

Best Value Review - Management and Delivery of the Capital Programme Emerging Issues

This summary report seeks to inform Finance & General Purposes Scrutiny Sub-Committee of the current position of the Best Value Review.

Terms of Reference

- ToR were agreed by Executive in July 2002 when it was requested that the following describe the aim of the Review:

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.

The Challenge to Existing Functions

- An initial challenge was undertaken in July through meetings with Chief Officers and a facilitated workshop with business managers and Rethinking Construction reps. Seven key themes were drawn out of this challenge stage for the Review to explore:
 - (i) Developing a coordinated long-term capital investment strategy;
 - (ii) Working up clear procedures for the allocation of finances and capital receipts;
 - (iii) Re-establishing robust Member and officer mechanisms for allocating and monitoring investment;
 - (iv) Ensuring consistent and coordinated systems for managing capital investment in departments;
 - (v) Developing a working 'strategic client' function to lead on innovative and efficient design and build arrangements;
 - (vi) Developing higher quality project management in departments;
 - (vii) Promoting the sharing of good practice and learning across the Council.

1. Capital Investment Strategy

External Assessment

- In 2002 Southwark submitted a Capital Strategy to the Government Office for London (GoL) that was assessed as **Good** (the top rating), an improvement on the Satisfactory rating of 2001. The requirement for a credible Capital Strategy is derived centrally from the move to a 'prudential' borrowing regime.

Resourcing the Strategy

- However as an internal planning tool, the Capital Strategy is not sufficient. When approved by Executive, it was acknowledged that further consideration was needed on (a) affordability – matching investment to available resources and (b) prioritisation. The current year's process is based on COT inviting bids – which may not necessarily be linked to the original Strategy.
- ODPM suggest that the existing 'good' rating means that a Strategy will not need to be submitted in 2003. However with CPA requiring clear statements of resource allocation, the requirement now will be to redevelop a strategy next year to fit with business planning rather than simply meeting ODPM requirements and timescales.

⇒ **The Review is likely to propose a structured process for developing a new Strategy in 2003, re-evaluating the original resource requirements by department and prioritising programmes scored against agreed criteria supporting statutory requirements, Community Strategy and Council priorities.**

Asset Management

- ODPM suggest best practice requires effective coordination of asset management and capital investment. They recommend the approach of Leeds City Council, which provides a clear management framework for joined-up working. A recommendation of South Ribble Borough Council's Scrutiny of Capital recommended merging asset management and capital strategy functions. Working links between asset management and the capital strategy exist at officer level in Southwark, but real coordination is required.

- Additionally it is clear that new technology is treated completely separately from property, and is not subject to rigorous asset management control.

⇒ **The Review is likely to make proposals for the clarification of asset management and capital strategies and associated functions.**

2. Financial Procedures

Allocation Processes

- Procedures are devolved – each department has a different approach to prioritisation. In the current round FMS are inviting bids to evaluate and present to COT for corporate approval. It is contended that existing procedures for approving funding are neither clear nor transparent. Broxbourne District Council's otherwise good BVI inspection was affected by a key weakness of failing to have an agreed weighting or prioritising system for corporate capital allocation.
- Additionally approval processes for previous years (*see FMS report*) have resulted in ad hoc approval of funding which has not been coordinated within an overall capital programme.

Capital Receipts

- Proposals for linking the approval of capital schemes to actual disposals are outlined *in the FMS report*, and will form a central element of the Review proposals.
- ⇒ **The Review is likely to propose criteria for prioritisation of capital schemes for 2003/4 and beyond, following from the FMS proposals.**

3. Member and Officer Forums

- Capital Working Group*
 - Members' views on the future of the CWG will be taken into account by the Review.

- Capital Investment Strategy Team*
 - This senior officer forum is viewed as the prime mechanism for developing capital programmes and prioritising schemes before consideration by Members. Although this group appears to have fallen into abeyance during 2002, all comparator authorities have a similar management forum.
 - ⇒ **The Review is likely to call for its role to be re-clarified and actively supported by COT. It is also suggested that this forum should consider strategic issues around asset management, disposals and options for external funding (e.g. PFI and s.106).**

- Capital Monitoring Group*
 - This group has continued to meet during 2002 to monitor ongoing expenditure. A continued role under FMS is seen as being important in identifying in-year variances across departments, alerting CIST and Members to potential problems and recommending, where necessary, virements between programmes.
 - ⇒ **The Review is likely to propose the CFO re-defines the role of this group and uses it as the basis for effective capital project management across the Council.**

- Ad hoc bodies*
 - The absence of robust strategic management of capital in 2002 has resulted in part in ad hoc arrangements for proposing schemes and decision-making. A cross-party Advisory Panel was set up to approve 'in principle' priority schemes for EIP8 (2002/3). COT has taken the lead in drawing together capital programme proposals for 2003/4. By themselves such processes can add value, but to avoid nugatory work and to co-ordinate programming under an agreed Strategy, a more structured processes, based around CIST needs to be implemented.

4. Departmental Systems

Good practice

- The Review has considered the practice of managing capital expenditure across departments. In both Housing and Education Departments (the major spending departments) monitoring arrangements are rigorous (though the Investment Programme Group and Capital Programme Panel respectively). Central Capital Teams require regular updates from project managers and extensive monitoring information is collated and put to senior management forums for action. Regeneration Department submits quarterly reports on major schemes for Executive.

- ⇒ **The Review is likely to make recommendations that:**
- (a) **the management arrangements in Housing are used as 'good practice' for other departments to replicate;**
 - (b) **quarterly reports on all Capital investment is presented to Executive along with Regeneration major scheme information.**

Areas for improvement

- Partly due to recent years' organisational changes and historical factors, Environment & Leisure Department is in immediate need of implementation of a structured system of allocating and monitoring expenditure, particularly regarding EIP and Leisure. Systems for monitoring of non-major schemes within Regeneration Department (e.g. highways) appear undefined.

- ⇒ **The Review is likely to recommend that Environment & Leisure and Regeneration strengthen departmental capital functions so that EIP, Leisure and Highways schemes are planned and monitored in a structured fashion. Good practice from Education and Housing will be suggested.**

SAP

- There appears to be inconsistent usage of the in-year capital monitoring function on the SAP finance system. In areas such as Housing – where internal systems are rigorous – this is not a high risk. However in areas such as Environment & Leisure, where systems are not in place, the use of SAP is a basic requirement to provide a level of confidence.

- ⇒ **The Review is likely to propose that FMS:**
- (a) **work with high-risk areas to ensure capital monitoring on SAP is in place;**
 - (b) **consider with lower-risk areas how current systems could be further improved by usage of SAP monitoring.**

5. The Role of a Strategic Client

Management & Structure

- A Design and Construction Strategy Unit (DCSU) was set up within SBDS in 2001 following COT agreement, with a remit to promote design excellence and improve procurement and project construction across the Council. This unit was to report to a cross-departmental Steering Group. The work of the unit has continued throughout 2002 and has supported – with Housing - the 'demonstration' partnering project in Alfred Salter neighbourhood, amongst other actions.
- The Steering Group has fallen into abeyance in 2002, leaving a gap in strategic management of this professional advice function.

⇒ **The Review is likely to propose:**

- (a) **A revamped strategic management arrangement to more effectively direct a professional advice function;**
- (b) **A re-evaluation of where the professional advice function would deliver most improvements across the Council and how it would be funded;**
- (c) **Dependent on (b), whether property advice should also be encompassed within a professional advice function.**

Partnerships

- The 2002 Beacon Council theme for 'Rethinking Construction' is focusing on the good practice with the Egan report of the same name, particularly partnership arrangements (rather than traditional contracting) to drive down inefficiencies and improve quality. Discussion with Westminster City Council, Barnsley and Stockton-on-Tees Met. Councils has outlined their key initiatives to increase long-term partnering agreements for capital projects, reflected in their Beacon Council bids.
- ⇒ **The Review is likely to recommend a greater promotion of partnering across the Council, following the pilots in Housing.**

6. Project Management

- There has, and remains, a general perception that project management skills across the Council are not satisfactory amongst client officers.
 - In 2001 the Performance & Compliance (Member) Working Group recommended a series of actions aimed at improving the level of project management across the Council. This was to be delivered through the DCSU, and reported to the Capital Working Group. Original timescales (albeit overly optimistic) have not yet been met for delivery of revamped guidance and training for client officers and advanced training for officers in Housing, Regeneration and SBDS – pending changes to contract documentation.
- ⇒ **The Review is minded to propose:**
- (a) **A re-evaluation of required competencies across the Council in project management, to be undertaken by Corporate Learning & Development / DCSU;**
 - (b) **The adoption of a generic project management methodology across all Council departments, and the training of officers in that approach. The central government-advocated PRINCE2 methodology may be suggested.**

7. Sharing Good Practice and Learning

- The absence of a 'network' of good practice amongst the capital community in the Council has been raised in the challenge to the services. A more corporate approach to learning needs to be promoted.
- ⇒ **The Review is likely to propose the facilitation of good practice dissemination by the professional advice function as described at 6. This will entail communication with the various Member and officer forums as detailed earlier, and the development of advice through channels such as the Intranet.**