# Governance Risk and Best Value Committee

## 10.00am, Thursday, 9 October 2014

# Post Implementation Review - Capital Monitoring Review

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| **Item number** | 7.3 |
| **Report number** | |
| **Executive/routine** | |
| **Wards** | |

## Executive summary

This report presents the findings of a post implementation review of a review of the capital monitoring process which commenced in October 2012 and was led by Finance.

The conclusion of the post implementation review is that very good progress has been made in delivering the primary objectives of the capital monitoring review. The organisational and process changes are complete and there is evidence of a successful outcome demonstrated by the financial outturn at the end of 2013/14. The cultural changes have begun, lessons are being learned and there are signs of greater collaboration. Whilst there has been a significant reduction in slippage, further embedding of the best practice approach should lead to more consistently accurate forecasting. There is also scope to extend the approach to the HRA capital programme. The review has highlighted opportunities for wider improvements in the overall management of capital investment through collaborative working with Corporate Property, Corporate Programmes Office and Service leads.

In view of this it is the overall conclusion that the Review of Capital Monitoring is highly likely to realise the intended objectives and provides a foundation upon which to drive further improvement.

## Links

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|---|---|
| **Coalition pledges** | P30 |
| **Council outcomes** | CO25 |
| **Single Outcome Agreement** | |

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# Report

## Post Implementation Review - Capital Monitoring Review

### Recommendations

1.1 A full list of recommendations is shown in appendix three to the review report. Members are asked to note these recommendations.

### Background

2.1 The capital monitoring process was reviewed by Finance in October 2012. The Council's Governance, Risk and Best Value Committee agreed that the Corporate Programmes Office should undertake a post implementation review to assess the improvements implemented.

### Main report

3.1 The review report is attached. It sets out the scope of the review, the approach taken, and a list of those who took part. The review finds that there has already been a positive impact as a result of the changes and that further improvements are planned. These are fully detailed in the report attached.

### Measures of success

4.1 The objectives of the capital monitoring review were to minimise slippage in the capital programme and to ensure efficient use of resources. Overall slippage in 2013/14 General Fund capital programme was significantly reduced to 0.03%.

### Financial impact

5.1 The post implementation review has concluded that financial planning has improved as a result of the review and recommendations are made for further improvement.

## Risk, policy, compliance and governance impact

6.1 The post implementation review has concluded that risk management and governance have improved as a result of the review and recommendations are made for further improvement.

## Equalities impact

7.1 There is no relationship to the public sector general equality duty and no direct equalities impact arising from this report.

## Sustainability impact

8.1 There is no relationship to the Climate Change (Scotland) Act 2009 and no direct sustainability impact arising from this report.

## Consultation and engagement

9.1 The officers interviewed during the review are shown in appendix one to the review report attached.

## Background reading/external references

None required.

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Director of Corporate Governance

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## Links

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|---|---|
| **Coalition pledges** | P30 - Continue to maintain a sound financial position including long-term financial planning |
| **Council outcomes** | CO25 - The Council has efficient and effective services that deliver on objectives |
| **Single Outcome Agreement** | |
| **Appendices** | Post Implementation Review Report – Capital Monitoring Review |

# Post Implementation Review Report

## Capital Monitoring Review

FINAL, 19 August 2014, V3

# Contents



**Document control**

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| **Author(s)** | Karen Kelly |
| **Contributors** | |

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| V1 | Initial draft | Draft | 6 Aug 2014 |
| V2 | Comments by Sat Patel | Draft | 12 Aug 2014 |
| V3 | Comments by B. MacIntyre, P. Watton | Final | 19 Aug 2014 |

**Distribution and review history**

| Version | Distribution list | Purpose | Comment/action location | Distribution date |
|---|---|---|---|---|
| V1 | Sat Patel | Comment & Corrections | | 6 Aug 2014 |
| V2 | Jane Brown, Rebecca Andrew, Peter Watton, Billy MacIntyre, Nick Smith, Scott Robertson | Comment & Corrections | | 12 Aug 2014 |

# Conduct of Review

## 1 Review Context

1.1. The capital monitoring process was reviewed by Finance in October 2012. The Council's Governance, Risk and Best Value Committee agreed that the Corporate Programmes Office should undertake a post implementation review to assess the improvements implemented.

1.2. The scope of the review was to consider:

1.2.1. The changes which have been implemented compared to the stated objectives of the capital monitoring review and relevant good practice standards;

1.2.2. The impact which the changes have had both on Finance and the information available to service areas and elected members;

1.2.3. The impact which the changes have had on the accuracy of financial monitoring and levels of slippage, which have been historically high;

1.2.4. The extent to which the changes have improved governance and risk management in the Council;

1.2.5. The extent to which any new arrangements have been embedded;

1.2.6. The arrangements in place for sustainability and continuous improvement in the new way of working.

## 2 Approach Taken

1.1. The approach taken was to interview key staff from Finance and two Heads of Service who have responsibility for delivering major capital projects in the Council. This was intended to provide a rounded perspective of the impact of the review. Key documents such as monitoring templates and outturn reports were provided as supporting evidence. Consideration was also given to recent reports and best practice guides by Audit Scotland.

1.2. Whilst this post implementation review does not follow the format of a project assurance review it is relevant to consider whether the changes are likely to lead to benefits being realised. The evidence gathered was therefore assessed on the following Red/Amber/Green (RAG) scale:

| RAG | Delivery Capability |
|---|---|
| Green | Benefits Realisation Highly Likely |
| Amber-Green | Benefits Realisation Probable |
| Amber | Benefits Realisation Feasible |
| Red-Amber | Benefits Realisation Doubtful |
| Red | Benefits Realisation Unachievable |

# Findings

## 3 Review Assessment

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| RAG Assessment | Green |

3.1 The conclusion of the post implementation review is that the Capital Monitoring Review is highly likely to deliver the specified benefits for the Council. A summary of the conclusions and recommendations are provided in sections 8 and 9.

## 4 Objectives of the Review

4.1. The primary objective of the Capital Monitoring Review was to minimise slippage within the Council's General Fund capital programme and to ensure efficient use of available resources. In order to deliver on this primary objective it was recognised that there needed to be organisational change, process change and cultural change.

4.2. The objective of the organisational change was to centralise Finance responsibility for capital monitoring within the Corporate Accounts Team. This had previously been the responsibility of the various Service Accounting teams in Finance which are aligned to the Council's service areas. This was completed in October 2012 and established a foundation for the other aspects of the review.

4.3. The objective of the process change was to establish standard capital monitoring processes which would be carried out across service areas by both Finance and other staff involved. In doing so it was intended to draw on best practice operating both within and outside of the Council. The monitoring process comprises: budget profiling and forecasting; analysis of income and expenditure; financial reporting; and liaising with project/service leads.

4.4. The objective of the cultural, or people change was to create an environment in which the staff involved are given support to implement and effectively carry out the new monitoring arrangements. The review therefore sought to establish clarity of roles and responsibilities and to develop a relationship between Finance and service leads in which there would be a positive and effective approach to managing capital income and expenditure. This would be achieved through robust support and challenge.

## 5 Impact of the Review

5.1. The changes have been in place for the full financial year 2013/14 and evidence demonstrates that there has been significant improvement and these are specified below. It is important to point out that in parallel with the changes in the capital monitoring process, there were also changes in the Corporate Property division which have led to more effective planning and delivery. There is now a clear separation between the strategy for asset management and delivery of capital programmes. There is greater focus on detailed advance planning of the Asset Management Works programme, eg. there is now a five year asset management works plan for Children and Families, based on detailed condition surveys. Finance and Corporate Property have worked jointly to improve both delivery and monitoring and this has been a critical factor in the realisation of benefits. The Corporate Programmes Office has also introduced oversight of all major projects through the submission of monthly status reports by project leads. Finance liaise with the project leads to support the completion of the financial monitoring information contained within the status reports.

5.2. The following positive impacts on financial outturn, governance and risk management have been evidenced:

5.2.1. The level of slippage in General Fund capital expenditure was dramatically reduced in 2013/14. The outturn report shows overall expenditure slippage of £47,000, representing just 0.03% of the total budget of £147m. This compares to 20% in 2012/13 and 23% in 2011/12. Detailed analysis shows that whilst there was slippage on specific budgets of just over £7m, action was taken to accelerate other projects thereby delivering earlier investment than planned. It was also noted that slippage in the programme was more likely to be caused by genuine, often uncontrollable factors rather than over optimistic projections, eg. Portobello High School replacement . In total the Council achieved the intended level of capital investment in 2013/14.

5.2.2. The Corporate Accounts team is able to maintain a more accurate overview of the capital programme and able to detect slippage and variances earlier in the year which means corrective action can be taken.

5.2.3. Working closely with Corporate Property and service leads, it has been possible to escalate “shovel ready” projects and investment to offset slippage in the programme. The success of this is also down to longer term planning of asset management works.

5.2.4. A centre of expertise has been established to provide advice on the budget setting process, capital accounting, funding options, phasing and forecasting. This has had benefits, not just in making better use of Council resources, but also in the year end financial accounting procedures. The Corporate Accounts team has been able to exert greater direct control on accounting treatment earlier in the project lifecycle which reduces the risk of adverse and unforeseen impact on the Council’s revenue budget. They are also gaining greater experience of applying creative solutions which is putting them in a strong position to be able to spread lessons learned.

5.2.5. Finance staff have had direct involvement in Major project boards. This closer liaison has led to a deeper understanding and an opportunity to provide the required advice on a timely basis. There are also moves towards closer and earlier liaison with Procurement staff which puts them in a better place to give early advice on routes of procurement and timescales, and also helps them to manage their widespread pipeline of work. It is also critical for delivering procurement savings.

5.2.6. A number of reporting and monitoring templates have been introduced which provide increased financial transparency at a detailed level across the capital programmes. Monthly cashflow forecasts are prepared and compared to the actual cashflow information from the general ledger. Collating more detailed information helps Finance staff to check the integrity of budget phasing and seek updates. The aim has been to establish realistic projections and remove optimism bias.

5.2.7. The roles and responsibilities of everyone involved in the monitoring process have been clarified and set out in the new process. Project managers carry the responsibility to review their budget, provide accurate forecasts and complete the required templates which are intended to improve the transparency of financial performance. Corporate Accounts ensures that all the necessary information is provided and that the programme is rolled forward each year. They support project managers in raising standards of forecasting and monitoring, and use the information to be more analytical and challenging. The chairs of the various meetings must ensure that adequate time is given to reviewing and seeking assurances on the performance of the investment programmes for which they are responsible.

5.2.8. A range of reports are provided to the various levels of governance within the Council. These are summarised in appendix two. This is largely unchanged from previous arrangements, the main difference being the level of detail which is provided to officer groups and the priority given to constructive challenge. This meant that projections reported to elected members during 2013/14 proved to be more accurate and the total investment value was delivered.

## 6 Good Practice Guide

6.1. In March 2013 Audit Scotland reported on the management of major capital investment in Councils. The report was submitted to the Governance, Risk and Best Value Committee on 23 May 2013 together with a note on how the Council is addressing each recommendation.

6.2. Some of the recommendations are relevant to the revised capital monitoring process and these have been looked at again to see if further improvement can be made. Some of the improvements suggested below will require a collective effort by officers across various services.

| | Audit Scotland Recommendation | Current status and planned improvement |
|---|---|---|
| 1. | Elected members should receive regular information covering:<br>• Financial performance against the capital budget;<br>• Project/programme performance against cost, time and scope;<br>• Risks;<br>• Benefits. | See appendix two for summary of information reported.<br>Regular reporting of benefits remains inconsistent and needs to be embedded across the Council. |
| 2. | There should be early assessments of risk to improve the accuracy of cost and time forecasting. | Greater scrutiny of project information helps to check the integrity of budget phasing and remove optimism bias.<br>There is scope to reduce slippage further on individual projects. |

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|---|---|---|
| 3. | Risks should be reported and managed at project and programme levels. | Risks are generally monitored at project level and for discrete programmes but this needs to be elevated to a strategic capital programme level. |
| 4. | Information should be retained on all projects relating to cost, time, scope changes and lessons learned and this should be available publicly. | See appendix two for summary of information reported and retained.<br><br>Gateway and Assurance Reviews regularly capture lessons learned on major projects but the extent to which these are shared is limited. Work is underway to create a directory of major projects containing high level information including best practice examples.<br><br>Finance may wish to introduce a formal mechanism to capture lessons learned on non-major projects and programmes. |

## 7 Sustainability and Continuous Improvement

7.1. The organisational and process changes were in place for the full financial year 2013/14 and have continued in the current financial year. It was expected that there would be some concerns and resistance to the changes. The Finance team sought to address this at the outset by consulting those affected and seeking to draw on good practice which already existed. Once the changes were introduced they worked closely with project managers and service leads to build trust and support them to respond to the higher levels of scrutiny which are essential to the success of the new arrangements.

7.2. Corporate Accounts undertook a short review in October 2013 to assess the changes which had been introduced and made some adjustments to the new process including some changes to the templates and taking a risk based approach to monitoring in order to make best use of staffing resource.

7.3. The team remain committed to improving the capital monitoring process further and have already identified a number of improvements they are planning to address. The following improvements have been identified:

7.3.1. There needs to be better liaison with the Principal Accountants in Finance Service Accounting. Capital monitoring was previously undertaken by the Service Accounting teams and the Principal Accountants continue to attend Service Management Team meetings. It is expected that they will maintain a rounded knowledge of the service including any capital investment programme. Crucially they need to be able to assess any impact on revenue budgets and longer term financial planning and they would be hindered in this without full understanding of the capital programme, specific projects and their implications.

7.3.2. Whilst overall slippage in the capital programme for 2013/14 amounted to only 0.03%, this was largely down to the ability to bring forward planned expenditure from later years. It is intended that more rigorous planning and monitoring will reduce slippage on individual projects further thereby minimising the need for acceleration. It is also intended that added scrutiny will provide an opportunity to assess budget need giving the option of redirecting resources to meet priorities, subject to Council approval where applicable.

7.3.3. The level of slippage on the Housing Revenue Account capital programme was high in 2013/14 with only 78% of the budget being spent. Although this had not been a feature in previous years, discussions have already taken place with Services for Communities to extend the constructive challenge approach used in the General Fund programme to the HRA. The budget for 2014/15 has been revised to prioritise what can realistically be delivered but this shifted expenditure into 2015/16. The service is therefore being encouraged to undertake advance planning for the 2015/16 programme.

7.3.4. The Council's Commercial and Procurement Service is a critical partner in delivering efficient and effective capital programme delivery because much of the programme will involve letting new contracts or using existing framework agreements. The nature of capital contracts also carries a risk of commercial difficulty such as contractor claims. Evidence points to earlier involvement of CPS and there is scope to extend this. CPS is in the process of introducing relationship managers to liaise closely with service areas and it is recommended that they act as a point of contact to ensure early involvement.

7.3.5. Having improved the monitoring process, advance planning and accountability, the Council is better placed to benefit from strategic management of the capital investment programmes. This would involve prioritising investment, maximising capital receipts, and managing dependencies, risks and issues across the entirety of the portfolio. This is a direction of travel which is supported by Corporate Property and the Corporate Programmes Office and it is therefore recommended that officers work together to progress this.

7.3.6. In order to sustain and demonstrate improvement it is recommended that a range of performance measures be introduced and reported by the Finance team. These should include measures relating to financial performance and customer satisfaction. These should align with a wider approach to measuring the effectiveness of the capital investment programmes.

# Conclusions and Recommendations

## 8 Conclusions

8.1. The conclusion of the post implementation review is that very good progress has been made in delivering the primary objectives of the capital monitoring review. The organisational and process changes are complete and there is evidence of a successful outcome demonstrated by the financial outturn at the end of 2013/14. The cultural changes have begun, lessons are being learned and there are signs of greater collaboration. Whilst there has been a significant reduction in slippage, further embedding of the best practice approach should lead to more consistently accurate forecasting. There is also scope to extend the approach to the HRA capital programme. The review has highlighted opportunities for wider improvements in the overall management of capital investment through collaborative working with Corporate Property, Corporate Programmes Office and Service leads.

8.2. In view of this it is the overall conclusion that the Review of Capital Monitoring is highly likely to realise the intended objectives and provides a foundation upon which to drive further improvement.

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|---|---|
| Green | Benefits Realisation Highly Likely |

## 9 Recommendations

9.1. The full list of recommendations together with responses is shown in appendix 3. The most critical recommendations are as follows:

9.1.1. Corporate Accounts should continue to build on the success of the new arrangements in 2013/14 by working with project leads to refine forecasting methods and reduce slippage further.

9.1.2. Corporate Accounts and Service Accounting Principals should agree and implement better liaison arrangements so that Principal Accountants are fully informed and able to assess the wider impact of capital investment programmes on the revenue account.

9.1.3. Corporate Accounts, Corporate Property and Corporate Programmes Office should work together with service leads to create a greater focus on strategic management of capital investment. This would include prioritisation, maximising capital receipts and managing risks, issues and dependencies across the capital investment portfolio.

9.1.4. Financial and non-financial benefits should be clearly defined at project/programme initiation, monitored throughout delivery and embedded within ongoing performance management arrangements.

# Appendix One: Interviewees

| Name | Role |
|---|---|
| **Sat Patel** | Senior Accountant |
| **Alun Stein** | Accountant |
| **Helen Linton** | Accountant |
| **Peter Watton** | Acting Head of Corporate Property |
| **Billy MacIntyre** | Head of Resources (Children and Families) |
| **Rebecca Andrew** | Principal Accountant |
| **Jane Brown** | Principal Accountant |
| | |

# Appendix Two: Reporting Arrangements

The table below shows the governance levels for decision making and monitoring in relation to capital expenditure and income.

| Meeting | Purpose | Reports and information discussed |
|---|---|---|
| City of Edinburgh Council | Approves the capital investment programmes including roll forward from previous financial year. | • Capital investment proposals for General Fund and HRA |
| Finance & Resources Committee | Monitors performance on the capital investment programmes. | • Quarterly financial monitoring reports<br>• Year end financial outturn reports<br>• Quarterly major projects report<br>• Detailed reports on specific programmes and projects which fall within the remit of the committee |
| Corporate Management Team | Council's executive leadership team | • Quarterly financial monitoring reports<br>• Year end financial outturn reports<br>• Quarterly major projects report<br>• Detailed reports on specific programmes and projects |
| Service Management Teams | Strategic management of a specific service area and accountable for financial and service performance.<br><br>Challenge and seek assurance on forecasts. | • Monthly service capital monitoring template showing:<br>  o revised budget, actual to date and forecast outturn;<br>  o RAG status;<br>  o Project/Lead manager;<br>  o Progress statement;<br>  o Capital expenditure collation;<br>  o Expenditure remaining to outturn;<br><br>on project by project basis<br><br>• Monthly overview report tailored to service needs. |

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| Project Boards, Investment Steering Groups etc. | Officer group which carries responsibility for delivery of specific projects/programmes.<br><br>Review progress on regular basis, approve changes within delegated authority, provide financial forecasts, take action to mitigate risks. | • Monthly cash flow template<br>• Status reports (for major projects |

## Appendix Three: Recommendations

The table below shows actions recommended from this review. Project/Programme responses to the actions are recorded in the final version of the report and will be subject to tracking by the Corporate Programmes Office.

| Ref. | Priority Recommendation | Priority (vital/important) | Response / Lead responsibility | Target Date |
|---|---|---|---|---|
| 1 | Corporate Accounts should continue to build on the success of the new arrangements in 2013/14 by working with project leads to refine forecasting methods and reduce slippage on individual projects. | Vital | Corporate Accounts/Project Managers | Ongoing |
| **2** | Corporate Accounts and Service Accounting Principals should agree and implement better liaison arrangements so that Principal Accountants are fully informed and able to assess the wider impact of capital investment programmes on the revenue account. | Vital | Corporate Accounts/Service Accounting Principals | Oct 2014 |
| **3** | Corporate Accounts, Corporate Property and Corporate Programmes Office should work together with service leads to create a greater focus on strategic management of capital investment. This would include prioritisation, maximising capital receipts and managing risks, issues and dependencies across the capital investment portfolio. | Vital | Acting Head of Property | Dec 2014 |
| **4** | Financial and non-financial benefits should be clearly defined at project/programme initiation, monitored throughout delivery and embedded within ongoing | Vital | This is the responsibility of individual Senior Responsible Officers.<br>The CPO provides assurance on major | Ongoing |

| | | | | |
|---|---|---|---|---|
| | performance management arrangements. | | projects. | |
| **5** | Relationship managers in Commercial and Procurement Services should liaise closely with service areas. This should lead to better programme planning and help CPS to manage their work pipeline. | Important | CPS Relationship Managers | Dec 2014 |
| **6** | Extend the constructive challenge approach to HRA and undertake advance planning for 2015/16. | Important | Corporate Accounts/Head of Housing & Regeneration | Dec 2014 |
| **7** | Establish a formal mechanism for capturing lessons learned on non-major projects. | Important | Corporate Accounts | Dec 2014 |
| **8** | Establish suitable performance measures for capital monitoring. | Important | Corporate Accounts | Mar 2015 |