic, you can download a copy of the full report from our website or contact our report team at info@audit-scotland.gov.uk

www.audit-scotland.gov.uk

We provide all our reports and key messages documents in PDF, black and white PDF and RTF format.

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