

<b>Item No.</b>	<b>Classification:</b> Open	<b>Date:</b> 29/07/03	<b>MEETING NAME</b> Executive
<b>Report Title:</b>		Best Value Review of the Management and Delivery of the Capital Programme	
<b>Ward(s) or groups affected:</b>		Borough-wide	
<b>From:</b>		Assistant Chief Executive (Performance & Strategy) Strategic Director, Environment & Leisure	

## RECOMMENDATIONS

1. That Executive:
  - Note and endorse the content of the final report of the Best Value Review of the Management and Delivery of the Capital Programme as set out in Appendix B, and the action plan set out at Appendix C;
  - Agree that the approval process for budgets needs to be revisited and endorse the specific recommendation on allocation at paragraph 5(b).

## BACKGROUND

2. The Best Value Review of the Management and Delivery of the Capital Programme commenced in July 2002. The review was called for following problems encountered in the management of certain high-profile capital projects which had resulted in internal and external inquiries. The Executive resolved that:

*“The aim of the Best Value Review of the Capital Programme is to document and assess current planning and monitoring processes for capital expenditure in and across functions to ensure compliance and effectiveness with the programmes and processes and to establish policies and standards for the capital programme. The key deliverables of the review will be policies and processes for capital investment that maximise access to capital and allocation according to capital objectives.”*

3. The improvements proposed by this Review address these issues by fully establishing a rigorous and co-ordinated capital management framework for 2004/5. This has been developed following:
  - An initial *challenge* of existing arrangements from Chief Officers, Business Managers and representatives of ‘Rethinking Construction’ organisations;
  - Extensive *consultation* with key officers and partners involved in the capital programme;

- A comprehensive *comparison* of policies and procedures in other authorities recognised to have a best practice approach to capital management.
4. In regard to the fourth element of Best Value – *competition* - the implementation of the Review will involve assessments of internal capability to meet the improvements laid out in the final report, and the employment of external expertise may be considered necessary as a result of that.

## **KEY ISSUES FOR CONSIDERATION**

### *Policy Implications*

5. Seven areas for corporate improvement are outlined in the final report, together with detailed action plans for addressing each. These are categorised as strategic, financial and operational improvements.

#### **(a) Strategic Improvements** (paragraphs 10 – 21 of Appendix B)

- The Capital Investment Strategy. Although the most recent Strategy has been rated ‘good’ by the Government Office for London, it, and previous strategies, have lacked ownership and authority internally, and have not clearly led the planning of projects. A definitive Capital Strategy statement – coordinated with the Policy and Resources Strategy - will be produced for 2004/5, and maintained thereafter;
- A central Capital Team. The Council has not effectively responded corporately to modernising agendas linking asset management, construction, the wider approach to design excellence and capital procurement. Expertise (and actions) is spread across with departments. A new Capital Team needs to be established under the Assistant Chief Executive (Performance & Strategy) to coordinate and stimulate change. Its role will involve acting as an expert advisor and quality assesor at key stages of projects, particularly in the initial (pre-construction) phases, to ensure project risk and potential Council exposure to financial and operational difficulties, is minimised. It will, with Financial Management Services, have an ongoing role in monitoring the management of capital projects, particularly those which are considered high-risk, and will intervene to assist operational project management where necessary.

#### **(b) Financial Improvements** (paragraphs 22 – 35 of Appendix B)

- The Allocation Process. The allocation of funding is perceived as lacking in consistency and the processes associated with allocation lacking in transparency and rigour. Risk and investment appraisals need to be more rigorously carried out as part of the approval stage. Processes and responsibilities for deciding priorities and allocations are recommended by this review and need to be implemented for 2004/5, including the specific recommendation that:
  - (i) Members and officer decision-making forums are given an estimate (in a range) of likely spend on capital projects on an indicative costs basis. This will be for provisional approval.
  - (ii) This expenditure estimate will be clarified when tenders and costings are received. Full approval to incur spending on a

scheme will take place when full costings including tender results have been fully determined. (For both steps the basis of calculation and any assumptions used will be clearly stated).

- The Corporate Monitoring Framework. Corporate mechanisms for monitoring investment have diminished in influence, and both Members and officers have questioned the effectiveness of current arrangements for managing the programme. A robust management framework will be introduced and maintained, and will include:
  - (i) monthly reporting of departmental capital projects to Executive Members;
  - (ii) quarterly reporting of the Council capital programme to full Executive;
  - (iii) the renewed operation of a senior level Capital Investment Strategy Team forum (CIST), and working level Capital Monitoring Group (CMG).
- Departmental Monitoring and IT systems. Departments operate a range of methods for monitoring capital schemes, and these vary in sophistication. The SAP project management is not, in the main, being used by departmental project managers and this creates difficulties for effective financial accounting and planning of capital programme funding in subsequent years. An integrated and functioning corporate monitoring system (utilising SAP and its project management module) will be established for 2004/5;

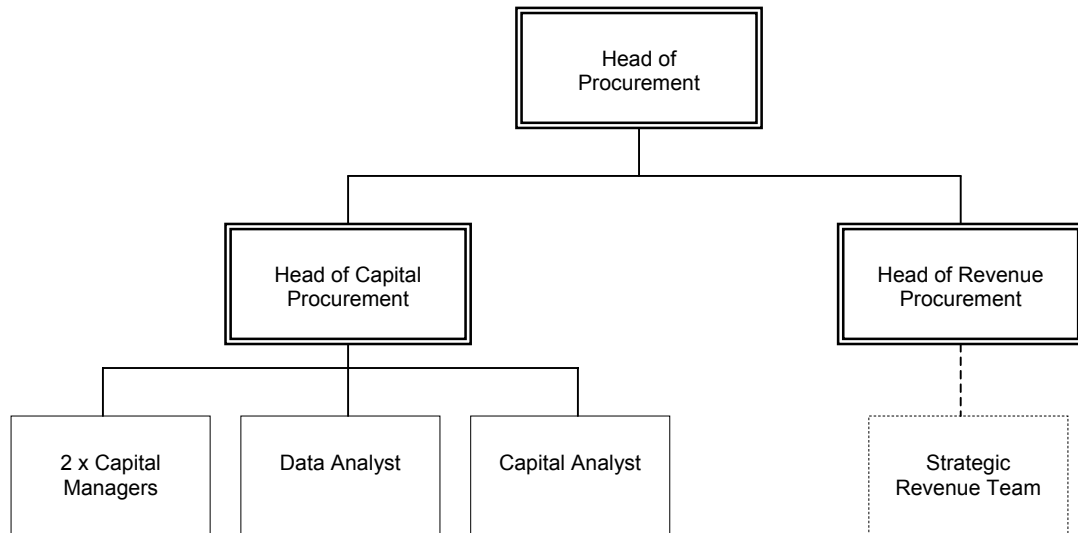
**(c) Operational Improvements** (paragraphs 36 – 45 of Appendix B)

- Project Management. There has, and continues to be, a widespread concern that management of capital projects in the Council is inadequate. Confused responsibilities and an absence of rigour in managing operations on-site feature both in assessments from external scrutiny and this Review. The work of the Capital Team, as proposed by this Review, will be pivotal to introducing a step-change in project management for 2004/5. This will ensure adoption and compliance with recognised project management methodologies, which will complement the new structured monitoring arrangements.
- Organisational Learning. There are concerns that information on project outcomes is not communicated effectively to enable all departments to take lessons learnt into account. The Capital Team will look to stimulate and develop ongoing learning across the capital programme, drawing in expertise from within the Council, and from other authorities. Raising the profile of learning is more than a gesture; it is fundamental to ensure the Council acts to reduce the number of projects running into unforeseen operational difficulties.

*Resource Implications*

6. The effective and rapid implementation of strategic and operational improvements proposed by this Review is largely dependent on the establishment of new Capital Team, under the Assistant Chief Executive (Performance & Strategy), within the Procurement Division.

7. The resourcing of the Capital Team could entail formal redeployment of existing expert resources to the centre from departments, and this will be considered by the Assistant Chief Executive (Performance & Strategy) and departments. To enable the function to begin work promptly, initial funding for 2003/4 will be found from existing budgets. Future funding will be incorporated in budgets for the Procurement Division, which is the subject of a separate report to Executive in September. A likely structure (to be confirmed within the new arrangements for Procurement) is:



Additionally, the Review has noted an apparent lack of cohesiveness between Asset Management and the Capital Programme. Best practice in certain respected authorities, particularly Leeds City Council, involves both functions being managed together, so that property decisions fully take into account the existing portfolio, disposals and future capital requirements. Options for ensuring closer and more effective working between the new Capital Team and the Regeneration Department will be explored by the Assistant Chief Executive (Performance & Strategy) and the Strategic Director, Regeneration.

*Consultation*

8. As a Best Value Review, consultation with relevant stakeholders has been a key feature, and is detailed within the final report. Unions have been informed of the progress of the Review through Environment & Leisure Departmental Liaison Committee.

**SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

*Chief Executive / Chief Finance Officer / Borough Solicitor*

9. There are no further comments.

**BACKGROUND DOCUMENTS**

<b>Background Papers</b>	<b>Held At</b>	<b>Contact</b>
- Best Value Review documentation	Strategic Services / Best Value Team 19 Spa Road	Michael Walker 020 7525 3616
<ul style="list-style-type: none"> <li>- Audit Commission reports</li> <li>- Reports to the Performance &amp; Compliance Working Group</li> <li>- Reports to the Capital Working Group</li> <li>- Reports to the Capital Investment Strategy Team</li> <li>- Reports to the Capital Monitoring Group</li> </ul>	Strategic Services / FMS Town Hall	Alan Layton 020 7525 4309
- Procurement Strategy documentation	Strategic Services / Strategic Procurement Unit 19 Spa Road	Linda Campling 020 7525 3435

**APPENDIX A**

**Audit Trail**

<b>Lead Officer</b>	Sarah Naylor, Assistant Chief Executive (Performance & Strategy) Gill Davies, Strategic Director, Environment & Leisure	
<b>Report Author</b>	Michael Walker, Best Value Team	
<b>Version</b>	Final Draft	
<b>Date</b>	16 July 2003	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER</b>		
	Comments Sought	Comments Included
Chief Executive	Yes	Yes
Borough Solicitor & Secretary	Yes	No
Chief Finance Officer	Yes	Yes
Executive Member	Yes	Yes
<b>Date final report sent to Constitutional Support Services</b>	22/7/03	

**BEST VALUE REVIEW OF MANAGEMENT AND DELIVERY OF  
THE CAPITAL PROGRAMME – FINAL REPORT**

**Executive Summary**

1. The Council spent £125m on capital projects in 2002/3. The scale of capital expenditure illustrates the critical importance of the capital programme to the future infrastructure of the borough and of the council itself. This Best Value Review was commissioned following a number of significant overspends in high-profile capital projects over recent years, resulting in formal inquiries, which have raised concerns over the management of the programme itself. The Review sought to set out a co-ordinated plan of improvement to address the shortfalls identified. The following are the key areas for improvement, so that a co-ordinated and rigorous framework can be in operation for 2004/5.

**(a) Strategic Improvements**

- The Capital Investment Strategy. A definitive Capital Strategy statement – co-ordinated with the Policy and Resources Strategy - will be produced for 2004/5, and maintained thereafter;
- A central Capital Team. A new Capital Team needs to be established under the Assistant Chief Executive (Performance & Strategy) to co-ordinate and stimulate change. It will act as an expert advisor and quality assure to ensure project risk is minimised. It will also, with FMS, have an ongoing role in monitoring management of capital projects.

**(b) Financial Improvements**

- The Allocation Process. Processes and responsibilities for deciding priorities and allocations are recommended by this Review and need to be implemented for 2004/5;
- The Corporate Monitoring Framework. A robust management framework, involving regular reporting to Executive Members and operation of a corporate senior officer forum, will be re-introduced and maintained;
- Departmental Monitoring and IT systems. An integrated and functioning corporate monitoring system (utilising SAP) will be established for 2004/5;

**(c) Operational Improvements**

- Project Management. The work of the Capital Team - as proposed by this Review - will be pivotal to introducing a step-change in project management for 2004/5. This will ensure adoption and compliance with recognised project management methodologies, which will complement the new structured monitoring arrangements.
- Organisational Learning. The Capital Team will look to stimulate and develop ongoing learning across the capital programme, drawing in expertise from within the Council, and from other authorities.

## The Services Under Review

2. The main thrust of this Review has been on the *policies and processes* for capital investment through which the Council plans and delivers its capital programme. As such it has been a corporate review, involving services in the following departments:
  - Regeneration – services involved in the management of SRB and other partnership projects and asset management functions;
  - Housing – client and project management functions in Regeneration Division and Neighbourhood Offices;
  - Education / WS Atkins – the combined asset management and property functions;
  - Strategic Services - capital monitoring functions in FMS;
  - Environment & Leisure – Leisure and Environmental Improvement Programme project management functions.
  
3. Southwark Building & Design Services (SBDS), the in-house consultants to many capital projects, have been closely involved in the Review, although a specific management review of the future organisation of SBDS is reporting separately to the Strategic Director, Environment & Leisure. Alongside SBDS the Regeneration Department is concerned with the wider achievement of design excellence through the town planning process. Linked to the outcome of the review of SBDS the Director of Regeneration will provide further clarity on how these wider concerns with design excellence will feed into the decision making process. The findings of the review apply to capital projects involving IT as well as construction projects, although a separate Best Value Review of Strategic Support Services is considering IT management. Social Services were represented during the challenge process.
  
4. The amount of capital investment involved in Southwark is illustrated in the Statement of Accounts for 2002/03.

	2002/3 (£,000)	2001/2 (£,000)
<b>How the Money was spent</b>		
Education	20,750	17,252
Environment & Leisure	2,081	3,625
Housing	83,714	90,406
Regeneration	12,777	16,656
Strategic Services	3,193	264
Social Services	2,308	867
	<b>124,823</b>	<b>129,070</b>

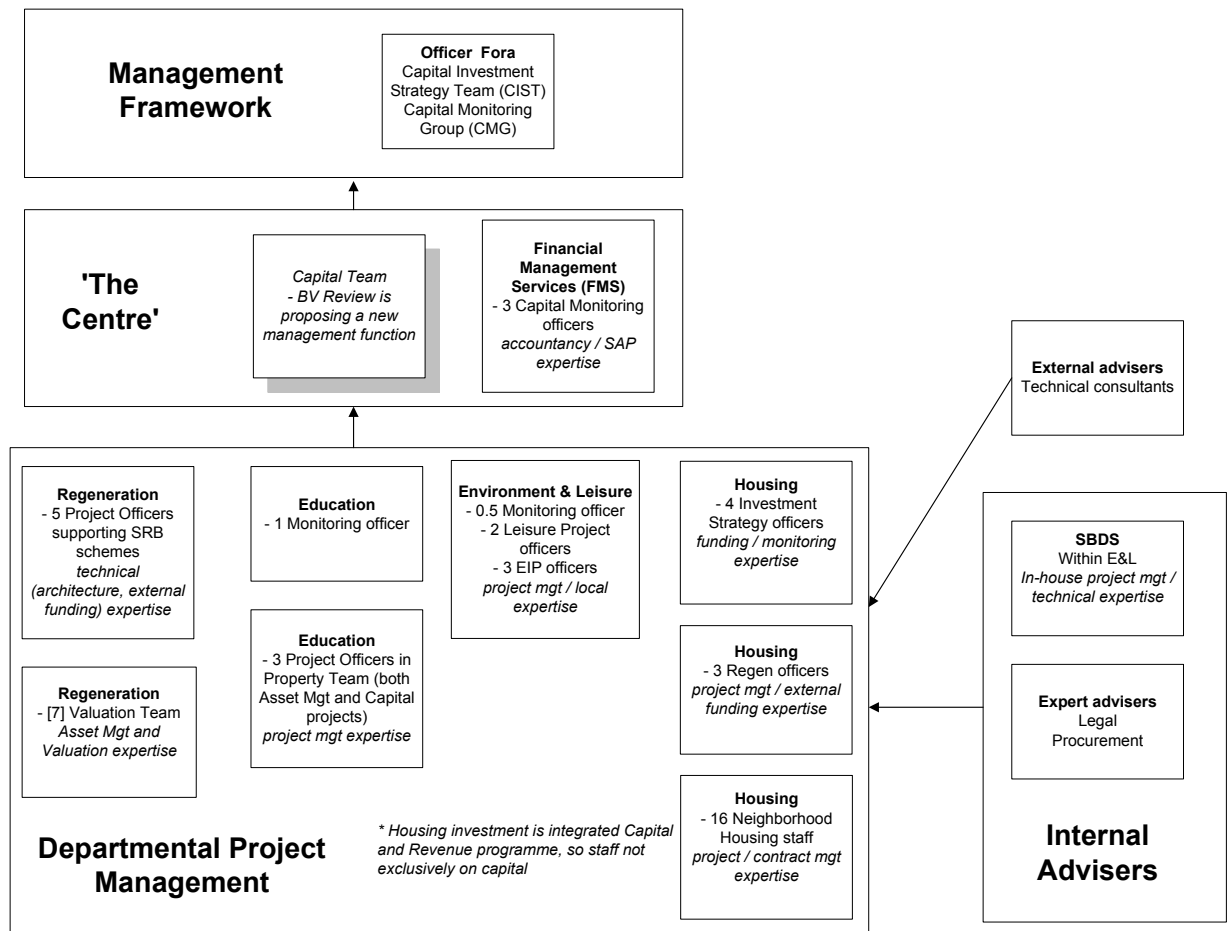


	2002/3 (£,000)	2001/2 (£,000)
<b>How the Expenditure was financed</b>		
Revenue contributions	13,882	21,308
Using credit approvals	26,087	13,872
Using capital receipts	32,686	27,394
Specific grants and other contributions	18,905	28,037
Major Repairs Allowance	33,263	38,459
	<b>124,823</b>	<b>129,070</b>

5. The resources involved in managing the capital programme in departments are as follows:

2003/4	Revenue Budget	Numbers of Staff
Regeneration - Project Officers	£260,000	5
Housing - Investment Strategy	£120,000	4
- Regeneration Initiatives	£90,000	3*
- Housing Management	£480,000	16*
- Technical Services	£90,000	3*
Education (WS Atkins)	£250,000	4*
Strategic Services (FMS)	£96,000	3
Environment & Leisure - Financial Monitoring	£25,000	0.5
- Leisure Development	£70,000	2
- Environmental Improvement	£85,000	3
<b>Total</b>	<b>£1,566,000</b>	<b>43.5</b>
<i>* not exclusively working on capital projects</i>		

6. In addition the total spend on consultants to provide professional expertise and on-site technical support to clients and liaison with contractors in 2002/3 was £3.5m to SBDS and £11.4m to external consultants (although these fees may include some direct payments for building costs).
7. The following diagram illustrates the various staff resources involved in the capital programme and the expertise that exists with departments.



### The Best Value Review 'Vision'

8. The Best Value Review commenced in July 2002 following Executive approval and specific resolution that:

*"The aim of the Best Value Review of the Capital Programme is to document and assess current planning and monitoring processes for capital expenditure in and across functions to ensure compliance and effectiveness with the programmes and processes and to establish policies and standards for the capital programme. The key deliverables of the review will be policies and processes for capital investment that maximise access to capital and allocation according to capital objectives."*

9. The Review was 'cross-cutting', involving officers from main spending departments within a Project Board and led by the Strategic Director, Environment & Leisure. The Review followed Best Value methodology, described at Annex A.

**During the initial challenge stage, a broad Best Value 'vision' was agreed by Chief Officers and Business Managers.** Existing strengths were recognised, notably the history of area-based regeneration and inward investment in the borough and the experience of innovative project design (e.g. Peckham Square and Library), and needed to be built on. However key management and procedural weaknesses were identified, and the vision of

where improvements were needed formed the basis for further Review work. These were:

**Strategic Improvements**

- (i) Developing a coordinated long-term capital investment strategy;
- (ii) Establishing a central capital function to co-ordinate, support and direct an innovative and efficient capital programme;

**Financial Improvements**

- (i) Working up clear procedures for the allocation of finances and capital receipts;
- (ii) Re-establishing robust corporate mechanisms for allocating and monitoring investment;
- (iii) Ensuring consistent and coordinated systems for managing capital investment in departments;

**Operational Improvements**

- (i) Developing higher quality project management in departments;
- (ii) Promoting the sharing of good practice and learning across the Council.

The Review findings for each of these areas are outlined below, and proposed improvements for each set out in the appended Action and Improvement Plan.

*Strategic Improvement #1: The Capital Investment Strategy*

- 10. In November 2002 The Government Office for London assessed the existing Capital Strategy as “good”. This score fed into the Use of Resources section of the Comprehensive Performance Assessment, and means there is no longer a requirement to put an annual submission to GoL. However central government stresses that authorities need to continue to produce capital strategies for their own purposes. One such driver is the new prudential system of capital finance, permitting freedom to borrow according to affordability, which requires accurate assessments of capital need.
- 11. It is accepted that the existing Strategy is primarily a descriptive framework document, not a definite statement of spending needs and plans. A mismatch between expenditure requirements in the Strategy and actual funding sources is a source of some confusion, contributing to the suggestion that there is not a clear direction for capital investment beyond the short term.

**Challenge**

- 12. The discussions held with Chief Officers and business managers challenged the existing strategy, in that:
  - There appeared to be no adequate strategic framework within which capital investment decisions are taken. There was no clear ‘big picture’ vision;
  - Decisions on capital investment have not always been properly co-ordinated with other Council planning processes, particularly with asset management plans;

- There was neither a coherent corporate consensus on the investment projects within the strategy, nor proper consideration of funding choices.

### Consultation

13. Wider internal consultation with staff further focused on the need for strategic improvement. Key themes were that the Strategy:
  - Has in the past been driven by compulsory assessment processes rather than a desire to maximise efficiency;
  - Needs to have a direct influence on delivery and in improving construction;
  - Needs to be properly coordinated with other Council planning processes, notably Asset Management Planning, revenue budget planning and the e-Government agenda, and that internal planning systems need to be aligned to meet this.
14. Views of Members consulted in a cross-party meeting were that the Strategy needed to:
  - Reflect the future use of all capital assets (for service use and for investment purposes) and to clarify the future approach to divestment of assets;
  - Encompass the range of investment sources, including capital grants, PFI and lottery opportunities, and be a 'creative' strategy;
  - Spell out clearly the high level outcomes of the capital programme;
  - Include all areas of capital spend – including ICT, which was felt to be a high-risk area.

### Comparison

15. Best practice in developing effective Capital Strategies was evidenced in:
  - The Best Value Inspection of Broxbourne's 'good' Capital Management reflecting "the Council has succeeded in producing some good quality capital schemes against a clear vision which meet the needs of the area, the local public and Council's objectives and maximises all available funds and opportunities.";
  - The development of Leeds' combined Capital Strategy / Asset Management Plan (suggested by ODPM as the most advanced nationally). This strategy:
    - o Sets out the strategic management of capital finance and property over a 9-year timeframe;
    - o Places the effective utilisation of its capital and property resources at the centre of service delivery;

- Matches - across 9 years - corporate capital requirements (maintenance backlogs and new investment) against funding sources (capital allowances, receipts and rationalisation from properties and third party sources) through a 'Solutions Matrix'.
- Camden's "Pride of Place" Housing Capital Strategy, running for 10 years to 2009, which, following substantial investment in developing and communicating the strategy, is perceived to be well understood by tenants, consultants and contractors, and is key to achieving a 80% tenant satisfaction rating by 2006.

### **Strategic Improvement #1: The Capital Investment Strategy - actions**

The need for a comprehensive and deliverable forward medium-term strategy is clear (and work is underway in FMS). This work needs to ensure that all departments, notably Regeneration (in regard to Asset Management Plans) and Strategic Services (in regard to e-Government projects) and Members, are fully involved.

- **A long-term (10-year) capital investment strategy covering all aspects of capital investment across the authority needs to be agreed by January 2004, making plain the matching of expenditure to expected receipts over this period through all potential sources, including third party (private) income streams. It should also set the likely outcomes of expenditure in order that the strategy can be measured. This will be agreed by full Council and will be subject to periodic review.**
- **Rolling 3-year detailed plans will supplement the overall strategy. These will be produced on an annual basis and will take into specific account Asset Management Plans and potential receipts from disposals and from section 106 (planning gain) agreements. The plans will be agreed by Executive, following Chief Officer Team (COT) endorsement.**

### **Strategic Improvement #2: A Central Capital Team**

16. The Council's response to the government's Egan report (on 'Rethinking Construction') and concerns of Members following the Peckham Pulse project overspend was addressed by a COT decision in 2001 to establish an advisory unit, Design & Construction Strategy Unit (DCSU), within SBDS. Three main roles were identified for the unit:
- To collect and analyse historical data from previous capital schemes so that the Council's collective knowledge and experience is retained and applied to the benefit of future schemes and programmes;
  - To participate in the capital bidding process (in liaison with CIST) by assisting clients in defining clear objectives and aligning their scheme proposals to these;
  - To assist in the realisation of scheme objectives by advising clients on how to implement schemes to best effect.

17. Core funding for DCSU (c. £150,000) was only granted until 2002/3, and progress was made on certain issues, including contract development and project management support.

### **Challenge**

18. Despite the fact that core funding for the DCSU was not formally extended into 2003/4, the importance of developing a corporate centre of expertise responding to the new agendas was clearly recognised by the Chief Officers' challenge. There has been concern that knowledge in departments needs cultivating, and that this could be stimulated through central expertise. The assumption was that this must be delivered within a discrete function, and that the roles of DCSU as set out at paragraph 16 would remain valid for this function.

### **Consultation**

19. There was broad consensus that the establishment of the DCSU had been justified and some achievements, notably on design excellence, were noted. Any future central role would need clarifying, but it would need to involve:
  - Providing expert knowledge particularly in regard to external financing;
  - Providing high-level advice to Chief Officers;
  - Intervening in projects to provide project management advice especially to clients at the start of projects;
  - Liaising with Planning to have an influence on guidelines.

### **Comparison**

20. Leeds' Asset Management Division provides a highly respected model, in which a central unit takes on the role of an 'intelligent client' for all departments' capital schemes. The Unit is 9 strong, containing a mix of professional expertise (including quantity surveyors, architect, engineer, purchaser and project co-ordinators). The role of the Unit is to work with departmental clients on solutions throughout the project, including:
  - Initial appraisal of plans to assess the most effective approach to the service need (e.g. utilising existing assets rather than commissioning new build);
  - Co-ordinating funding – developing business cases, assessing risks and working up bids for external funding. (There is an associated PFI unit in the division);
  - Working with internal building and design, service departments such as highways and external consultants to broker the most cost-effective works;
  - Co-ordinating associated service implications (such as decanting tenants);

- Ensuring that innovative thinking on environmental sustainability, Health & Safety and Disability Discrimination are built into project plans.

The Unit has been funded through levying a 0.65% - 0.93% percentage fee of construction costs for intelligent client services, although this will be replaced by a Service Level Agreement with client departments (with the SLA to be capitalised).

21. Similarly Barnsley MBC (a Beacon Council for Rethinking Construction) has established a Project Management Unit within its Property & Procurement Division, to target problem areas, recognise opportunities for innovation (particularly in strategic partnering with contractors) and enhance communication between contractors and clients.

### **Strategic Improvement #2: A central Capital Team - actions**

There is a widespread consensus that a central Capital Team is required to raise the quality of capital management across the Council. The arrangement developed by Leeds is of particular note. Drawing on this, and the original rationale for establishing the DCSU, the overall aims of the Capital Team should be:

- Improve the management of capital projects (this key issue is further explored later in the report);
  - Promote design excellence and quality of the built environment;
  - Improve the standard of procurement and contracting of works;
  - Reduce uncertainty of construction cost and time without compromising quality;
  - Ensure best practice and secure best value in the procurement of the Council's capital building projects and the capital investment processes.
- ⇒ **A Capital Team should be set up under the Assistant Chief Executive (Performance and Strategy) during 2003/4. The main focus of its work in the short-term should be on raising project management capability in the Council and acting as an expert adviser and quality assessor at the initiation stage of high-risk projects put forward for 2004/5.**
  - ⇒ **The full remit of the Capital Team will be confirmed by the Assistant Chief Executive (Performance and Strategy) during summer 2003, and will take into account the original remit of the DCSU (paragraph 16), the views from consultation (paragraph 19) and the Leeds 'model' (paragraph 20).**
  - ⇒ **Once established, the Capital Team will take responsibility for the overall strategic direction of the capital programme, drawing up the 10-year Capital Strategy and 3-year rolling plans. To ensure appropriate access to information, the Capital Team will require access to project finance information on SAP and asset information on the Asset Register. The Capital Team will implement this in conjunction with FMS and Regeneration.**

## **Financial Improvement #1: The Allocation Process**

22. Historically investment has been prioritised through capital allocations (based on Annual Capital Guidelines) at the start of the year and to Capital Investment Strategy Team, acting as a clearing house for capital bids. An attempt was made to introduce a structured assessment of proposals through CIST using a pro-forma tying investment proposals to Council objectives.

### **Challenge**

23. Chief Officers noted that the method of prioritising investment between departmental areas was unclear, with decisions on funding allocations not being transparent or supporting corporate decision-making. An overall consensus was that the prioritisation of the programme was perceived as being led by financial expediency rather than the needs of the services. Additionally there was concern that decisions on capital investment proposals did not take into account the certainty of funding particularly from receipts, and the implications on revenue budgets (i.e. whole-life costing).

### **Consultation**

24. Individual responses took these points further, stressing the need:
- For a consistent and cross-departmental allocation mechanism to be established and embedded through practical application over time. *“Getting the processes in place and then learning from them on a year- to year-basis should be the priority”;*
  - For complete transparency in prioritisation and communication of outcomes, vital because of the competitive nature of departmental bidding;
  - To set up a transparent mechanism for matching receipts from disposals to approval of scheme funding.

### **Comparison**

25. The Best Value Inspection of Broxbourne’s Capital Management outlined the importance attached to a consistent framework ensuring that capital schemes are evaluated corporately in accordance with the Council’s priorities. The lack of such and the resultant inconsistencies across the Council were the key failing in the otherwise ‘good’ (two-star) approach. A new system of developing a prioritised and rolling expenditure programme was recommended by their Best Value Review, with scores against the following criteria used across all departments:
- Meeting Council Objectives;
  - Profitability / Value For Money;
  - Health & Safety;
  - Customer Preference / Need;
  - Asset Maintenance;
  - Community Benefit;
  - Environmental Enhancement.



26. In developing its Capital Programme, Leeds City Council developed a process to ensure all new projects are appraised on a consistent basis against the Corporate Plan, Asset Management Plan, the business case and investment appraisal of the project, a risk analysis and ongoing revenue implications and potential for securing third party capital. All these elements need to be part of the initial appraisal and approval process, agreed by a high-level Capital Resources Steering Group. This is considered national best practice and adopting a similar approach for Southwark is strongly recommended by this Review.

#### **Financial Improvement #1: The Allocation Process - actions**

The need for a consistent and systematic process for allocating resources to capital was recognised early in the Review as an important deliverable. The suggested process is illustrated at Annex B (including the scoring matrix for prioritising projects, which was trialled by Chief Officers in the 2003/4 round).

- **A coherent process - involving production of business case, risk and sensitivity analysis, economic appraisal and scoring of respective projects using the matrix - needs to be developed by the Capital Team (with FMS) to form an integral part of allocation for 2004/5 budgets and used thereafter.**
- **The process needs to produce an agreed prioritised list of costed schemes to receive funding as made available through borrowing and allowances or in-year as receipts from disposals come 'onstream'.**
- **There needs to be two stages to the process:**
  1. **Members and the officer decision-making forum (Capital Investment Strategy Team (CIST)) will be given an estimate (in a range) of likely spend on capital projects on an indicative costs basis. This will be for provisional approval, and will follow an evaluation of risk and project cost / benefit by the Capital Team (with FMS).**
  2. **This expenditure estimate will be clarified when tenders and costings are received and assessed by the Capital Team (with FMS) and put to CIST. This is also likely to follow presentation of the project costs to the corporate Contracts Board, to ensure probity and rigour in the letting of any new contracts. Full approval to incur spending will take place when full costings including tender results have been determined. (For both steps the basis of calculation and any assumptions used will be clearly stated).**

#### **Financial Improvement #2: The Corporate Monitoring Framework**

27. Various corporate mechanisms have been in operation to manage and review the Capital Programme. Constitutional arrangements have been that the Executive and individual Executive Members receive reports not less than twice a year. Additionally reports have been made to a cross-party Capital Working Group (CWG). These arrangements have been supported by the Capital Investment Strategy Team (CIST), in regard to the allocation of funds,

and the Capital Monitoring Group (CMG) in regard to the continuous monitoring of project expenditure during the year.

### **Challenge**

28. There was a broad acceptance that (a) the effectiveness of these mechanisms is central to good capital monitoring, but (b) they were not operating in a way to meet this need because of continued confusion about respective roles, status and representation.

### **Consultation**

29. Views of consultees – most of whom have been involved in the management arrangements - are particularly important in consideration of this question. The key points raised were:
- The lack of understanding of the roles of the different forums, and their current operational status – CWG and CIST having not convened for most of 2002/3;
  - The lack of clarity over decision-making processes – notably in the role CIST takes on allocation - and the need for distinction between Members setting the overall strategic direction and officers implementing and delivering;
  - The failure of the forums to be fully representative, particularly in relation to Education not being represented on CIST, or to involve appropriate legal and technical input;
  - The duplication and bureaucracy caused by a three-tier approach. The suggestion was made that CWG and CIST need to work much more in tandem;
  - The lack of central control of, and co-ordination between, the groups – which has in part resulted in the need for supplementary arrangements, e.g. the Performance & Compliance Working Group, the Cross-Party Advisory Group for EIP.
30. Some Members suggested that a re-constituted Capital Working Group could be an important mechanism for evaluating how to match investment needs with available resources.

### **Comparison**

31. The approach adopted by Leeds reflects the corporate priority placed on the Capital programme, and represents a model which Southwark should adapt and adopt:
- Performance of the programme is reported to Cabinet 4 times a year;
  - Development of the programme is managed through the Asset Management Group which meets each month and is attended by the two Deputy Chief Executives;
  - Ongoing review of projects is monitored on a monthly basis by the Capital Resources Group, chaired by the Asst Director, Capital Management, including representatives from the Technical Client & Procurement units.

32. The Officer Capital Forum at Camden meets every six weeks to monitor schemes. The sole Member Forum is the Executive, which was felt to be a sign of the confidence Members have in the management of the programme.

### **Financial Improvement #2: The Corporate Monitoring Framework - actions**

To ensure proper monitoring of capital projects and the capacity to take timely decisions to react to variances from plan and budgets, it is recommended that a structured management framework is adopted along the lines of the Leeds 'model', namely:

- **Monthly reports on projects will be produced by departments for the Chief Officers and the relevant Executive Member(s). These will also be put to the Capital Team and FMS.**
- **Quarterly reports will be put to full Executive within the Performance Monitoring system. This will be coordinated by the Capital Team and Corporate Strategy, drawing on corporate financial information from FMS.**
- **Key or high-risk projects will have an Executive Member on the Project Board. Project Board composition will be determined on a case-by-case basis, and will follow advice from the Capital Team.**
- **The senior officer Capital Investment Strategy Team, chaired by the Chief Finance Officer or Assistant Chief Executive (Performance & Strategy) will be reconstituted (using terms of reference drafted by FMS) and consider departmental reports on at least a quarterly basis.**
- **The working-level Capital Monitoring Group will continue operation using terms of reference drafted by FMS, reporting any significant budget variances or project issues to the Chief Finance Officer and CIST.**

### **Financial Improvement #3: Departmental Monitoring and IT Systems**

33. The Comprehensive Performance Assessment made a specific recommendation of a need to *“further integrate service and financial planning to ensure that resources are efficiently targeted to corporate priorities”*. This has clear relevance to capital resource management where there has been a historic separation of financial and 'service' functions, with monitoring of financial information undertaken through SAP, but measurement of scheme progress and outcomes driven by departmental requirements.

### **Challenge**

34. Devolving responsibilities has increased flexibility of departments to adopt management arrangements appropriate to the size and scope of their capital programme. In light of this Housing and Education have developed the most sophisticated arrangements, but a consistent standard across the Council is felt to be required, mindful of CPA recommendations.

## Consultation

35. There were suggestions that:
- A concerted drive to ensure consistency might be needed;
  - An FMS monitoring team could provide central monitoring to those departments with less sophisticated monitoring systems or needs;
  - Management procedures need to be flexible enough to respond to different levels of complexity and involvement of different partners (e.g. Regeneration schemes);
  - There were questions about the suitability of SAP as a monitoring tool and the usefulness of the data it generates. There were also concerns about the added resources required to make SAP functional and the low level of expertise across the Council on SAP capital monitoring;
  - Training on SAP was felt to be inadequate, and many staff in departments feel more comfortable with more familiar project software.

### **Financial Improvement #3: Departmental Monitoring and IT Systems - actions**

There is a balance to strike between the optimal position – all departments using SAP to manage project progress as well as expenditure – and the current position where duplicate and separate (often semi-manual) systems are operated to meet departmental needs. Any move to mandating SAP as the single monitoring system will need to ensure SAP functionality meets departmental needs.

However, improving sound financial management and meeting accounting requirements more efficiently as well as improving project management, require more corporate utilisation of SAP. This is the clear message taken from the CPA recommendation to *“further integrate service and financial planning..”* In response to this:

- **The use of SAP will be the project monitoring system for all departments from 2004/5.**
- **FMS will ensure the provision of advanced and ongoing training on the SAP project management module, and the development of the SAP module as required with departments, to ensure that all necessary functionality can be provided where local systems currently complement SAP.**

### **Operational Improvement #1: Project Management**

36. There have been a number of high-profile overspends on capital projects over recent years which have resulted in Member inquiries into the management of projects. This has led to a general concern that project management required sustained improvement across departments, specifically in the identification and mitigation of **risk**, where better project programming and evaluation should be considered at the outset.

## **Challenge**

37. The existing organisational arrangement of managing projects in departments was felt to be correct, because of the local knowledge and accountability which resided in service areas, i.e. centralising capital management outright was not thought to be a effective option.
38. However it was suggested that the quality of project management is inconsistent – albeit with certain areas of good practice - but there was little confidence that all departments were running to the same degree of rigour. A lack of expertise in service areas was felt to lead to some on-site management confusions, and contributed to blurred distinctions between client, consultant and contractor.

## **Consultation**

39. There is acknowledged to be a Council-wide need for improved project management knowledge and expertise. Common guidance may be useful but there is concern that requiring a general methodology to be used may be burdensome on smaller projects.
40. It was felt a number of key principles need to be communicated and understood (and the method of transmission may need to be more ‘active’ than the production of the existing ‘Guide to Managing Capital Projects’). These principles include:
  - Risk assessment and management;
  - Accurate budgeting;
  - Appointing Consultants and Contractors;
  - Developing clear briefs;
  - Identifying key project milestones;
  - The importance of reviewing at key stages.

## **A Quick Review of Project Management ‘Case Studies’**

41. Following these concerns a specific analysis of project management was undertaken with a sample of project management personnel in three departments that commission significant numbers of projects – Environment & Leisure (EIP), Housing (an NHO) and Regeneration.
42. Key issues that emerged from these discussions were:
  - Client ‘project managers’ are heavily focused on managing the stakeholders of the project (principally the community and Members). Their skills lie in handling people and in representing their interests in the projects. They are hard-pressed to actively manage the project, being (admittedly) non-technical officers. This results in reliance on the consultant to actively manage the project on site;

- This situation leaves client 'project managers' struggling to keep up with the consultant / contractor relationship on site, with them often being out of the information loop. They may be left in the unfortunate position of being (officially) accountable for situations of which they are unaware;
- Funding cycles cause major difficulties for client departments in trying to match the release of funds to the project cycle, principally the commissioning of contractors. Delays in producing estimates and agreeing funding can cause many of the subsequent project slippages;
- Project management methodologies are informal and often are based on project managers' prior experience;
- There is little in the way of formalised learning from past projects, beyond personal informal networks and the Contract Register;
- There is insufficient training and support for project managers with systems such as PRINCE2 or other project methodologies.

43. The findings of this short exercise reflect the emerging recommendations of the Audit Commission report on the Charter School, and previous inquiries.

#### **Operational Improvement #1: Project Management - actions**

Project management will be improved through the new processes proposed by this Review, which will demand regular checks and progress reports. Implementing the clear high-level decision-making framework from allocation through to monitoring – which this Review proposes (as shown at [Annex B](#)) will provide the Council with a coherent management of the capital programme and high-risk projects. However there need to be changes at an operational level to ensure all projects are managed effectively.

- ⇒ **The Design & Construction Strategy Unit (DCSU) has been working on improving guidance – notably on the Project Management Procedures Tool - and work on communicating this will be taken forward with the new Capital Team in 2003/4.**
- ⇒ **The Capital Team will undertake a skills audit of all project managers and officers involved in the capital programme in 2003/4, to identify how expertise in the organisation can be better utilised and any shortfalls addressed. The aim will be to establish a qualified and full-time cadre of project managers working on schemes in 2004/5.**
- ⇒ **Where training needs are identified from the audit, the Capital Team will work with departments to produce timely action plans to address this for 2004/5.**
- ⇒ **The Capital Team will ensure – through ongoing audit - that all projects are running appropriately under recognised project management methodologies. While PRINCE2 is expected to be used as the generic Council standard, the use of other methodologies such as RIBA Plans of Work will be used at different stages in projects and the Capital Team will assess how effectively they are utilised.**

## Operational Improvement #2: Organisational Learning

44. It is clear that a substantial body of knowledge exists in the Council's capital 'community' amongst both officers and Members. Good practice does exist, from modern approaches to procurement to professionally recognised design excellence and resourceful management of the community stakeholders. The devolved nature of the capital programme and the recent absence of corporate forums has meant that dissemination and use of project experience (both positive and negative) has not been effectively managed. Sharing information from project post-completion reviews, while thought worthy, is often not implemented due to operational demands. The repeated difficulties suffered by high-profile capital projects suggest that this cannot be left to continue, and that organisational learning must be a priority.
45. In terms of lessons from outside Southwark, the time is right for making a concerted effort to learn from best practice – as recommended generally in the CPA. 'Rethinking Construction' is a Beacon Council theme in 2003/4 and initiatives on design, community involvement and procurement will be shared through ODPM and the Councils awarded beacon status. There must be a commitment to take this opportunity to learn across all departments.

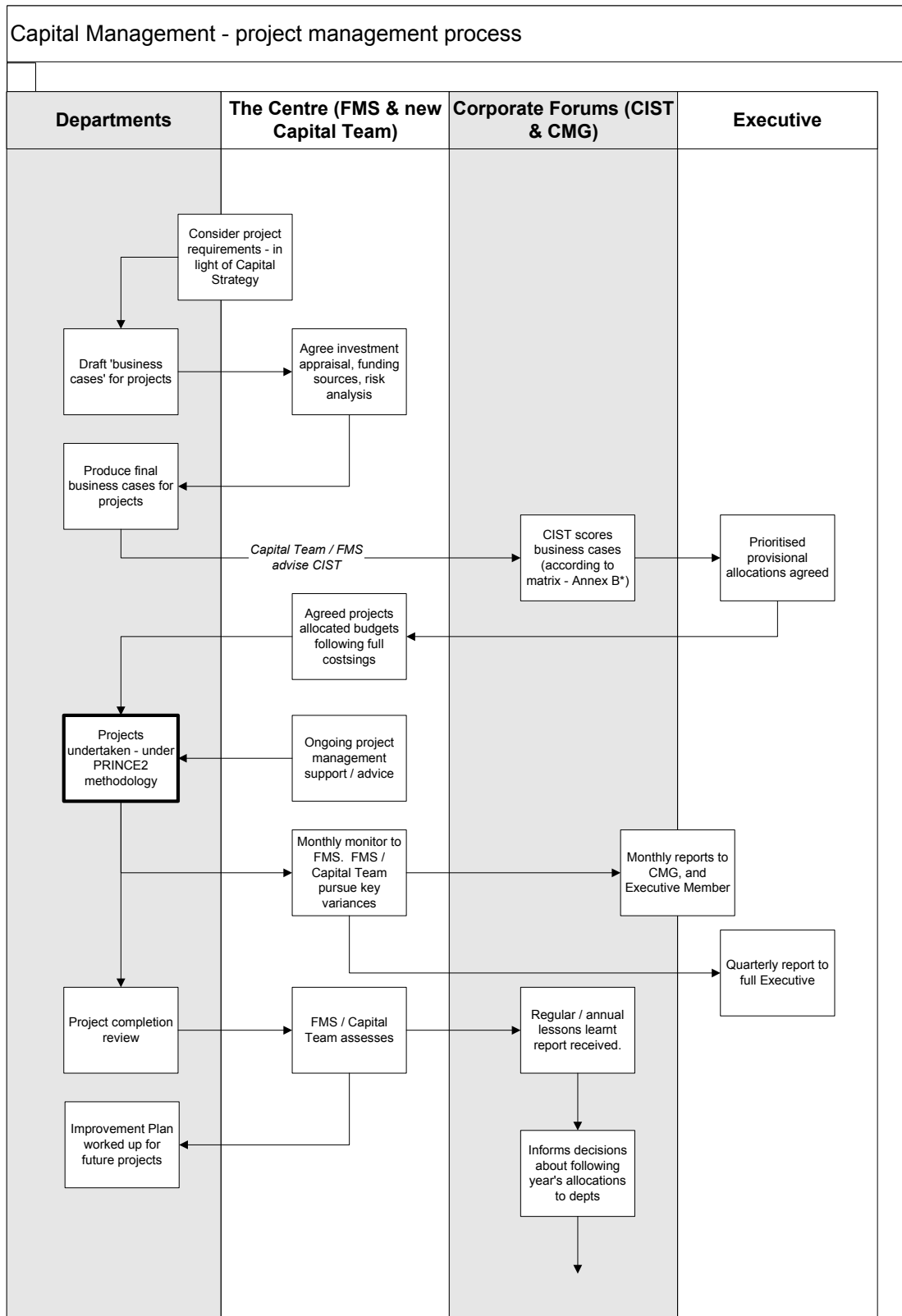
### Operational Improvement #2: Organisational Learning - *actions*

Many of the areas for improvement detailed above will increase corporate working and coordination across the capital programme. However it is clear that the Capital Team will have a specific role to play in using and disseminating best practice across the capital community. This must be an early objective of the unit.

- **The Capital Team will set up structured systems for sharing experience from all departmental projects and best practice elsewhere, including Beacon Councils in 2003/4. This will include assessments of ongoing and completed projects, produced both formally through the reporting system (considered earlier in this report) and an annual 'lessons learnt' report, and informally through workshops for project officers and the Council intranet.**

- (i) Initial *challenge* ‘workshops’ were held with Chief Officers, Business Managers and representatives of Rethinking Construction organisations at the start of the Review to scope the main issues for the Review to focus on. The outcome was the 7 key themes for improvement which the Review subsequently focussed on.
- (ii) A comprehensive *consultation* exercise was undertaken with managers involved in capital management, external funders (Government Office for London and Department for Education) and a key partner (Cross-River Partnership). Because the Review was focused on internal Council processes, the Project Board agreed that consultation with residents and the community would not be appropriate. A cross-party Member meeting was held later in the Review to test the emerging findings and gauge views on what should be recommended to Executive.
- (iii) Capital programme management is not currently subject to any national performance measures. *Comparison* therefore focused on the assessment of best practice in top-ranking authorities and its possible application in Southwark. Comparative evaluations were undertaken with:
  - a. Leeds City Council (recommended by ODPM as the leading authority in Capital Planning / Asset Management);
  - b. Westminster City Council (bidding for Beacon Council status);
  - c. London Borough of Camden (which received an ‘excellent’ Best Value Inspection rating for Housing Capital management);
  - d. Broxbourne District Council (which received a ‘good’ Best Value Inspection rating for Capital management);
  - e. a number of authorities shortlisted for the Rethinking Construction Beacon Council round.





**CAPITAL ALLOCATIONS – PROJECT SCORING MATRIX**

**ANNEX B\***

<b>Criteria</b>	<b>Weighting</b>	<b>Scoring</b>	<b>Weighted Score</b>
<b>Strategic Impact</b>			
Meets Community Strategy priorities - <i>Tackling Poverty, Raising School Standards etc.</i> (none = 0, 1 priority = 1 point, more than 1 priority = 2)	<b>8</b>	0 / 1 / 2	Max 16
Meets Council Priorities - <i>Equalities, Driving Down Debt etc.</i> (none = 0, 1 priority = 1 point, more than 1 priority = 2)	<b>5</b>	0 / 1 / 2	Max 10
Contributes to BVPI improvement	<b>5</b>	0 / 1 / 2	Max 10
Meets other key Service Objectives	<b>4</b>	0 / 1 / 2	Max 8
<b>Legislative Requirements</b>			
Contributes to a Statutory requirement (E.g. Health & Safety, DDA)	<b>4</b>	0 / 1 / 2	Max 10
<b>Project Appraisal</b>			
Makes a convincing business case and addresses critical issues of quality and deliverability	<b>5</b>	0 / 1 / 2	Max 10
Risk and sensitivity analysis suggest a suitable confidence level that project will stay on track	<b>5</b>	0 / 1 / 2	Max 10
Extent of external capital funding (none = 0, less than 50% external = 1 point, more than 50% = 2)	<b>5</b>	0 / 1 / 2	Max 10
Project results in either revenue savings or no additional costs	<b>4</b>	0 / 1 / 2	Max 8
<b>Partners</b>			
Involves external non-funding partners	<b>2</b>	0 / 1 / 2	Max 4
Endorsed by another service	<b>2</b>	0 / 1 / 2	Max 4

**Max 100**

**Weightings** applied as follows:

- 8 Vital to Council
- 5 Business-critical
- 4 Important
- 2 Desirable

**Scoring** – except where otherwise specified - to be assigned as follows:

- 0 Does not meet criteria
- 1 Partially meets criteria
- 2 Fully meets criteria

Action	Timing	Performance Outcome	Lead Accountability	Responsibility for Action
<b>Strategic Improvement #1: Capital Investment Strategy</b>				
Produce 10 year strategy document, with supporting 3 year detailed plans, to include: <ul style="list-style-type: none"> <li>- Details of project plans, expenditure and receipts into the medium-term</li> <li>- Asset Management Plan</li> <li>- Office accommodation and modernisation (IT) plans</li> <li>- Targets for 3<sup>rd</sup> party funding.</li> </ul>	By 31 October 2003	10-year Strategy document is comprehensive, properly strategic and is coordinated with Policy & Resources Strategy.	Chief Finance Officer with ACE (P&S).  <b>ACE will be fully responsible following establishment of Capital Team</b>	FMS Capital Monitoring Team  <i>Key input from Regeneration, Corporate Strategy</i>
Undertake processes to challenge and confirm proposals.	By 30 November 2003	Corporate consensus over an agreed strategy and framework within which all new projects will be developed.	Chief Finance Officer with ACE (P&S)	FMS Capital Monitoring Team  <b>Involving all departments</b>
Full Strategy for 2004/5 – 2007/8 put to Executive / full Council.	January 2004	Agreed Strategy to direct investment decisions over 3-year timeframe.	ACE (P&S)	Capital Team – with FMS Capital Monitoring Team

Annual (rolling) review of forward three-year time-horizon to fit in with Policy & Resources Strategy production.	September 2004 – November 2004 and annually thereafter	Revised Strategy document takes account of new financial, political and service requirements.	ACE (P&S)	Capital Team <b>Involving key stakeholders from departments.</b>
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Action	Timing	Performance Outcome	Lead Accountability	Responsibility for Action
<b>Strategic Improvement #2: A central Capital Team</b>				
Produce definitive scope of function, drawing on BV Review, Audit Commission and other recommendations.	By 30 August 2003	Clear description of new function detailed, and confirmed to Executive in report on Procurement.	ACE(P&S)	Head of Strategic Procurement
Clear divisions of responsibilities for 'central' functions (FMS and Capital Team) agreed.	By 30 August 2003	Corporate understanding of the division of responsibility and confirmed workplans.	ACE(P&S)	Chief Finance Officer and ACE(P&S)
Detailed assessment of existing skills and expertise in departments and proposals for how these may be deployed alongside central function.	By 30 September 2003	Corporate understanding of the degree of existing expertise, shortfalls, and where requirements for external resource may be needed.	ACE(P&S)	Head of Procurement
Dependent on skill gaps found in the assessment of expertise, recruit to new Capital Team.	August – December 2003	Fully resourced function in place.	ACE(P&S)	Head of Procurement

Capital Team to begin discharging functions as set out in BV Review.	From November 2003	New functions discharged in managing capital programme as proposed, and departments to be made aware and confident of value of new arrangements.	ACE(P&S)	Capital Team
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Action	Timing	Performance Outcome	Lead Accountability	Responsibility for Action
<b>Financial Improvement #1: The Allocation Process</b>				
Draw up full procedures, drawing on / enhancing the proposed appraisal process proposed by BV Review.	By 31 October 2003	Clear and rigorous procedures, template documents and guidance produced.	Chief Finance Officer	FMS Capital Monitoring Team
Communication of new procedures to officer working groups (i.e. CIST and CMG).	By 30 November 2003 (and ongoing communication)	Corporate understanding of the new for rigour and transparency, and the role of new procedures in achieving that.	Chief Finance Officer	FMS Capital Monitoring Team
Procedures included in 2004/5 budget round.	December 2003 – April 2004	Allocations made according to objective criteria and procedures.	Chief Finance Officer	FMS Capital Monitoring Team <i>Involving all departments</i>
Allocation round reviewed, and procedures revised as required – and any revisions communicated.	31 August 2004	All flaws in piloted procedures addressed and revised for 2005/6 round.	Chief Finance Officer	FMS Capital Monitoring Team

Action	Timing	Performance Outcome	Lead Accountability	Responsibility for Action
<b>Financial Improvement #2: The Corporate Monitoring Framework</b>				
Capital Investment Strategy Team to be re-established, using ToR drafted by FMS. Forum to be under chairmanship of CFO or ACE(P&S), and to include managers from all spending departments.	From September 2003 – then at least quarterly	Forum to meet at least quarterly, to be the decision-making body for 2004/5 allocations, and to receive updates on key projects and reallocation requirements in year, and coordinate with Policy & Resourcing Strategy.	Chief Finance Officer or ACE(P&S) to lead	FMS Capital Monitoring Team
Quarterly report of key capital projects and expenditure position to go to the Executive, within the overall quarterly performance monitor.	From September 2003 – then quarterly	Production of actionable progress reports, raising key variances and issues with CIST and Executive.	Chief Finance Officer / ACE(P&S) to produce joint report on capital project and expenditure	Strategic Directors to ensure dept report produced  Corporate Strategy - with Capital Team and FMS to coordinate / assure
Strategic Directors to present monthly reports on key capital projects to individual Executive Members and COT.	From September 2003 – then monthly	Progress reports – with reasons for variances - on key projects communicated to Executive Members, and consequent action plans undertaken.	Strategic Directors	Strategic Directors to ensure report produced  Capital Team and FMS to assist in reporting and ensure follow-up undertaken

Action	Timing	Performance Outcome	Lead Accountability	Responsibility for Action
<b>Financial Improvement #3: Departmental Monitoring and IT Systems</b>				
Full technical review of existing systems and potential for migration to SAP – taking account of departmental needs - undertaken.	30 November 2003	Costed proposals for extended use of SAP as full capital project management tool produced for CIST approval.	Chief Finance Officer	FMS Capital Monitoring and SAP Teams  <i>Involving all departments</i>
Departmental programmes produced for migration to SAP – together with any SAP enhancement requirements and training plan for all project management staff.	January 2004 – March 2004	Plan for introduction of fully corporate system implemented without any adverse effect on departmental monitoring capability.	Chief Finance Officer	FMS Capital Monitoring and SAP Teams  <i>Involving all departments</i>

Action	Timing	Performance Outcome	Lead Accountability	Responsibility for Action
<b>Operational Improvement #1: Project Management</b>				
Existing work of DCSU to be re-considered, and new workplan agreed re: further SBDS work.	By 30 September 2003	Clear understanding of project management role of SBDS.	Strategic Director, E&L	Head of SBDS
Draw up full project management procedures, taking account of proposed processes of BV Review, and corporate methodologies (incl. PRINCE2).	By 30 November 2003	Clear and rigorous procedures, template documents and guidance produced.	ACE(P&S)	Head of Procurement / Capital Team <i>Assisted by ACE(I&amp;D), SBDS</i>
Communication of project management requirements to corporate forums (CIST and CMG)	By 30 November 2003	Corporate understanding of the new for rigour and transparency, and the role of new procedures in achieving that.	ACE(P&S)	Head of Procurement / Capital Team <i>Assisted by ACE(I&amp;D), SBDS</i>
Project management procedures as developed begin operating.	From December 2003	Corporate project management procedures operated.	ACE(P&S)	All Departments - Capital Team to audit and check
Capital Team to commence advising, supporting and intervening in project management.	From January 2004	Direction of corporate capital project management.	ACE(P&S)	Capital Team



Action	Timing	Performance Outcome	Lead Accountability	Responsibility for Action
<b>Operational Improvement #2: Organisational Learning</b>				
Programme of working with 'Rethinking Construction' Beacon Councils to extend knowledge of best practice worked up.	By 30 November 2003	CIST and key players in the capital programme to receive regular updates on and opportunities to learn from examples of national best practice.	ACE(P&S)	Head of Procurement / Capital Team – with SBDS  <i>Involving all departments</i>
Ongoing programme of 'benchmarking' involving reporting of performance against national PIs and research with best practice and external organisations to be developed.	December 2003 onwards	CIST and key players in the capital programme to receive regular reports on Southwark's comparative position and further areas for improvement.	ACE(P&S)	Capital Team – with SBDS  <i>Involving all departments</i>