Major capital investment in councils

Accounts Commission

Prepared by Audit Scotland
March 2013

The Accounts Commission

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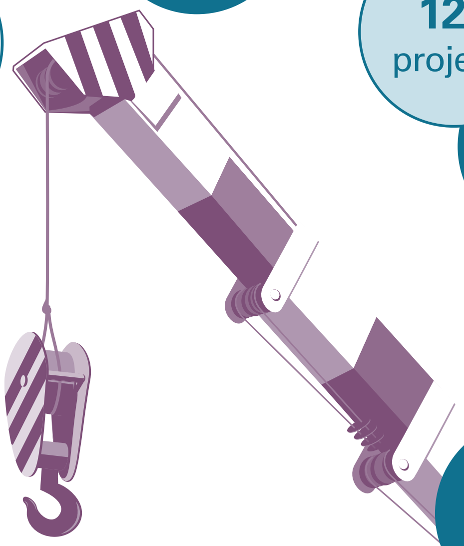
Key facts

£27 billion The total value of capital investment by councils between 2000/01 and 2011/12

121 projects / **£3.5 billion** The total number and cost of major capital projects that councils completed in the three years to March 2012

203 projects / **£5.1 billion** The number and estimated cost of major capital projects that councils are currently progressing



84 primary / **secondary 72** / **£2 billion** The number and cost of new and refurbished schools in our sample that councils completed in the three years to March 2012

40 per cent The percentage of major investment projects in our audit completed within the initial cost estimate

£12.9 billion The combined indebtedness of councils at March 2012

£35 billion The combined book value of council assets at March 2012

Councils' capital investment involves spending on property and other assets that councils will use over many years to provide public services

Background

1. Councils' capital investment involves spending on property and other assets that councils will use over many years to provide public services. It includes spending on new buildings such as new and refurbished schools, social housing, sports and community centres and care homes for older people. As well as new facilities, councils must also invest to maintain and repair their existing property assets such as local roads, schools and social housing.

2. The 32 councils in Scotland spend significant amounts of money on capital investment every year and this has increased steadily in real terms – that is, allowing for the effects of inflation – since 2000/01. In 2011/12, they spent £2.4 billion on capital investment, in addition to their £18 billion revenue spending that year – that is, spending on the day-to-day cost of providing services. Capital investment in 2011/12 was the highest in real terms in any year since 2000/01.

3. Improving facilities and other assets can help councils deliver services more efficiently and effectively and enhance people's experiences of council services. Councils' capital investment can help to:

- sustain and improve public services and achieve service plans and local outcomes – that is, the local priorities that councils have agreed to deliver
- improve the overall efficiency of how councils manage their properties and reduce costs in the long term (this includes reducing carbon emissions and helping to contain the effect of rising energy prices)
- boost economic growth and stimulate economic recovery, by providing employment opportunities in construction and engineering and wider commercial opportunities for local and national businesses
- achieve a wide range of other goals and objectives, in accordance with local priorities.

4. Councils make their own decisions about capital investment and must ensure their spending plans are prudent, affordable and sustainable. Planning capital investment requires a long-term and strategic outlook. Councils must also select, design and deliver individual investment projects to a high standard. Elected members are important decision-makers for capital investment and have a fundamental role in ensuring that councils deliver investment plans successfully. Effective governance arrangements that manage, challenge and scrutinise how programmes are delivered, and strong financial, project and risk management are all important to ensure that investment provides value for money.

5. Councils pay for capital investment from a range of sources. Mainly they borrow for capital investment, so that the cost spreads over many years. They also pay for investment through Private Finance Initiative (PFI) and Non-Profit Distributing (NPD) contracts, which also allow the costs to be spread over a longer time.[1] Central government grants are the second main source of funding for investment and the Scottish Government therefore has a strategic role in shaping and supporting councils' investment, particularly for schools, housing and transport infrastructure. Councils also use money transferred from revenue budgets and income from selling property for capital investment. But these and other sources provided less than a fifth of the total capital investment by councils in 2011/12.

6. Over the two years to 2014/15, the public money available for capital investment across the public sector is forecast to decrease significantly and the position in later years is expected to face similar reductions. It will be vital for elected members and council officers to set clear priorities and provide strong leadership and effective management to ensure value for money from their capital investment programmes.

About this audit

7. Audit Scotland has reported previously on some major capital projects and initiatives in councils.[2] We have also reported on the management of major capital projects in other parts of the public sector.[3] However, this audit provides the first comprehensive review of major capital investment within councils. It focuses on major capital projects over £5 million each and assesses how well councils direct, manage and deliver capital investments. In doing so, it reviews the level, type and financing methods of investment spending in councils. It also examines how well councils manage their investment spending as a programme and their performance in delivering major capital projects against time and cost targets.

8. The report has three parts:

- Capital investment in councils (Part 1).
- Delivering major capital projects within cost and time targets (Part 2).
- Managing capital projects and investment programmes (Part 3).

1 These methods do not involve using a council's capital budget. Instead, the council meets the cost of providing each project over typically 25 to 30 years or more through ongoing revenue payments to the providers over the life of the contract. These payments cover the costs of construction as well as service and maintenance costs. For accounting purposes, PFI projects are now usually reflected in council balance sheets.
2 In particular, in recent years, *Commonwealth Games 2014 – position statement* (2012 and 2009), *Edinburgh trams interim report* (2011), *Maintaining Scotland's roads – a follow-up* (2011), *Improving the schools estate* (2008).
3 *Management of the Scottish Government's capital investment programme* (2011); *Review of major capital projects in Scotland* (2008).

9. In Part 1, we detail how much councils spend on capital investment, what it delivers and how it is funded and financed. Part 2 focuses on councils' performance in delivering individual major capital projects to cost and time, based on our examination of recently completed projects and projects currently in progress.[4] Part 3 assesses councils' broader capital planning and management capabilities, including areas where councils need to make improvements to help achieve value for money from their capital investment.

10. We have also published a good practice guide as part of the *How councils work* series to help councils make improvements where necessary.[5]

11. The report draws on a number of sources including the following:

- An initial survey of all 32 councils to establish the total number of major capital projects, both recently completed and currently in progress.
- A review of 63 recently completed major capital projects in councils with a combined cost of £2.9 billion, assessing how they performed against cost and time targets and other aspects.[6]
- A review of 15 major capital projects in progress in nine councils at April 2012, with a combined estimated cost of £919 million.
- Interviews with 21 senior council staff and nine elected members and a review of papers to assess project and programme management in nine councils.
- Published good practice in project and programme management.

12. In this audit our primary focus was on how councils direct major capital projects costing £5 million or more. Councils' capital investment also includes projects costing less than £5 million and major programmed maintenance work in areas such as roads and social housing. The latter may cost more than £5 million but comprises large volumes of relatively routine work such as roads maintenance or replacing kitchens or bathrooms. Our audit did not examine these other types of investment in any depth.[7]

13. Appendix 1 provides more information on our methodology.

Summary of key messages

- Since 2000/01, councils have invested £27 billion in real terms in building and maintaining assets and infrastructure – more than any other part of the public sector. This includes £23 billion from the capital budget and £4 billion using private finance methods such as Private Finance Initiative and Non-Profit Distributing contracts.
- Councils increased borrowing in recent years to maintain investment, during a period of wider public spending reductions and constraints. Where plans are available, councils anticipate they will spend less on capital investment in future years, although borrowing will remain the main source of finance for investment.
- Accurate cost estimates are important from the outset of major projects. Weak estimating can undermine the successful delivery of a project and the potential to achieve value for money. For most of the completed major capital projects we reviewed, councils' early estimates of the expected costs and timetable have proved to be inaccurate. Estimating improved significantly as projects advanced, plans became clearer and contracts were awarded. Estimating for schools projects is more accurate than for non-schools projects.
- Councils have improved governance structures for investment decision-making in recent years. However, we identified weak processes for developing and using business cases and that monitoring information is insufficient. Improvements in these areas are important to support scrutiny and decision-making.

Key recommendations

Councils should:

- develop and confirm long-term investment strategies to set out the needs and constraints for local capital investment and consult with stakeholders, such as service users and suppliers, as they develop these strategies
- assess the overall appropriateness of using borrowing and private finance within the investment strategy. The strategy should balance the costs, risks and rewards of using these methods to ensure plans are financially sustainable and help each council achieve value for money

4 This report does not consider the Edinburgh trams project or projects relating to the 2014 Commonwealth Games. As noted, these projects have been subject to separate Audit Scotland reports.
5 *Major capital investment in councils: Good practice guide* is part of the Accounts Commission's *How councils work* series. The guide can be downloaded from our website www.audit-scotland.gov.uk
6 The projects we examined represented 82 per cent of the £3.5 billion cost of all 121 major capital projects completed by councils in the three years ending March 2012.
7 Audit Scotland will publish a report on housing in Scotland later in 2013.

- actively look for opportunities for joint working with other councils, community planning partnerships and public bodies to improve the efficiency of their capital programmes. This should cover joint projects, sharing resources such as facilities and staff, sharing good practice and taking part in joint procurement
- improve the quality of capital project and programme information that is routinely provided to members. Information should cover:
  - annual financial performance against the capital budget
  - project and programme level performance against cost, time and scope targets
  - risk reporting (including identification, likelihood, financial impact and actions taken)
  - an assessment of intended and realised benefits
- carry out early assessments of risk and uncertainty to improve the accuracy of early-stage estimating of the cost and timescale of projects
- consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary
- collect and retain information on all projects including explanations for cost, time and scope changes and lessons learned. Report this information publicly to improve transparency and scrutiny of project delivery and share lessons learned across services and other councils
- develop and use clearly defined project milestones for monitoring and reporting. This should include a clear process for preparing and approving business cases as a key part of decision-making and continuous review of all major capital projects.

Part 1. Capital investment in councils

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

Key messages

- Since 2000/01, councils have invested £27 billion in real terms in building and maintaining assets and infrastructure – more than any other part of the public sector. This includes £23 billion from the capital budget and £4 billion using private finance methods such as Private Finance Initiative and Non-Profit Distributing contracts. This investment was needed to address a long-term decline in councils' assets and to develop new infrastructure.
- Councils increased borrowing in recent years to maintain investment, during a period of wider public spending reductions and constraints.
- Most recently, in the three years ending March 2012, councils have completed 121 major capital projects worth £3.5 billion. A further 203 major projects are in progress with a combined value of £5.1 billion. Most of the completed projects (£2.5 billion) were for improving schools and school properties. This area remains a priority with 82 schools projects worth £2 billion in the current programme.

Since 2000/01, councils have spent £23 billion in real terms on capital investment

14. Since 2000/01, councils have spent £23 billion in real terms on capital investment. This has paid for building and developing many types of investment projects including new schools, care homes and sports facilities. It has also paid for significant elements of maintaining and refurbishing councils' infrastructure such as housing repairs and road maintenance.

15. Councils' capital spending almost doubled in real terms from £1.2 billion in 2000/01 to just below £2.4 billion in 2008/09. Following the onset of the recession, capital spending fell by 11 per cent between 2008/09 and 2010/11 but increased again to £2.4 billion in 2011/12 owing to additional borrowing. Councils' capital spending between 2000/01 and 2011/12 increased at a higher rate than revenue spending in the same period. Capital spending almost doubled in real terms whereas revenue spending increased by almost 50 per cent.

16. This growth in capital investment spending reflects priorities councils set individually and is consistent with the spending plans of the Scottish Government, reflected in successive local government financial settlements. In general terms, more investment was needed to address a long-term decline in councils' assets, to develop new infrastructure and (in later years) to stimulate the economy. An Audit Scotland report in 2009 found that many council assets were in poor condition and unsuitable for the services being delivered from them.[8]

Councils have spent around half of total public sector investment each year

17. Between 2008/09 and 2011/12, councils have provided almost half of public sector capital investment (Exhibit 1, overleaf). Total public sector investment includes spending on areas such as national transport infrastructure (mainly rail services and motorways), prisons, colleges and hospitals. In 2011/12, councils spent £2.4 billion (56 per cent) on capital investment compared to transport's spending of £755 million (17 per cent) and the NHS' £488 million (11 per cent).[9] Together, other areas spent £672 million (16 per cent).

18. Between 2008/09 and 2010/11, almost a third of councils' capital investment was on housing, with schools and transport, including road maintenance, each accounting for around a fifth of the total.[10] Central services, such as office accommodation, and culture services such as leisure facilities and museums, together accounted for just under a fifth of overall capital spending.

Councils have increased borrowing in recent years to maintain investment

19. Councils fund capital investment from a range of sources, including:

- borrowing from the UK Government[11]
- capital grants from the Scottish Government
- receipts from selling assets
- transfers from revenue budgets.

20. Increasingly, councils have borrowed to finance capital investment, allowing them to spread the cost over many years. The level of annual capital investment has almost doubled in real terms since 2000/01 and the proportion financed by borrowing has increased by about a half during the same period.

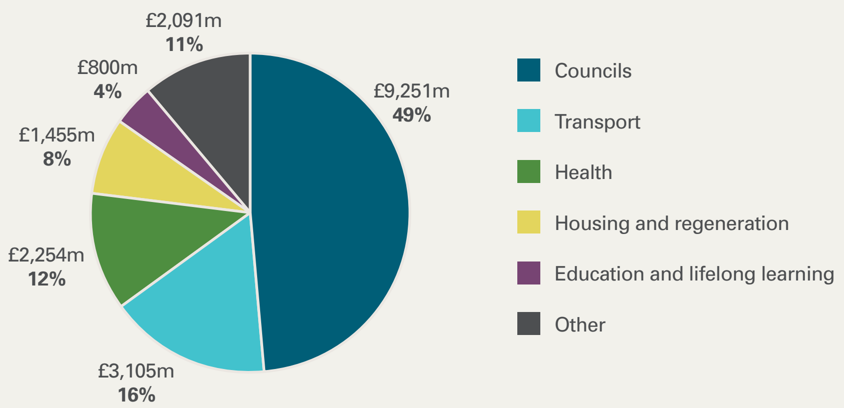
21. Councils have increased their use of borrowing since prudential borrowing was introduced in 2004. (Exhibit 2, page 9). This allowed councils greater flexibility to borrow for capital investment without specific consent from the Scottish Government. In doing so, each council

8 *Asset management in local government,* Audit Scotland, May 2009.
9 Councils' figures are taken from annual accounts. Other figures are taken from Scottish Government draft budget documents 2008-12. Owing to changes in the Scottish Government portfolio structure it is not possible to provide trend analysis from 2000/01.
10 *Scottish Local Authority Capital Expenditure 2010-11*, Scottish Government, April 2012.
11 Borrowing is mainly from the National Loans Fund and distributed by the Public Works Loan Board (PWLB). The PWLB is part of the UK Debt Management Office and is a non-ministerial UK government department.

Exhibit 1

Public sector capital spending by area 2008/09 to 2011/12 (real terms)

In the last four years, councils spent almost £9.3 billion on capital investment, about half of total public sector capital investment.



Note: Transport, Education and lifelong learning, and Housing and regeneration figures relate to central government spending. 'Other' includes Justice, Scottish Water loans, Rural affairs and the environment, and Enterprise, energy and tourism
Source: Audit Scotland

must decide and keep under review the amount of money it can afford to borrow for capital investment, with reference to the Prudential Code.[12] The requirements of the code are intended to ensure that councils apply proper care and prudence regarding investment decisions. Until 2011/12, councils received support from the Scottish Government towards the financing costs of borrowing. In the final year, this amounted to £305 million, representing just over a quarter of borrowing in that year. From 2011/12, this support was replaced by grant and included as part of the General Capital Grant.

22. Scottish Government grants have been the second main source of funding for councils. These comprise grants for specific projects and General Capital Grant, which can be used at councils' discretion. Although councils make their own decisions about capital investments and priorities, since 2000/01 the Scottish Government has provided £5.8 billion capital grant funding to councils in real terms. This is an average of about £480 million a year. The level of grant funding available to each council is an important factor in deciding how much borrowing they need to fulfil capital investment plans. Grant levels reached a peak of more than £820 million in 2009/10 but they have since declined in both cash and real terms.

23. Councils also use money transferred from revenue budgets and income from selling property to help fund capital investment. These and other sources provided less than a fifth of councils' total capital investment in 2011/12. Councils attribute the reduction in financing from asset sales to the significant general decline in property market values and activity across the Scottish and UK economy.[13]

24. Recent investment has contributed to an increase in the value of councils' total property assets reported in their annual accounts by 35 per cent, from £26 billion in 2007/08 to £35 billion in 2011/12.[14] The main sources of finance for investment in this period have been borrowing and the use of Private Finance Initiative (PFI) or Non-Profit Distributing (NPD) projects. Councils' combined debt levels have increased by 39 per cent from £9.3 billion in 2007/08 to £12.9 billion in 2011/12.[15] With further borrowing and private finance investment planned over the next few years, overall debt levels may continue to rise.

Councils have procured £4 billion of investment through private finance contracts

25. Councils have financed significant capital investment using PFI and NPD contracts. Under these contracts, the council appoints a contractor who is responsible for designing, building, financing and operating the new building over a contract period of around 30 years. The council does not have to meet the up-front costs of the new building or asset from its capital budget and does not pay for the investment directly from borrowing or other sources. Instead the council pays the contractor an annual charge for constructing the asset and any related services, for example building maintenance services, over the contract life.[16]

26. Councils have more NPD and PFI contracts in place than any other part of the public sector in Scotland. Since 2000/01, councils have procured almost £4 billion worth of capital investment in real terms using PFI

12 This is a professional code of practice developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to help councils with decisions that relate to affordability, sustainability and prudence.
13 For example, in evidence to the Scottish Parliament's Finance Committee in autumn 2012, Registers of Scotland reported that over the previous 12 months it had recorded just under £1.8 billion in commercial property sales in Scotland compared to the high of £6.3 billion during 2006/07.
14 Some of this growth is attributable to annual asset revaluation.
15 This is net external debt (total borrowing less any investments).
16 Buildings provided through PFI and NPD contracts have since 2010/11 been treated as assets on councils' balance sheets and some of the contract payments made to the PFI and NPD providers are treated as financing charges.

and NPD (Exhibit 3). This represents 58 per cent of total public sector NPD and PFI commitments in Scotland, compared to about 20 per cent in both health and central government. About half of these commitments were made in two years, 2006/07 and 2007/08, adding an extra 50 per cent worth of investment in those years and pushing the total investment to over £3 billion a year. Since then, councils have added £130 million of PFI and NPD investment.

27. The high levels of investment reflect previous Scottish Government policy, which encouraged councils to consider using PFI contracts for investment where councils judged it to provide value for money. Councils used PFI contracts for very large-scale major capital projects rather than smaller, more routine elements of capital spending. In 2008, the Scottish Government decided to adopt NPD as its preferred model for private finance projects.[17]

28. Thirty-eight projects for new or completely refurbished schools account for 95 per cent of the total value of councils' PFI and NPD commitments. Seven other PFI projects, including waste, IT and road projects, account for the other five per cent of these types of contracts.

29. Further information about methods of financing investment in councils is in Appendix 2.

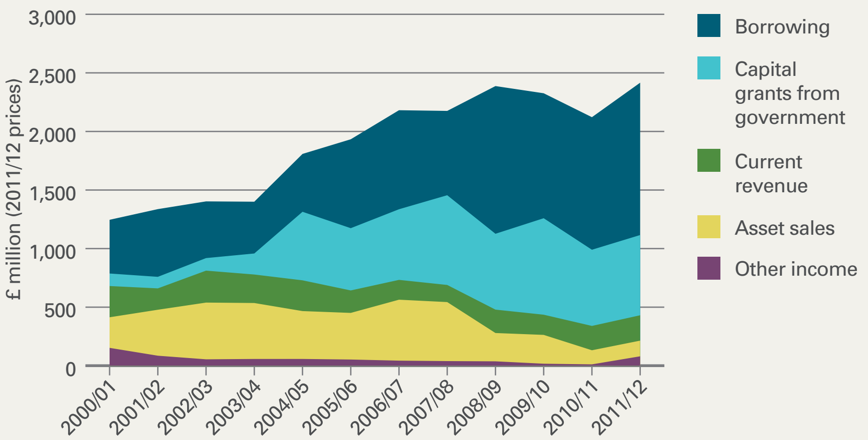
Councils have completed 121 major capital projects worth £3.5 billion since 2009

30. Each council must keep records of its capital projects. Annual accounts detail total capital investment spending each year. However, information was not available on all planned, ongoing or completed major projects across councils in Scotland. We therefore surveyed all 32 councils to get this information. We

Exhibit 2

Sources of financing for councils' annual capital expenditure, 2000/01 to 2011/12 (real terms)

Since 2000/01, councils have increasingly used borrowing and government grants, with a significant reduction in financing from receipts from asset sales.

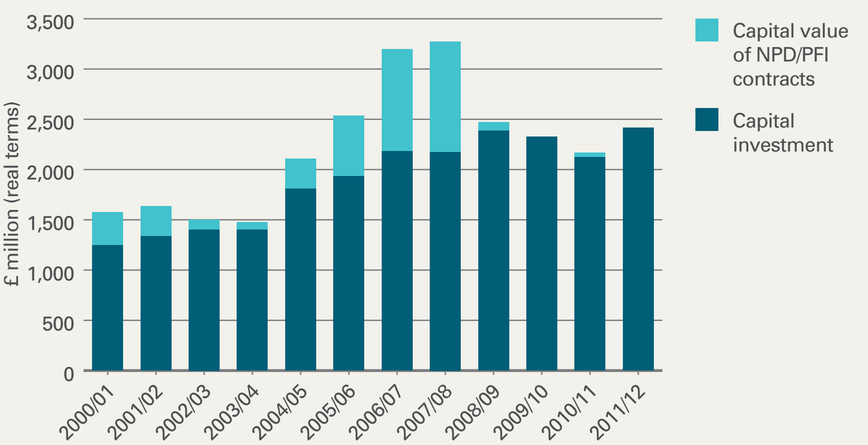


Source: Audit Scotland

Exhibit 3

Annual capital spending by councils and the capital value of signed PFI and NPD contracts in the same year

Since 2000/01, councils have spent £23 billion in real terms on capital investment. In addition, they have signed £4 billion worth of PFI and NPD contracts.



Source: Audit Scotland

17 Under the NPD method there is a partnership with a private sector company, who pays up-front construction costs and ongoing maintenance costs. The public sector pays an annual charge to this company over the life of the asset from its revenue budget. NPD contracts impose a limit on the profits that the private sector company may retain and any surplus profit is reinvested in the public sector.

concentrated on recently completed projects – that is, projects that were physically completed in the three years to the end of March 2012 – and projects that were in progress at the time of our survey in April 2012.

31. Councils reported that since 2009 they had completed 121 major capital projects with a combined value of £3.5 billion. Another 203 projects, worth £5.1 billion, were in progress at April 2012 (Exhibit 4).

32. Our analysis of completed projects shows the following:

- Most – 52 – with a combined value of £2.5 billion (71 per cent of the total cost of all projects) were for new or redeveloped schools.
- Thirteen were sports facilities, which accounted for £218 million (six per cent).
- Ten were road and other transport-related projects costing £124 million (four per cent), and four were arts projects costing £130 million (four per cent). These included the new Riverside Museum in Glasgow and the refurbishment of the Usher Hall in Edinburgh, costing £85 million and £25 million respectively.
- Eight were office accommodation projects costing £163 million (four per cent). These included Aberdeen City Council's new corporate headquarters (£68 million) and new office accommodation for Dundee City Council (£35 million).
- Three were flood prevention schemes costing £87 million (two per cent). The City of Edinburgh Council's scheme at Braid Burn (£43 million) was the largest of these.
- The remaining 31 projects, costing £320 million (nine per cent), included social housing, care homes and shared service facilities. West Lothian Council's Civic Centre (£47 million) was the largest of these projects.

33. Although only 16 of the 121 completed projects were PFI projects, they were higher-value projects with a combined value of almost £2 billion, 56 per cent of the value of all projects completed in the period. All PFI projects were for school buildings and property improvements.

34. Councils' investment in maintaining social housing can be significant but only a small proportion is in the form of major projects. Housing projects are typically valued at less than £5 million or are rolling programmes of maintenance and repair rather than new, one-off, projects. For example, in 2011/12, Aberdeen City Council spent £18 million replacing kitchens and bathrooms as part of its annual housing modernisation programme.

Councils have about 200 major projects in progress worth almost £5.1 billion

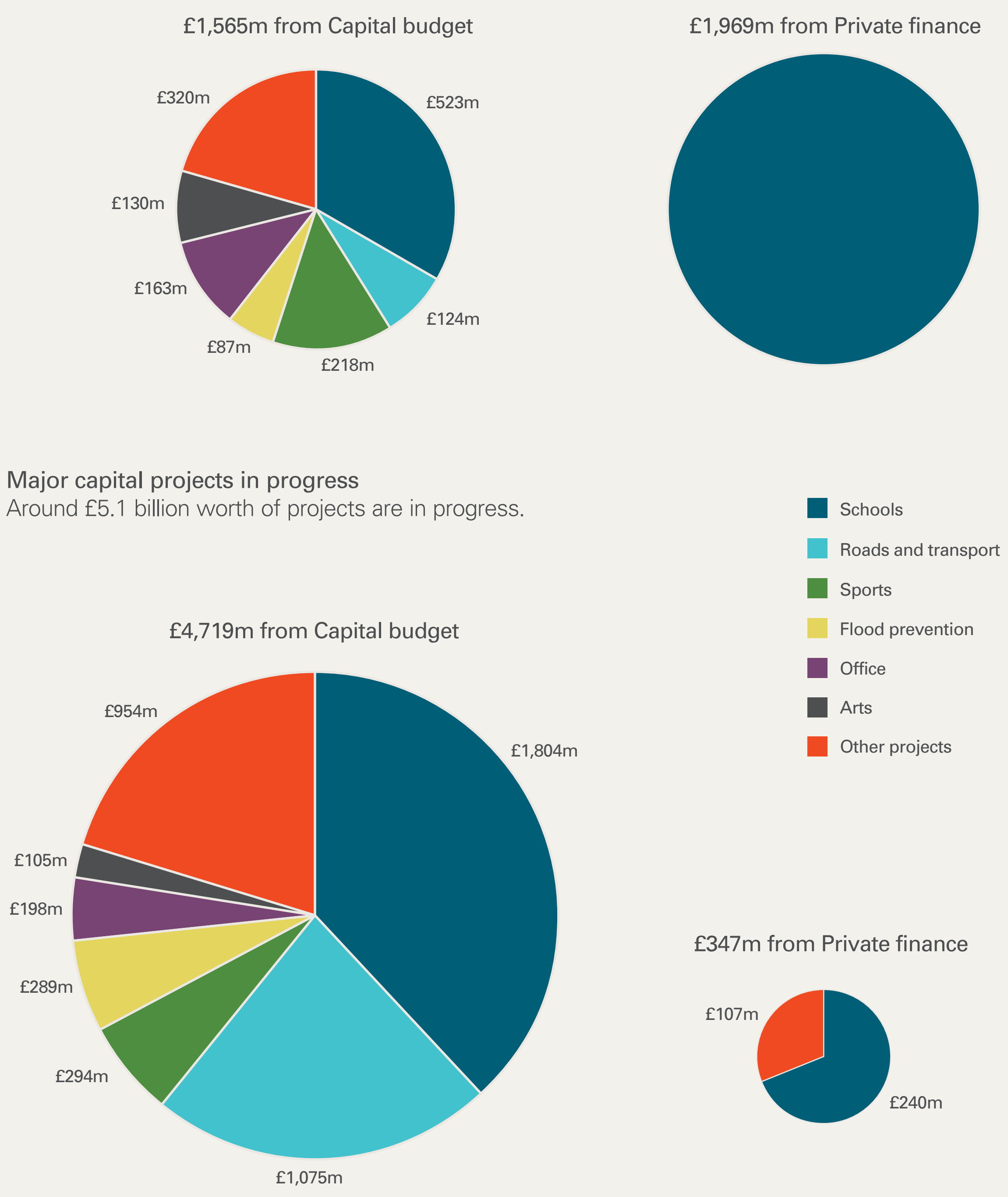
35. At the time of our audit, councils reported they had 203 major capital projects in progress with a combined value of almost £5.1 billion. This includes projects that are in the early planning stages through to projects where contracts have been signed and construction is under way.

36. Investing in school buildings and property will continue to represent the highest spending area in councils' capital investment plans. Projects in progress include 82 school projects with a combined value of £2 billion (40 per cent). Councils will fund most of these schools projects from their capital budgets.

Exhibit 4

Completed major capital projects (2009–12)

Councils completed £3.5 billion of major projects between 2009 and 2012.



Note: 'Other projects' include housing, waste treatment, care homes, community centres, regeneration and ICT projects.
Source: Audit Scotland

Part 2. Delivering major capital projects within cost and time targets

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

Key messages

- For most major projects completed within the last three years, councils' early estimates of the expected costs and timetable have proved to be inaccurate. For example, councils completed only two-fifths of these projects within the initial cost estimates. As expected, estimating improved significantly as projects advanced, plans became clearer and contracts were awarded.
- Estimating for school projects was better than for other projects. A seventh of completed school projects in our sample cost five per cent or more than the contract award estimate. This compared to almost half of non-school project estimates at the same stage. Similarly, a fifth of school projects were completed at least two months later than the contract award estimate, compared to just over half of non-school projects.
- Good practice requires strong control over costs and timescales of major projects. However, there are some significant gaps in the information that councils have to measure as to whether projects are completed to budget and on time.
- Councils' estimating of cost and time targets for a sample of current major projects is also inaccurate. Of 15 projects in progress reviewed, seven have cost estimates that are higher than initial estimates. Likewise, nine of these 15 projects have estimated completion dates that are later than initial estimates.

37. We have previously reported on how major public sector capital projects perform against time and cost targets. In 2008, our report *Review of major capital projects in Scotland* found that at project approval stage, the early estimates of cost and time were too optimistic for many major projects in health and central government. In 2011, our report *Management of the Scottish Government's capital investment programme* found that the accuracy of cost estimating had improved since our 2008 report but cost increases and slippage continued to affect many projects.

There are significant gaps in the availability of cost and time information

38. Good project management increases the likelihood that projects will meet time, cost and scope targets.[18] Key features of good practice include the importance of well-defined project plans with carefully calculated and realistic estimates of timescales and costs from the outset. Good practice requires strong control over the expected costs and timetable at each stage of the project from inception through to completion and operation. Each project should pass through several key stages (Exhibit 5, overleaf).

39. We examined the latest reported costs and completion time compared to earlier estimates for a sample of 63 completed major capital projects. These 63 projects accounted for over half of all projects completed by councils. They had a combined cost of £2.9 billion (82 per cent of the combined cost of £3.5 billion of completed projects). Summary information about the sample of projects is in Appendix 3. We have published separately on our website further information about the 63 individual projects in our sample.

40. In particular, we assessed the performance against two milestones:

- **Initial approval stage:** At this stage the following features of the project need to be clear:
  - Overall value and purpose.
  - Contribution to business goals.
  - The best balance of cost, benefit and risk for delivering it effectively.
- At this stage, accurate cost and time estimates contribute to effective decision-making. There should be a formal outline business case. However, there is no legal commitment as a contract has not been awarded. Where we refer to initial costs we are referring to estimates at this stage.
- **Contract award stage:** The estimate just before awarding the contract is vital because it provides a basis for confirming value for money before the main financial commitment (the construction or service contract) is accepted. Once a contract price is agreed, significant changes to a project are likely to be costly, disruptive and may jeopardise value for money.

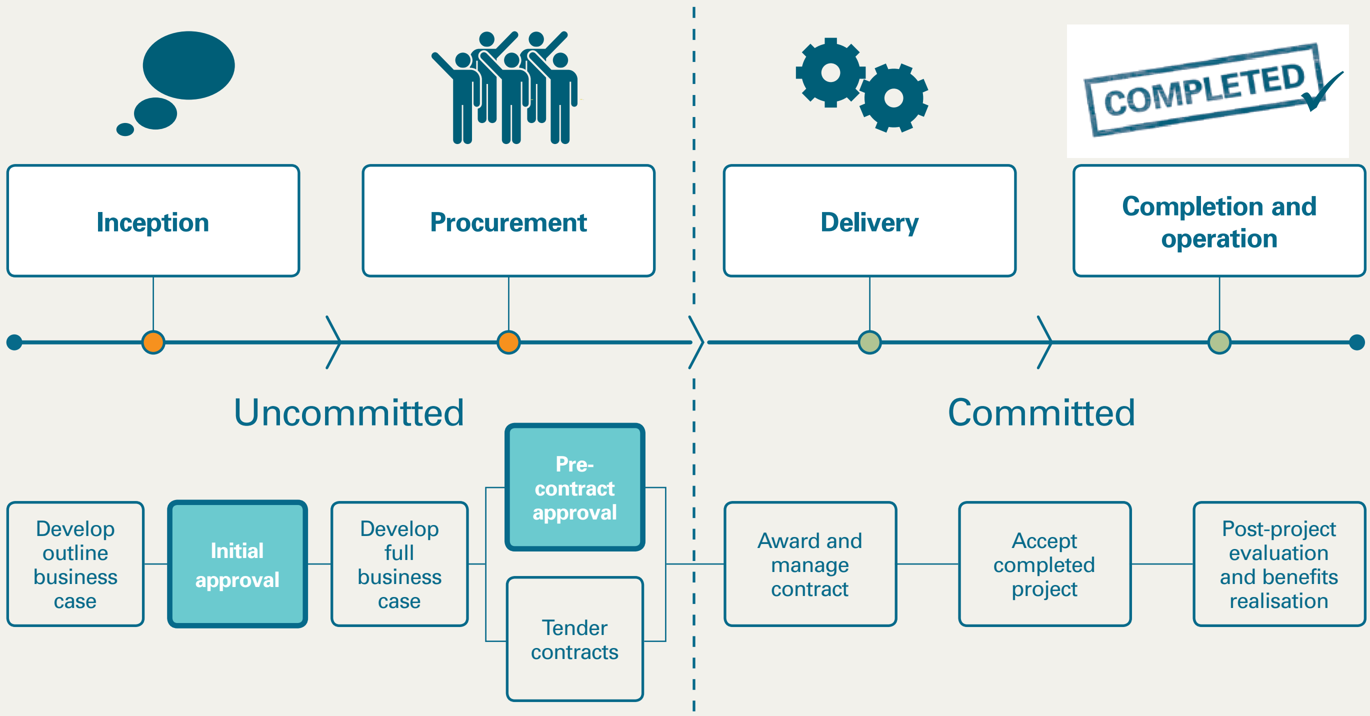
41. There are some significant gaps in the availability of cost and time information. For one in five projects, the relevant council could not provide a cost estimate at the initial approval stage, either because project costs were not estimated at this time or data were unavailable (records could not be retrieved). Similarly, 20 out of 63 (32 per cent) could not provide a time estimate at the initial approval stage.

18 Examples of scope targets include measurements such as space per pupil (schools) or number of beds (care homes).

Exhibit 5

Key stages in major capital projects

Each project should pass through several key stages. Two important milestones for any project are the initial approval and the pre-contract approval (shown as shaded below).



Source: Audit Scotland

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

Few major projects are completed within initial cost estimates

42. Forty-seven of the 63 projects in our sample were traditionally financed projects with a combined final cost of £980 million. Councils were able to provide cost estimates at the initial approval stage for 37 of these projects. Of the 35 projects where final costs were known, the majority had initial cost estimates that proved to be significant under-estimates:

- Councils completed 13 projects, costing £355 million, on or within the initial cost estimate.
- One project had final costs that exceeded the initial cost estimate by one per cent.
- Twenty-one projects had final costs that were significantly higher – between five and 189 per cent – than the initial cost estimate. These projects had a combined outturn cost of £344 million, £89 million (26 per cent) more than their combined initial cost estimates.

43. Councils reported a wide range of reasons for these overruns. They reported that changes in project scope were a contributory factor for time and cost increases for three-quarters of projects. They reported that unforeseen delays or extra costs from third parties, such as utility providers, affected half of the projects.

44. North Lanarkshire Council's Ravenscraig Regional Sports Facility had one of the largest monetary increases. It cost £33 million, against the initial estimate of £18 million. North Lanarkshire Council attributed this cost increase to major changes in project scope in conjunction with the development of a national strategy for sports facilities.

Estimating improved by the point of contract award

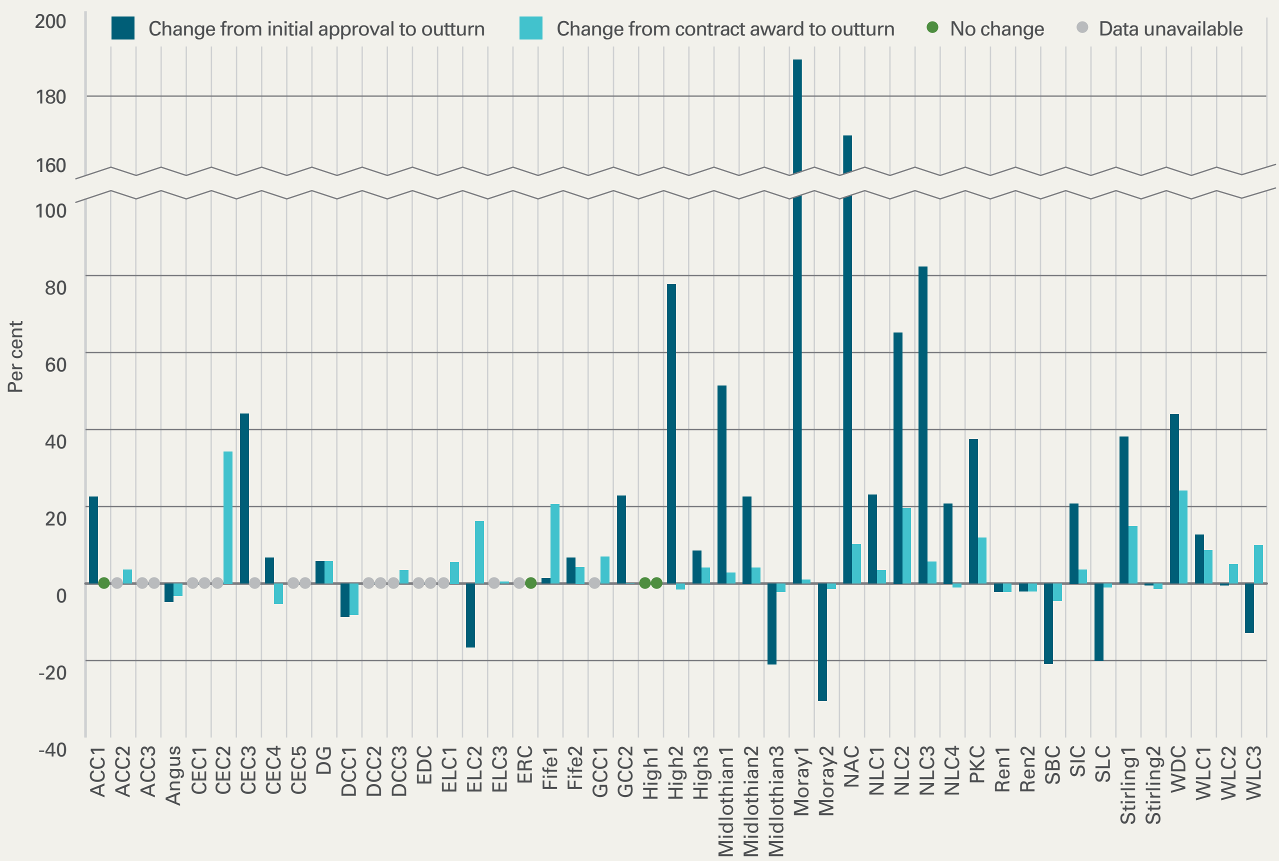
45. Councils were able to provide contract award estimates and final costs for 41 of 47 traditionally financed projects. These had a combined final cost of £838 million, £26 million (three per cent) more than the combined approved contract award estimate. Contract award cost estimates are more reliable than estimates made at the initial approval stage (Exhibit 6). For the 41 projects with contract award cost estimates:

- 16 projects, costing £447 million, were delivered within the contract award estimate

Exhibit 6

Traditionally financed projects – change in final cost compared to forecasts at earlier stages

Contract award estimates are more reliable than estimates made at the initial approval stage.



Note: Please see Appendix 3 for further information about each project
Source: Audit Scotland

- ten projects, costing £138 million, were less than five per cent above the estimate
- 15 projects, costing £253 million, were between five and 34 per cent over the estimate.

46. The City of Edinburgh Council's Usher Hall redevelopment had the largest cost increase for any traditional project when compared to the contract award estimate. The project cost £25.5 million, 34 per cent higher than the contract award estimate of £19 million. The council attributed the increase to substantial additional works on the foundations of the existing structure of the building considered necessary after contractors had started work. There were also knock-on costs from additional temporary works to allow access to the theatre during the period of the 2008 Edinburgh International Festival.

Early cost estimates for PFI projects were too low

47. Between 2009 and 2012, 16 major capital schools projects were completed using PFI contracts, with a total capital value of almost £2 billion.

48. We examined the cost and time targets for all 16 schools projects. For these projects we have used the Net Present Cost of the contract as the best measure of final cost.[19, 20] South Lanarkshire Council's Secondary Schools Modernisation programme and The City of Edinburgh Council's PPP2 Schools programme were the two largest projects, costing £407 million and £271 million, respectively.

49. Councils provided initial cost estimates for 13 of 16 PFI projects, with a combined estimated net present cost of £2.2 billion. For

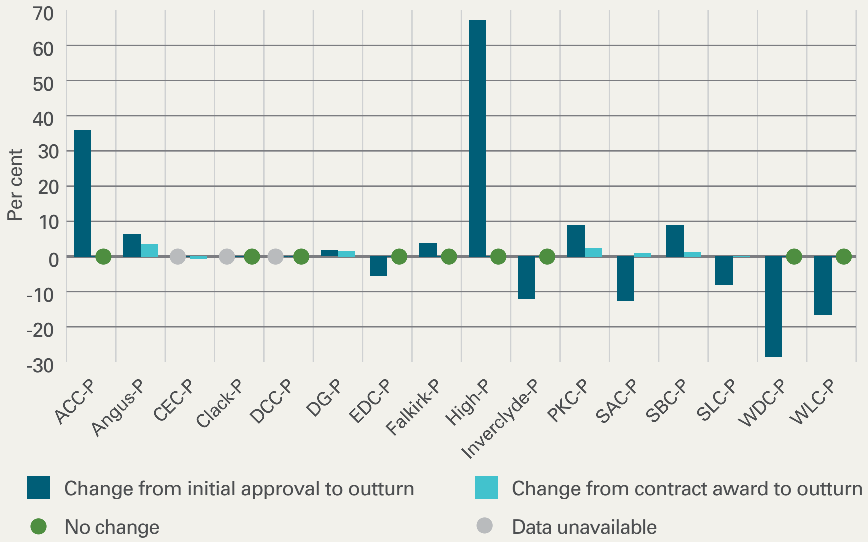
19 The Net Present Cost (NPC) is the value of all costs over the lifetime of the contract discounted to reflect the time value of money decreasing over the life of the contract. Lifetime costs include annual unitary payments made by the council to the private sector provider for use of the asset over the course of the contract – usually 25 to 30 years. These payments typically cover capital repayment and interest, service and maintenance costs.

20 The estimated capital cost of PFI projects in our sample was available for 15 of the 16 projects. These costs are detailed at Appendix 3.

Exhibit 7

PFI projects – contract cost compared to earlier estimates

Initial cost estimates for around half of PFI projects were under-estimates.



Note: Please see Appendix 3 for further information about each project.
Source: Audit Scotland

about half of these projects the initial approval estimates were under-estimates (Exhibit 7). We found that:

- six projects, costing £1,068 million, were completed on or within the initial cost estimates
- two projects, costing £344 million, were less than five per cent above the estimate
- five projects, costing £832 million, were between five and 67 per cent over estimate.

50. The Highland Council's schools project had the largest cost increase. The contract cost increased from £148 million to £247 million, an increase of 67 per cent. The council reported an increase in the construction cost element of the contract as a reason for the increase.

51. Cost estimates at the contract award stage for PFI projects appeared to be more reliable. Comparing the contract award estimate to the latest available estimate for each project:

- 11 PFI projects, with a combined cost of £2 billion (74 per cent by value), have latest estimates equal to or below the contract award estimate
- five projects with a combined cost of £708 million (26 per cent by value) have latest estimates higher than the contract award estimate; in each case these were by less than five per cent.

52. Councils reported that changes to scope were the main reason for increases in the latest estimated costs, where these occurred.

Most projects were delayed compared to initial estimates

53. We examined the actual completion time of all 63 projects, both traditionally and privately financed, compared to estimates made at the initial approval and contract award stages. The analysis of time estimates at the initial approval stage in this section is based on 43 projects, while the analysis of contract award time estimates is based on 61 projects. Councils were not able to provide us with time estimates for one or both stages for the remaining projects.

54. For 63 completed projects, the average duration was four years from initial approval. Generally, councils completed traditionally financed projects more rapidly than PFI projects, with PFI projects taking just over two years longer on average. The difference is largely due to the lengthier preparation period, from initial approval to contract award, for PFI projects. PFI projects spent an average of 34 months in the pre-contract stage compared to 20 months for traditionally financed projects. The longest PFI project was Perth and Kinross Council's Investment in Learning Schools programme, which took about eight years to complete. The council reported that almost four years were for preparation before the contract was awarded, including three years to resolve issues that were outside its direct control. Glasgow City Council's Riverside Museum was the longest traditionally financed project. It was complex, involving a design contest providing an iconic building by a world-renowned architect and had secured significant funding from the Heritage Lottery Fund. It took over seven years to complete, including over three years' preparation before the contract was awarded.

55. Seventy-nine per cent of projects took at least two months longer to complete than estimated at initial approval, with only 19 per cent completed on time. The average delay was 17 months, with delays ranging from three months to 52 months.

56. Where significant delays arose, they were mostly during the initial planning stages of projects, rather than the delivery phase where delays are more costly. Delays at initial stages may arise owing to unforeseen circumstances such as planning enquiries or legal challenges rather than specific project management issues. Time spent on planning and design of projects may help to avoid problems later in construction.

57. Estimating project duration was more accurate at the contract award stage. Fifty-six per cent of projects were completed on or within contract award estimates. However, 34 per cent of projects took at least two months longer to complete than the estimates at this point.

58. In most cases, the delay during the contract phase was shorter. The average delay was five months; delays ranged from one month to 24 months. South Ayrshire Council's schools PFI project had the longest delay following contract award, taking two years longer to complete than estimated. The City of Edinburgh Council's Usher Hall redevelopment and Fife Council's Carnegie Sports Centre project both took 11 months longer to complete than estimated at contract award.

59. Delays do not necessarily result in higher project costs. For example, The Highland Council's Raasay Ferry Terminal project took ten months longer than expected at contract award but its final cost was £200,000 lower than the contract estimate. The council reported that delays were due to a major subcontractor entering administration. However, as the contract risk remained with the contractor, the council did not have to meet any additional contract costs.

School projects perform better to cost and time targets

60. Within our sample of 63 completed projects, we reviewed the cost and time targets of 37 schools projects with a combined capital cost of £2 billion. These projects included building or redeveloping 84 primary schools and 72 secondary schools. Each project provided between one and 34 schools and some included a mixture of school types including primary, secondary or additional support needs schools. Sixteen projects, providing mostly secondary schools, were completed using PFI contracts; the other 21 projects providing mostly primary schools, were traditionally financed.

61. Schools projects had more accurate cost and time estimates than other projects:

- Fourteen per cent of schools projects had cost overruns of at least five per cent compared to the contract award estimate. This compared to 45 per cent of non-schools projects.

- Twenty-two per cent of schools projects were completed at least two months later than estimated at contract award. This compared to 54 per cent of non-schools projects.

62. Building and redeveloping schools is the most common type of major capital project that councils deliver. Councils' experience of delivering schools projects may explain why estimating is more reliable. The requirement to deliver new schools to coincide with school term dates and the high priority that councils give to these projects may also help to explain why councils deliver them more successfully.

Some major projects in progress have increasing costs and delays

63. We assessed how 15 major capital projects under way were performing against cost and time estimates. We reviewed these projects between August and December 2012 and, inevitably, costs and time estimates may have changed since our review. The combined value of these 15 projects is £919 million, which represents 18 per cent of the total value (£5.1 billion) of the 203 projects in progress (Exhibit 8, overleaf).

64. Seven of the 15 projects have cost estimates that are higher than initial estimates. The combined variance compared to initial cost estimates is £58 million, which is seven per cent higher than the combined value of initial costs (£861 million). Fife Council's Flood Prevention Scheme in Dunfermline has the largest percentage variance from initial estimate. The latest cost estimate is £24.7 million - an increase of 152 per cent from its initial estimate of £9.8 million (Case study 1, page 19). Glasgow City Council's Pre-12 Schools Strategy (phase 4) project had the largest cost increase from initial estimate. The current estimate of £178 million is £50 million greater than the initial estimate of £128 million (Case study 2, page 19).

65. Nine projects have estimated completion dates that are later than initial estimates, including five projects with slippage of a year or more. The time to complete Moray Council's Flood Alleviation Scheme in Elgin increased by 35 months mainly because of the need for a public local inquiry into the scheme to resolve planning objections. The time for The City of Edinburgh Council's project to provide an extension to the Edinburgh International Conference Centre increased by 43 months, mainly because of the withdrawal of the original contractor in 2007 and subsequent reappraisal of the scope of the project.

Recommendations

Councils should:

- carry out early assessments of risk and uncertainty to improve early-stage estimating of the cost and time of projects; each risk assessment should take into account experience and expertise gained from previous projects and the potential for higher risks with projects that are relatively novel

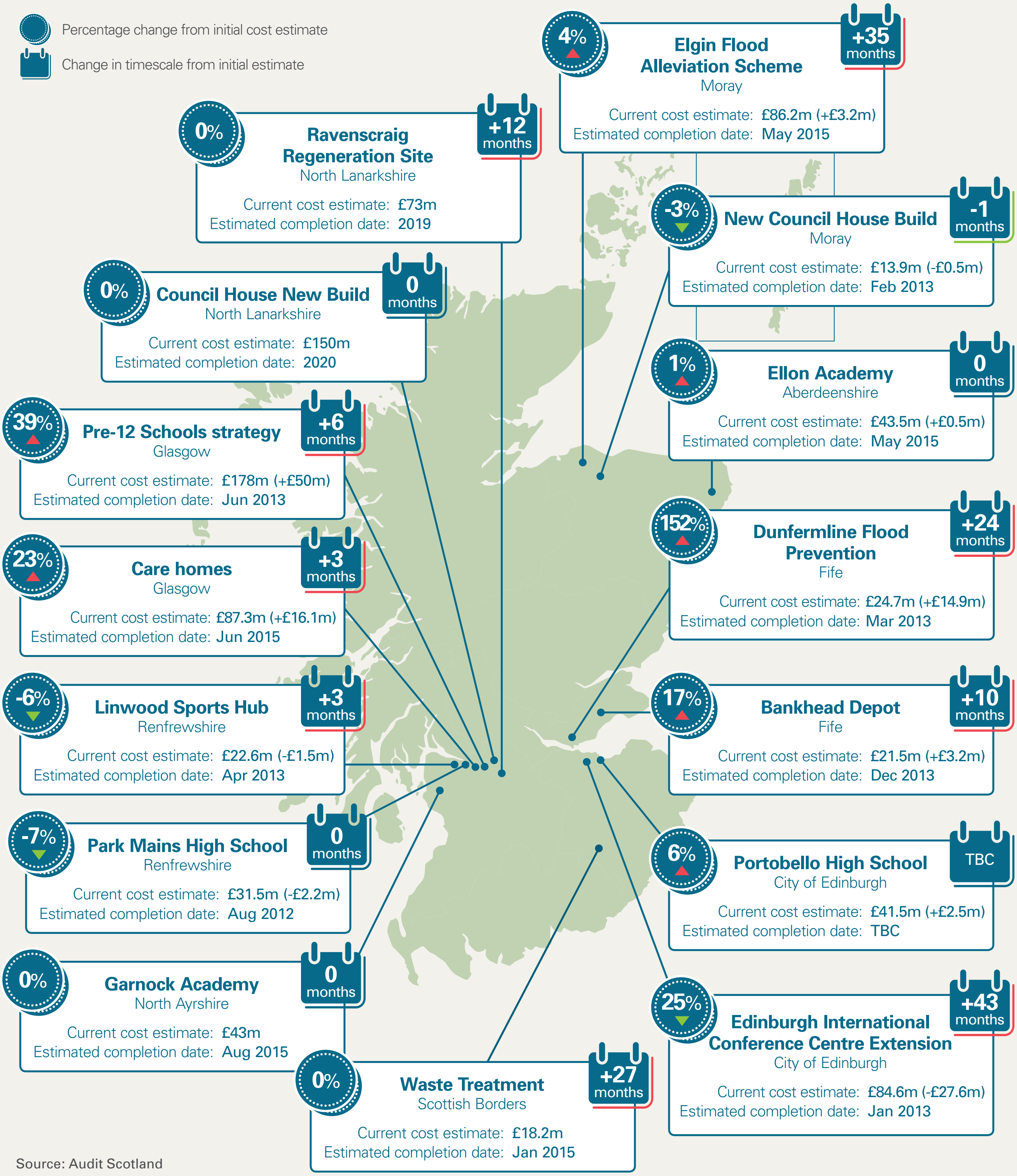
- collect and retain information on all projects including explanations for cost, time and scope changes and lessons learned

- report this information publicly to improve transparency and scrutiny of project delivery and share lessons learned across services and other councils.

Exhibit 8

Major capital projects in progress – variance of current estimates from initial estimates

Seven of 15 projects in progress have cost estimates above the initial estimate. The estimated completion date for nine projects has slipped.



Source: Audit Scotland

Case study 1

Fife Council – Dunfermline Flood Prevention Scheme

In December 2002, Fife Council initially approved the design of a flood prevention scheme in Dunfermline with an estimated cost of £3.75 million. In November 2005, the council approved the project with a revised estimated cost of £9.8 million, following work by consultants on the project design. In September 2006, the tendering process resulted in the appointment of a preferred bidder with an estimated price, including consultants' fees, of £14.15 million. Since then the project has been problematic, with conflicts between the contractor and the council and challenges with problems faced over the design and specialist nature of the project. As a result, the estimated cost has risen to £24.7 million and the expected completion date has slipped by a further two years from March 2011 to March 2013.

Source: Audit Scotland

Case study 2

Glasgow City Council – Pre-12 Schools Strategy (phase 4)

The council's Pre-12 Schools Strategy construction programme is designed to meet primary school needs across the area it is responsible for. The overall programme is multi-phased with phase 4 planned to deliver 16 new or refurbished primary schools. In 2006, when the programme was approved and began, cost estimates were £128 million. Individual schools projects within the programme are subject to regular reporting and cost control. However, the programme's total cost is now projected to be about £178 million by its completion in June 2013. The movements in cost are due to:

- problems over site identification and planning approval
- changes to design requirements
- unforeseen additional ground works needed as a result of siting on brown-field sites.

Source: Audit Scotland

Part 3. Managing capital projects and investment programmes

Because of its scale and impact, councils must clearly direct and rigorously manage their capital investment activity

Key messages

- Councils have improved governance structures for investment planning in recent years. But councils do not have enough monitoring information to scrutinise effectively. All levels of the governance structure, from working groups to committee level, need to be supplied with reliable, accurate, realistic and publicly available information for arrangements to be effective.
- Councils' investment and financing plans are uncertain. To the extent that plans are available, councils anticipate that investment will decrease over the next few years to 2014/15, although the position after this is unclear. Borrowing will remain the main source of finance for councils' investment spending.
- Many councils do not have established processes for developing and using business cases. Where available, business cases are often short and highly summarised and do not all reflect good practice. Without good-quality and realistic business cases, particularly at the initial approval stage, key performance information on aims, cost, time, scope and risk may not be clearly defined. This may make it more difficult to hold decision-makers to account if problems arise on a project.
- Councils are clear about the broad goals for their investment projects. However, where councils outline intended benefits, they are often high-level and measurable benefits are rarely specified. Councils have evaluated about half of recently completed projects to assess if they have delivered the intended benefits.
- Councils do not proactively seek opportunities to work with other councils or other public bodies in planning and delivering their capital programmes. While there are some examples of shared assets, joint procurement and joint projects, there is little evidence of councils systematically assessing the potential for increased joint working and the related costs and benefits.

66. This part of the report considers how well councils manage capital projects and programmes. It outlines areas where improvements are required to help councils achieve best value from their capital investment.

In recent years, councils have improved governance structures for investment decisions

Most councils plan investment corporately, taking into account future service priorities

67. Councils must have sound governance structures in place to oversee and deliver their capital programmes. Annual capital spending within each council ranges from £8 million to £332 million. At the time of our audit, 20 councils had at least four major capital projects at various stages of design and delivery. Of these, five councils had ten or more major projects under way including Glasgow City Council with 35. Particularly where there are many projects in progress simultaneously, it is important that councils have clear corporate oversight of:

- their investment programme
- how well they select and progress individual major projects.

Good practice – managing capital programmes

Because of its scale and impact, councils must clearly direct and rigorously manage their capital investment activity. To achieve this, they require to do the following:

- Be clear about the overall purpose and justification for spending and the benefits it will deliver. There should be a clear understanding of the links between investment, performance and outcomes.
- Establish priorities to help them decide which projects to choose taking into account what they can afford. Proposals for new investment should reflect these priorities. Councils should balance proposals for new projects with what they need to spend to maintain current properties and ensure they stay fit for purpose.
- Take a long-term view of their total investment spending so they can plan and coordinate it effectively.
- Put a clear and effective governance structure in place and ensure responsibilities are clearly defined, allocated and understood. The structure should provide scope for constructive challenge and effective scrutiny at all stages of the programme.
- Ensure financial and risk management are robust.
- Clearly define benefits and manage programmes to ensure they deliver the benefits. Monitor and report outcomes and learn lessons from programmes.

Source: Audit Scotland

68. Of the councils reviewed, we found that most capital governance structures follow good practice. This includes having an officer-led corporate capital group that considers and challenges the capital and asset management plans of each individual service. This group should report and make recommendations to the council's senior management team, who in turn will report, make recommendations and answer to the relevant council committee (Case study 3 is an example of a good governance structure).

69. Having a good governance structure is necessary but does not guarantee that councils will deliver capital investment plans and projects effectively. At all levels of the governance structure, from working groups to committee level, there should be clear arrangements for reporting and monitoring. All levels need to be supplied with reliable, regular information on the capital programme including details of current performance, financial performance, risk and benefits management.

70. Independent expert reviews at key stages of a project – known as Gateway Reviews – can help support good governance. The purpose of such reviews is to provide assurance about the performance and planning of the project at key stages, including the opportunity to identify – and correct – any gaps. It is mandatory to assess the need for and if necessary plan to undertake such reviews for all major projects in the central government and health sectors that the Scottish Government is directly responsible for. Most of the 16 completed schools PFI projects that we examined had received such reviews, as they were required as a condition of funding by the Scottish Government. However, councils considered or undertook such reviews for only one in five of their other major projects that we examined.

Councils are making progress in linking their investment planning to asset management

Good practice – asset management

Councils need reliable information on the condition of existing assets to be able to make the best decisions on what capital investment they need to make in the future. Good asset management plans provide information on the condition of their assets, if these are suitable and if the council has enough for its needs. These plans should also assess energy efficiency, reflecting the rising price of energy and the need to reduce carbon emissions.

Source: Audit Scotland

Case study 3

Good practice example – Aberdeenshire Council

Level	Purpose	Key activities
Policy and Resources Committee	Approval body for capital investment decisions	• Approve the capital programme • Approve the corporate asset management plan • Approve project inclusion into capital programme and subsequent spending
Strategic Management Team (SMT)	Acts as a steering group for capital works, led by Chief Executive	• Manage the capital strategy • Undertake strategic resource management • Manage corporate performance of investment • Consider and approve proposals for investment, making recommendations to the Policy and Resources Committee
Capital Plan and Asset Management Working Group	Acts as a project group for the capital programme, chaired by member of the SMT	• Review and challenge service asset management plans • Manage and monitor the capital plan • Assess proposals for new projects including options appraisal and examination of business cases • Assess requests from services for changes to current projects • Recommend to SMT the corporate prioritisation of projects

Source: Audit Scotland

71. In 2009, an Audit Scotland report found that many council assets were in poor condition and unsuitable for the services being delivered from them.[21] About half of councils had a council-wide strategy for managing assets and although there was some good management information available it was not always used to help make decisions. The report recommended that councils should ensure they put in place better asset management strategies. Our follow-up in 2010 showed that councils were making good progress.

72. In 2012, our review of nine councils indicated that most are adopting good practice in relation to their asset management plans. Most have asset management plans for each service area that feed into a corporate asset management plan. Together these help councils decide their capital investment priorities. For example, North Ayrshire Council and Renfrewshire Council have developed asset management plans based on categories suggested by CIPFA covering property, housing, ICT, open spaces, roads and fleet. The findings of condition surveys contribute to both councils' plans. Renfrewshire Council surveyed the condition of all non-housing property in 2011 and North Ayrshire Council plans to complete more surveys during 2012/13. However, some councils still have to complete asset management plans in some areas. For example, at the time of our audit, Moray Council had only completed an asset management plan for housing and was developing four other plans.

Councils adopt good practice when engaging with stakeholders on project-specific issues

73. Every project has stakeholders. These can cover a range of different groups including local residents, businesses, employees, service users, suppliers and public sector bodies such as health boards. Engaging and consulting with stakeholders is essential in achieving a successful project outcome. Stakeholders' interest in a project can have both positive and negative effects on its progress. Their concerns may also create additional risks to a project's outcome. Engaging with stakeholders effectively is therefore important and should be a vital part of project planning from the start. Consulting with stakeholders can often be a lengthy process. But it can shape the project at an early stage and help ensure a more successful outcome.

74. In our audit, councils demonstrated good practice in engaging with stakeholders on project-specific issues, particularly on projects where there is a statutory consultation requirement. For example, the Schools (Consultation) Scotland Act 2010 requires any council to formally consult if it proposes to change any part of the existing education services it provides in its area (Case study 4).

75. Although councils consult on individual projects, we found no evidence of them consulting with stakeholders on their capital programmes. Councils should consult with stakeholders on their capital programmes to ensure they are fully aware of their capital spending priorities and plans. This may:

- be particularly valuable to potential suppliers and contractors by finding out about potential procurement opportunities
- help identify opportunities to find efficiencies or synergies within the whole programme rather than restricting communications to project-specific issues
- offer stakeholders the chance to engage with, scrutinise and challenge significant spending proposals.

Case study 4

Good practice example – consultation. Moray Council

Public and statutory consultation has played an important role as the council has developed options for the Elgin Flood Alleviation Scheme. Consultation with the general public has continued since the start of the project. The council first consulted at the start of the project in 2002 with key stakeholders to identify the policies, plans and programmes that may affect the development of engineering options for flood alleviation in Elgin. The consultation took the form of meetings, supplements in local newspapers, press releases, public exhibitions and information on the Moray Flood Alleviation Group's website. There was also one-to-one consultation with individuals likely to be directly affected by the options. The council used this feedback to develop and refine the business case and technical reports.

Good practice example – consultation. Aberdeenshire Council

The council's consultation with the public for the Ellon Academy Campus development started in August 2011. The council issued a proposal document to parents, pupils, teaching staff, trade unions, community councils and Education Scotland. The council also launched a website dedicated to the development and displayed the proposals in the council's headquarters, libraries and neighbouring schools. The council asked HM Inspectorate of Education (HMIE) to independently review the consultation process. HMIE praised the plan as comprehensive and stated that it had allowed time for the council to collate and consider all views.

Source: Audit Scotland

21 *Asset management in local government,* Audit Scotland, May 2009.

Councils' investment and financing plans are uncertain

Good practice – capital investment plans

Capital investment is, by definition, a long-term activity. It is important that councils develop and maintain a clear strategy to direct and control their investment. To do this, they should produce an investment strategy with priorities to decide the level and nature of investment spending and develop plans to assess how they can finance and afford the spending.

Source: Audit Scotland

76. At the time of our audit, three councils did not have a corporate capital plan covering annual investment spending to 2014/15. Twenty-nine councils had plans, which indicated they would reduce investment spending by about 40 per cent between 2012/13 and 2014/15. However, many of these plans were tentative or needed to be updated as not all provided a complete forecast.

77. From a review of available plans, borrowing is likely to provide the main source of finance for investment. For six of the 29 councils with capital plans, their plans did not outline how investment would be financed, that is how much the councils would borrow, use grants or other sources to pay for planned investment.

78. To help understand what levels of borrowing councils might need to make, we projected investment spending and financing using three different, illustrative scenarios over the next eight years to 2020/21. For this illustration, we have assumed that government grant funding will fall by five per cent each year beyond 2014/15. Similarly, we have assumed that the contributions from current revenue, asset sales and other income will also decrease by five per cent each year to reflect recent trends. Our analysis showed that, by 2020/21, if capital investment was to:

- increase by five per cent each year, borrowing levels would need to almost double their current levels to £2.9 billion a year
- remain at current levels, borrowing levels would need to increase by 14 per cent on current levels to £1.6 billion a year
- decrease by five per cent each year, borrowing levels would fall by almost half of their current levels to nearly £700 million a year.

79. This analysis confirms that councils' future borrowing will vary significantly depending on their appetite or otherwise for additional investment. It illustrates the importance of councils developing a clear long-term strategy for investment and how they will finance this.

80. Councils plan to continue to use private finance for some future investment:

- Twenty-nine secondary schools projects will begin over the next few years as part of the Scottish Schools for the Future programme.[22] Councils will use the Hub initiative led by the Scottish Futures Trust (SFT) as the means to procure these projects. This may include up to around £300 million using private finance contracts.[23]
- In addition, the SFT has identified that about £1 billion of investment is needed over the next ten years if Scotland is to meet its zero waste targets. Twelve councils are planning to use private finance contracts to invest in waste projects although plans remain at the early stage of development in most cases.

81. Many councils are considering using Tax Incremental Financing (TIF) to finance capital investment, although no additional investment under TIF has yet gone beyond the planning stage.[24] Scottish ministers have approved three councils' business plans for TIF projects: North Lanarkshire, Glasgow City and The City of Edinburgh. However, the projects remain at an early stage and no council has so far made any additional borrowing under TIF. A further three councils – Falkirk, Fife and Argyll and Bute – are working with the Scottish Futures Trust to develop TIF business cases.

Councils need to develop long-term, sustainable investment strategies

82. Using borrowing and private finance can be attractive as it spreads the cost over many years. But by doing so, councils commit a larger proportion of future budgets to financing charges, for example, repaying debt and interest. This leaves less money available to spend on the day-to-day costs of running council services. This is demonstrated in the following ways:

- Annual interest and debt repayments for borrowing arrangements have increased from £946 million in 2009/10 to £1,450 million in 2011/12. This represented an increase from eight to 12 per cent of councils' net revenue expenditure over the same period.
- Annual payments for previously signed NPD/PFI contracts are increasing. In 2012/13, these annual payments were £459 million. These will peak at £591 million in 2025/26 with the final payment for current

22 The Scottish Schools for the Future programme is a £1.25 billion investment programme to provide 67 new or refurbished schools across Scotland. All councils are included in the programme, which reflects the Scottish Government and the Convention of Scottish Local Authorities (COSLA) joint school estate strategy established in 2009. The Scottish Government aims to provide £800 million for the programme over the period to 2017/18 and councils will provide the remainder.
23 See Appendix 2 for more information about the Hub initiative.
24 See Appendix 2 for more information about TIF.

signed contracts to be made in 2041/42. In 2012/13, The Scottish Government provided councils with £227 million (49 per cent) towards these payments. This level of financial support will continue each year but will reduce to around 39 per cent of annual payments as they peak in 2025/26.

83. Very few councils have developed detailed capital investment plans beyond 2014/15. There is less certainty about future funding arrangements beyond 2014/15. But councils need to develop long-term investment plans to set out their investment needs and constraints and provide the information needed for prioritising and planning. Long-term capital investment plans should also provide a strategic assessment of the various financing options available to the council.

Councils have weak processes for developing and maintaining business cases

84. Many councils do not have established processes for developing and maintaining business cases. The evidence we have indicates that, where they are available, business cases are short and highly summarised or are not updated, and therefore do not reflect good practice. For example, the business case for Midlothian Council's Cuiken Primary School only included an options appraisal with associated costs. It did not consider other important aspects such as an assessment of risk, a procurement strategy or details of stakeholder consultation plans. The business case for this project estimated it would cost £6.2 million but its final cost of £7.6 million was 23 per cent higher. Without detailed, accurate and realistic business cases, particularly at the initial approval stage, key performance information on aims, cost, time, scope and risk may not be clearly defined. This could make it more difficult to hold decision-makers to account if problems arise later in the project.

Good practice – business cases

Good-quality business cases are key to project scrutiny, decision-making and transparency. The business case should develop as each project develops. It should provide the basis for all important project decisions. Councils should develop business cases over the following stages:

- A Strategic Business Case (SBC) to confirm the strategic context of the proposal and provide an early indication of the proposed way forward.
- An Outline Business Case (OBC), including the council's preferred option for getting the best value for the money available. It should also provide details of a procurement strategy. This is equivalent to the initial approval stage at paragraph 40 previously.
- The Full Business Case (FBC) to revise the OBC and provide important project information including a recommendation following discussions with key stakeholders including potential suppliers. This is equivalent to the contract award stage at paragraph 40 previously.

Councils should revisit the business case throughout the course of a project, particularly if things change. These changes could include developments in financing arrangements; adjusting the scope of the project or dealing with an external delay that affects the project. Revisiting the business case will help to ensure that the aims and objectives remain clear and that project benefits remain relevant. It is also a good basis for transparency and accountability, by making sure councils are seen to be continually monitoring progress against the business case.

Source: Audit Scotland

Councils have appointed in-house providers for some major projects

85. An important part of any business case for a major capital project is developing a procurement strategy. The preferred procurement route for any project should include a detailed assessment of value for money to ensure councils take the best option for cost, quality and, ultimately, the likelihood of a successful outcome to the project. The strategy should consider the use of competition in selecting and appointing a contractor for the work.

86. One option available to councils is to use in-house providers, including arm's-length external organisations (ALEOs). Glasgow City Council and Fife Council have both recently appointed in-house providers for major capital projects (Case study 5, overleaf).

In many cases, councils are not outlining the intended benefits of investment

Good practice – identifying the benefits

It is important that councils clearly define the intended benefits of a project from the outset to justify the investment decision and provide a benchmark against which they can measure progress. By doing so, it allows councils to track, monitor and measure the delivery of benefits as a project progresses.

Source: Audit Scotland

87. Councils are clear about the idea or vision for their major investment projects. However, we found that where councils had outlined intended benefits, they were often high-level; councils rarely specified measurable benefits from investment. For example, neither Moray Council's Flood Alleviation Scheme nor Scottish Borders Council's Waste Treatment project clearly outlined a benefits strategy covering how the councils would measure or assess

Case study 5

Procurement of in-house providers to deliver capital projects

Glasgow City Council contracted with City Building Glasgow LLP (CBG), its wholly owned subsidiary, to carry out two major capital projects: Phase 4 of their Pre-12 Schools Strategy and their Care Homes and Day Care Re-Provision. The projects have a combined estimated cost of £265 million. The council decided to award the contracts for both projects to CBG by single tender, under case law (the 'Teckal' case). This exempts the council from European procurement rules if the council controls the provider and the provider carries out the essential part of its activities for them. The council appointed a cost consultant to assess the value of the CBG tender price, who reported that it was in line with market prices.

Likewise, **Fife Council** contracted with its internal trading organisation Fife Building Services (FBS) through a single tender to deliver renovation works at their Bankhead Depot, at an estimated cost of £11.4 million. The award was made on the basis that FBS would deliver 30 per cent of works and subcontract the remaining 70 per cent. The council's Property Services team benchmarked the price for the FBS element.

Source: Audit Scotland

the achievement of project benefits identified at the initial approval stage of each scheme.

Councils do not have enough information to scrutinise effectively

Good practice – monitoring information

The success of any governance system will partly depend on the quality of the information provided to decision-makers. It is important that this information is tailored to each level within the governance structure and that the decision-makers at each level have all the information they need. Without good information, there is a risk that decision-makers will not be able to ensure that the project delivers best value for money.

Source: Audit Scotland

88. Councils regularly report to elected members on capital spending and on major projects. However, in many cases, performance reports focus on comparing spending against approved annual budgets with the risk that scrutiny concentrates on any slippage in this area.

89. Monitoring information does not routinely extend to project performance against earlier benchmarks for cost, timescales and benefits. Without this information, elected members may not be able to properly challenge decisions made during the project and scrutinise how well the projects are progressing. Councils generally have weak processes for developing business cases and where clear business cases are absent ambiguities can arise about the initial cost estimates. This, in turn, makes it difficult to benchmark later cost estimates.

90. Generally councils monitor risks with their capital investment activity by focusing on individual projects. Councils rarely undertake more strategic reviews on programme-level risks, their implications and the proposed action to lessen their impact. Project risks need to be visible at a programme level to gauge the wider implications to other projects and the programme itself. Councils should reflect individual project risks on a programme risk register. They then should review and update these regularly. By not assessing risk at a programme level, councils will be unable to explore opportunities that may arise or manage threats to the programme effectively. Improving the quality of programme risk reporting will increase the likelihood that councils will identify risks at an early stage, allowing them to take appropriate and timely action. It does not guarantee a successful outcome. But it can help resolve any potential problems that may arise.

91. Councils provide training to elected members on capital issues. In many cases this is restricted to one-off training for new members as part of their induction rather than as part of an ongoing training programme. Councils should consider developing a continuing programme of training for members on capital issues, using independent external advisers if necessary. Increasing the knowledge and expertise of members on capital investment issues will help them scrutinise and challenge capital investment plans.

Councils do not review all completed projects to learn lessons

92. There are a number of reasons why a major capital project might fail to deliver best value for the taxpayer. When a project fails to deliver it is often due to a number of contributory factors, such as:

- lack of a clear link between the project and strategic priorities
- lack of robust planning and assessment of expected costs and timetable
- lack of accountability and leadership from senior officials or elected members
- lack of effective engagement with stakeholders
- poor relationships between client and suppliers.

Good practice – lessons learned

Identifying lessons learned from projects after they are completed, both in terms of success and failure, are key to improving the way councils deliver future projects. However, councils often overlook this stage of a major project. They should assess the completed project to ensure that it meets business requirements and provides good-quality design and functionality. They should then apply any lessons learned to other projects that are being developed.

Source: Audit Scotland

93. A post-project evaluation is often the formal review carried out at this stage and has two main purposes:

- to review how the project was managed, from preparing the business case through to how it was delivered and completed
- to assess whether the intended benefits set out in the business case have been achieved.

Without carrying out a post-project evaluation, councils will not be able to clearly demonstrate the investment has been worthwhile or identify lessons learned and apply them to future projects.

94. Just over half of the 63 completed projects in our sample had been evaluated to assess whether they have delivered the intended benefits. Councils reported the following:

- For 34 projects (54 per cent), they have undertaken, or are scheduled to undertake, a formal post-project evaluation. For the other projects, some councils reported they had carried out ongoing evaluations throughout the project, while others reported a lack of money or people to carry out any post-project evaluation.
- For 36 projects (57 per cent), they have undertaken, or are scheduled to undertake, a post-occupancy evaluation (POE) to assess how well the building operates.
- For 20 projects, about a third of the total, councils reported carrying out formal design quality assessments. These assessments were more common for PFI projects – eight of these projects (50 per cent) had a formal assessment of design quality. Councils had formally assessed 12 of 47 traditional projects against design quality standards. Where councils had assessed projects against specific measures of functionality, build quality, impact and diversity and inclusion, most reported the project as having scored 'high quality' across these areas. The exception to this was in build quality, where 41 per cent reported only 'satisfactory'.
- For 24 projects, councils reported they had assessed them against environmental (BREEAM) criteria.[25] This was 42 per cent of projects where councils responded to this question and considered the assessment was relevant. The majority of projects were rated as 'excellent' or 'very good'. Councils completed such an assessment for 81 per cent of PFI school projects, compared to 27 per cent for traditionally financed schools.

There is limited evidence of collaboration in capital investment planning

95. Councils do not proactively seek opportunities to work with other councils or other public bodies in planning and delivering their capital programmes. Collaborating with others provides councils with the opportunity to improve performance by making more effective use of their resources. This can take various forms, including sharing resources such as buildings and staff, taking part in joint projects or joint procurement. It can also extend to sharing good practice and advice in delivering capital projects and programmes.

96. Sharing or rationalising the use of buildings, land and property can help generate significant savings on accommodation and maintenance costs. Although there are some examples of shared assets, joint procurement and joint projects, there is little evidence of councils systematically assessing the potential for increased joint working and the related costs and benefits. Where joint working had been considered, councils reported it was difficult to work effectively with other public bodies owing to conflicting timescales or priorities.

97. The Scottish Futures Trust (SFT), established by the Scottish Government in 2008, leads a number of initiatives to help public bodies collaborate to make their capital investment programmes more efficient. The SFT has a remit to examine and develop new financing arrangements for investment and work collaboratively with both public bodies and commercial enterprises.

98. One of the main activities of the SFT is to lead the Hub initiative. The Hub is a procurement process aimed at improving collaboration and joint working between public sector bodies through a joint venture. There are five regional hubs in Scotland, each incorporating councils, health boards, police, and fire and rescue services. They work in partnership to deliver new community assets, such as local 'drop-in' offices and health premises. Many councils have projects either planned or in construction through the initiative, with most projects to deliver new accommodation facilities. The first completed project was Drumbrae Library Hub in Edinburgh which includes library, daycare and community-use facilities.

25 Building Research Establishment Environmental Assessment Method. It sets the standard to describe a building's environmental performance.

Councils should improve procurement strategies

99. Some councils have established ‘framework’ contracts to procure and deliver their capital programmes. These are long-term agreements between a council and a panel of suppliers to undertake major investment programmes. Such agreements can result in significant savings compared to other strategies that involve repeated one-off tendering for individual projects. They can allow purchasers and suppliers to build up strong working relationships. This helps to reduce the potential of expensive legal disputes. They should also allow for projects to be procured quickly and more efficiently.

100. A number of councils have framework contracts in place. In 2011, Aberdeenshire Council established a framework contract of five contractors to deliver over £200 million worth of major capital works. Similarly, in 2009, Renfrewshire Council established a framework contract to deliver five major projects within its capital investment programme. While establishing framework contracts is recognised good practice, it should not prevent councils from seeking opportunities with other councils and public bodies in joint procurement practices.

101. There is limited evidence of councils becoming involved in collaborative procurement for construction activity. In most cases, councils adopt their own procurement practices without working with other public sector bodies to identify possible opportunities for generating efficiencies through joint procurement.

102. In August 2012, the Scottish Government published its consultation proposals for a new Procurement Reform Bill. These proposals would establish new rules for procurement by Scottish public bodies, with an aim of adopting more efficient procurement practices across the public sector. The Bill aims to:

- use public procurement, worth about £9 billion a year, as a lever for economic growth
- streamline the public sector’s dealing with business
- adopt more efficient procurement practices
- secure value for money.

These proposals increase the profile of public procurement and the expectation that public bodies, including councils, implement, and can demonstrate, effective purchasing practice.

Recommendations

Councils should:

- develop and confirm long-term investment strategies to set out the needs and constraints for local capital investment and consult with stakeholders such as service users and suppliers as they develop these strategies
- assess the overall appropriateness of using borrowing and private finance within the investment strategy. The strategy should balance the costs, risks and rewards of using these methods to ensure plans are financially sustainable and help the council achieve value for money
- establish standard criteria for the content of business cases that reflects good practice and establish clearly defined project milestones for monitoring and reporting
- prepare detailed and robust business cases for every project. These should cover the intended aims and benefits, options appraisal, risk assessment and cost, time and scope targets
- actively look for opportunities for joint working with other councils, community planning partnerships and public bodies to improve the efficiency of their capital programmes. This should cover joint projects, sharing resources such as facilities and staff, sharing good practice and taking part in joint procurement
- improve the quality of capital project and programme information that is routinely provided to elected members. Information should cover:
  - annual financial performance against the capital budget
  - project and programme level performance against cost, time and scope targets
  - risk reporting (including identification, likelihood, financial impact and actions taken)
  - an assessment of intended and realised benefits
- consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary

- consult with stakeholders on its capital programme to ensure stakeholders are fully aware of council capital spending priorities and plans. This may create opportunities to generate efficiencies over the whole programme rather than restricting it to project specific issues
- improve how they manage risk and report on programme-level risk to members. Reports should provide details on the likelihood of risks occurring, potential impact and what proposals are in place to lessen the impact of risk
- carry out post-project evaluations within six months of a project being completed to find out if the projects have delivered, or are on course to deliver, the intended benefits and to learn lessons. The results should be reported publicly
- ensure lessons learned from projects are shared across services and other councils to help improve the successful delivery of future projects to time and cost targets.

Appendix 1

Audit methodology

The focus of our work was to assess how well capital investment is directed, managed and delivered within councils. For Part 1 we considered how much councils spend on capital investment, what this delivers and how it is funded. For Part 2 we focused on evidence from councils on the performance of recently completed projects and projects currently in progress. For Part 3 we focused on how well councils manage their investment spending as a programme.

Our audit had five main components:

- A questionnaire to all councils to collect data on all major capital projects completed between April 2009 and March 2012 and major capital projects in progress at April 2012.
- A detailed data survey of 63 completed projects.
- A case study review of 15 projects in progress.
- A review of capital programme management arrangements at nine councils.
- Desk research of existing information on council investment levels, debt and borrowing levels, types of financing and funding arrangements.

We did not consider capital investment relating to police and fire and rescue boards owing to their forthcoming mergers. We did not consider the Edinburgh trams project or projects relating to the Commonwealth Games in 2014 as these projects have been subject to separate Audit Scotland reports.

Initial data request

We requested data on all major capital projects completed between 1 April 2009 and 31 March 2012 from all 32 councils. This covered all types of projects, financing methods and projects where councils received financial contributions from other public or private sector bodies.

Data survey of 63 major capital projects

We analysed quantitative and qualitative data on a sample of 63 completed major capital projects. We selected this sample using information from the initial data request. The sample covered 28 councils, 52 per cent of the projects we had data for and 82 per cent of their total capital value. The survey requested data from each council on project cost, time, scope and quality. However, not all councils could provide all the data we requested as they were either not held or could not be accessed. Appendix 3 provides a full list of the projects included.[1]

Case study review of projects in progress

We reviewed a sample of major capital projects in progress to evaluate whether management controls and governance are effective. We selected the sample using the information we received from our initial request for data. The sample covered nine councils and 18 per cent of the total capital value.

We appointed Pricewaterhouse-Coopers after a competition to lead the case study reviews. Each case study included interviews with key project staff and a review of relevant project documents. The work was completed between August and December 2012 and therefore the status of each project may have changed since the review. The case study projects are identified in Exhibit 8 on page 18.

Review of capital programme management arrangements

We examined capital programme arrangements at a sample of nine councils: Aberdeenshire, Fife, Glasgow City, Moray, North Ayrshire, North Lanarkshire, Renfrewshire, Scottish Borders and The City of Edinburgh. These were the same councils included in the case study review noted above. We assessed how well councils managed their investment spending as a programme and how they could improve in this area. For this work we interviewed elected members, the Director of Finance or equivalent and other Heads of Service. We also reviewed a number of relevant documents.

Desk research and other analysis

We examined existing information such as trends in council capital spending, Scottish Government capital budget projections, sources of financing investment, and councils' borrowing levels and procurement activity. We reviewed published good practice on project and programme management, including information published by the Chartered Institute of Public Finance and Accountancy.

To help understand what levels of borrowing councils might need to make, we projected investment spending and financing using illustrative scenarios for variations in investment over the next eight years to 2020/21.

1 We have published separately on our website further information about individual projects in our sample.

Appendix 2

Methods of financing and funding capital investment in councils

Method	Potential
Capital grant	
The Scottish Government provides grant funding to each council on an annual basis. This has provided around a quarter of councils' capital budgets since 2000/01.	Looking ahead, the Scottish Government will reduce the capital grant to councils in real terms from £604 million in 2012/13 to £540 million in 2013/14, but will increase it to £733 million in 2014/15.
Prudential borrowing	
Introduced in 2004, it allows councils to borrow for capital investment. In doing so, each council must calculate and keep under review the amount of money it can afford to borrow with reference to the Prudential Code.	The potential for new borrowing depends, in part, on an assessment of affordability and therefore varies among councils. The City of Edinburgh (£151m), and North Lanarkshire (£93m) had the highest increases in underlying need for new borrowing in 2011/12. Eleven councils reduced their need for new borrowing, with Orkney Islands Council having the largest decrease of over £9 million.
Revenue budget	
Councils can transfer money from revenue budgets to capital budgets to fund capital investment.	The scope to transfer money from revenue budgets to capital budgets depends on how much councils are willing to reduce their revenue budgets.
Private finance initiative (PFI)	
PFI is a form of Public Private Partnership (PPP) where public and private sector partners agree a contract to build and maintain an asset that the public sector will use. The private sector partners pay for the up-front costs of building and ongoing maintenance in return for annual payments from the public sector. Contracts are usually for 25 to 30 years after which the asset either remains with the private sector or is transferred to the public sector.	Twelve councils have plans to use PFI for waste projects, although information on these is limited. Councils continue to operate a number of previously signed PFI contracts, mainly for schools projects.
Non-profit distributing (NPD)	
NPD is another form of PPP. As with PFI, there is a partnership with a private sector company, which pays up-front construction and ongoing maintenance costs. However, NPD contracts limit the profits that the private sector company may retain. Any surplus profit is reinvested in the public sector. The public sector pays an annual charge over the life of the asset from its revenue budget.	Four councils have each approved an NPD contract for new schools in their area, with a combined estimated capital value of £370 million. However, most councils are now pursuing new schools projects through the Hub initiative, which is more suitable for the smaller scale of projects included.
User charging	
However the project is funded, the public sector can help pay for it over time by charging the public to use the asset. Examples of user charging include road tolls and waste disposal charges.	This is restricted to certain assets and services such as museums, waste collection and leisure facilities.

Method	Potential
The Hub initiative	
The Scottish Futures Trust is leading hub implementation across five geographical territories in Scotland. The hub is a partnership-based approach to providing new community assets such as new health premises and other facilities for local community services. In each territory the initiative aims to bring together community planning partners (health boards, councils, police and fire and rescue services), the SFT and a private sector development partner in a joint venture delivery company called a hubco. Five hubcos were established between 2010 and 2012 and have awarded some initial contracts. Public bodies may acquire new projects through the hub using either traditional or private financing.	The hub aims to increase the value for money of construction procurement through better collaboration in the public sector and partnership with private sector suppliers. Previous Audit Scotland reports have identified the need for improvement in these areas. Hubco plans anticipate that they will deliver £2 billion worth of education, transport, health and community services projects over the next ten years. This includes plans for 29 secondary schools projects with an estimated capital value of over £800 million, to be taken forward within the Scottish Schools for the Future programme. The SFT estimates it will give significant financial benefits, including efficiencies of two to three per cent of total project spending and lower procurement costs.
Tax incremental financing (TIF)	
Many councils are considering using TIF to finance capital investment, although no additional investment under TIF has yet gone beyond the planning stage. Under TIF, investment is intended to be ultimately self-financing: • Projects need to be able to deliver regeneration and sustainable economic growth. • Councils invest in infrastructure, such as new access roads, to promote growth in a specified regeneration area. The objective is to attract and permit additional private sector investment - such as new shops, offices or factory space - in the same area. • Councils borrow to pay for their investment; however, the Scottish Government allows them to keep a greater share of the anticipated extra non-domestic rates income expected to flow from the additional private sector investment in the specified area. • If all goes to plan, in the short term the anticipated future additional income allows councils to borrow and repay more than would otherwise be affordable; in the long term the extra income pays for the infrastructure investment at no net additional cost to councils.	Three councils – North Lanarkshire, Glasgow City and The City of Edinburgh – have had business plans approved by Scottish Ministers for TIF projects, but have not made any financial commitments. A further three councils – Falkirk, Fife and Argyll and Bute – are working alongside the SFT to develop TIF business cases.
Capital receipts	
Councils can use income from selling assets to pay for new projects. In most cases councils use these receipts to supplement funding from grants.	During 2012/13, 25 councils planned to sell existing assets with a combined book value of £91 million. A further £62 million worth of assets are held for disposal at a later date, of which Glasgow City Council holds £55 million. However, any income received will depend on the sale price and conditions of each sale.

Appendix 3

Sixty-three completed projects analysed in our audit

Project reference	Council	Project name	Project outturn capital cost (£) [1]	Lifetime contract cost (£) [2]	Year of completion (ready for service)
Denotes PFI projects. PFI project references are also suffixed '-P'. All other projects were traditionally financed.					
ACC-P	Aberdeen City	3Rs School Programme	124,800,000	181,700,000	2011
ACC3	Aberdeen City	Marischal College	68,300,000		2011
ACC1	Aberdeen City	Regional Sports facility (Phase 1)	27,800,000		2009
ACC2	Aberdeen City	Rosewell House	8,700,000		2009
Angus-P	Angus	Forfar / Carnoustie Schools Project	42,300,000	75,500,000	2009
Angus	Angus	Seaview Primary School	6,000,000		2009
CEC-P	City of Edinburgh	PPP2 Schools Programme		270,600,000	2010
CEC5	City of Edinburgh	Braid Burn Flood Prevention Scheme	43,000,000		2010
CEC2	City of Edinburgh	Usher Hall	25,475,247		2009
CEC1	City of Edinburgh	Housing - Gracemount	6,000,000		2012
CEC4	City of Edinburgh	Inch View Care Home	8,895,000		2011
CEC3	City of Edinburgh	Redhall MLD Primary School	7,566,000		2008
Clack-P	Clackmannanshire	3 secondary schools project	65,500,000	93,800,000	2009
DG-P	Dumfries & Galloway	Schools PPP project	108,824,000	176,898,000	2010
DG	Dumfries & Galloway	Cargenbridge Depot	7,300,000		2010
DCC-P	Dundee City	Schools PPP project - phases 1-5	90,000,000	145,000,000	2009
DCC3	Dundee City	Dundee House	35,200,000		2011
DCC1	Dundee City	Kingspark Special School	13,700,000		2010
DCC2	Dundee City	Whitfield Primary School	8,000,000		2012
EDC-P	East Dunbartonshire	Schools PPP project	134,100,000	183,100,000	2009
EDC	East Dunbartonshire	Kirkintilloch Health & Social Care Centre	8,900,000		2009
ELC3	East Lothian	New Dunbar Upper Primary School	10,000,000		2011
ELC2	East Lothian	Housing - Brunt Court	8,600,000		2011

Notes:
1 Latest reported cost. Estimated construction cost for PFI projects.
2 For PFI projects only. This is the estimated Net Present Cost of contract.

Project reference	Council	Project name	Project outturn capital cost (£) [1]	Lifetime contract cost (£) [2]	Year of completion (ready for service)
ELC1	East Lothian	Kinwegar Waste Recycling Centre	3,800,000		2010
ERC	East Renfrewshire	Isobel Mair School	12,118,000		2011
Falkirk-P	Falkirk	Schools PPP project	115,500,000	167,390,000	2009
Fife1	Fife	Carnegie Leisure Centre refurbishment	20,050,000		2011
Fife2	Fife	Leven Primary Schools	9,600,000		2010
GCC2	Glasgow City	Riverside Museum	84,700,000		2011
GCC1	Glasgow City	River Clyde Regeneration - quay walls, public realm and bridge	30,600,000		2009
High-P	Highland	Education PPP2	133,900,000	246,700,000	2009
High2	Highland	Raasay Ferry Terminal	13,400,000		2010
High1	Highland	Highland Archive & Registration Centre	10,400,000		2009
High3	Highland	Lochaber High Phase 2 refurbishment	7,700,000		2011
Inverclyde-P	Inverclyde	Schools PPP project	77,600,000	124,200,000	2011
Midlothian1	Midlothian	Woodburn Primary School	10,900,000		2009
Midlothian3	Midlothian	Housing - Site 16 Eskvale Road	9,400,000		2010
Midlothian2	Midlothian	Cuiken Primary School	7,600,000		2009
Moray1	Moray	Forres Burn of Mosset Flood Alleviation Scheme	21,100,000		2009
Moray2	Moray	Council Headquarters Annexe	7,100,000		2011
NAC	North Ayrshire	Bailey Bridge	5,400,000		2010
NLC3	North Lanarkshire	Ravenscraig Regional Sports Facility	33,176,399		2010
NLC4	North Lanarkshire	Cathedral & Firpark PS campus & Daisy Park Community Centre	19,090,500		2011
NLC1	North Lanarkshire	Buchanan Centre	18,200,000		2010
NLC2	North Lanarkshire	Motherwell Theatre Refurbishment	6,700,000		2012
PKC-P	Perth & Kinross	Investment in Learning Programme	135,800,000	217,600,000	2011

Project reference	Council	Project name	Project outturn capital cost (£) [1]	Lifetime contract cost (£) [2]	Year of completion (ready for service)
PKC	Perth & Kinross	Errol Primary School redevelopment	6,600,000		2009
Ren2	Renfrewshire	Renfrew High School refurbishment	9,900,000		2010
Ren1	Renfrewshire	Johnstone High School (part 2) refurbishment	8,700,000		2009
SBS-P	Scottish Borders	Schools PPP project	76,300,000	110,500,000	2009
SBS	Scottish Borders	Kingsland Primary School	8,400,000		2010
SIC	Shetland Islands	New Mid Yell Junior High School	8,700,000		2010
SAC-P	South Ayrshire	Schools PPP project	76,300,000	127,700,000	2009
SLC-P	South Lanarkshire	Secondary Schools Modernisation Programme	318,900,000	406,600,000	2009
SLC	South Lanarkshire	Primary Schools Modernisation Programme	180,500,000		2012
Stirling2	Stirling	Peak Sports Village	27,200,000		2009
Stirling1	Stirling	Bannockburn High School Refurbishment	11,600,000		2010
WDC-P	West Dunbartonshire	Schools PPP project	96,992,000	137,049,000	2010
WDC	West Dunbartonshire	Goldenhill Primary School	7,200,000		2010
WLC-P	West Lothian	Schools PPP project	60,800,000	89,800,000	2009
WLC3	West Lothian	West Lothian Civic Centre	46,787,046		2009
WLC1	West Lothian	St Kentigern's Academy refurbishment	20,956,213		2009
WLC2	West Lothian	James Young High School refurbishment	18,515,997		2009

Notes:
1 Latest reported cost. Estimated construction cost for PFI projects.
2 For PFI projects only. This is the estimated Net Present Cost of contract.

Appendix 4

Project advisory group members

Audit Scotland would like to thank members of the project advisory group for their input and advice throughout the audit.

Member	Organisation
Ian Black	Director of Finance & Shared Services, East Dunbartonshire Council
Alan Carr	Board member, Civil Engineering Contractors Association
Stephen Crichton	Head of Corporate Finance, Glasgow City Council
John Fyffe	Executive Director (Education), Perth and Kinross Council
Alison Hood	Audit Manager, National Audit Office
Michael Levack	Chief Executive, Scottish Building Federation
Peter Reekie	Director of Finance & Structures, Scottish Futures Trust

Note: Members of the project advisory group sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

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ISBN 978 1 907916 93 9

This publication is printed on 100% recycled, uncoated paper

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