INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

VFM programme – Capital programme follow-up

Oxford City Council

17 December 2008

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Report

Background and key issues raised in the original report

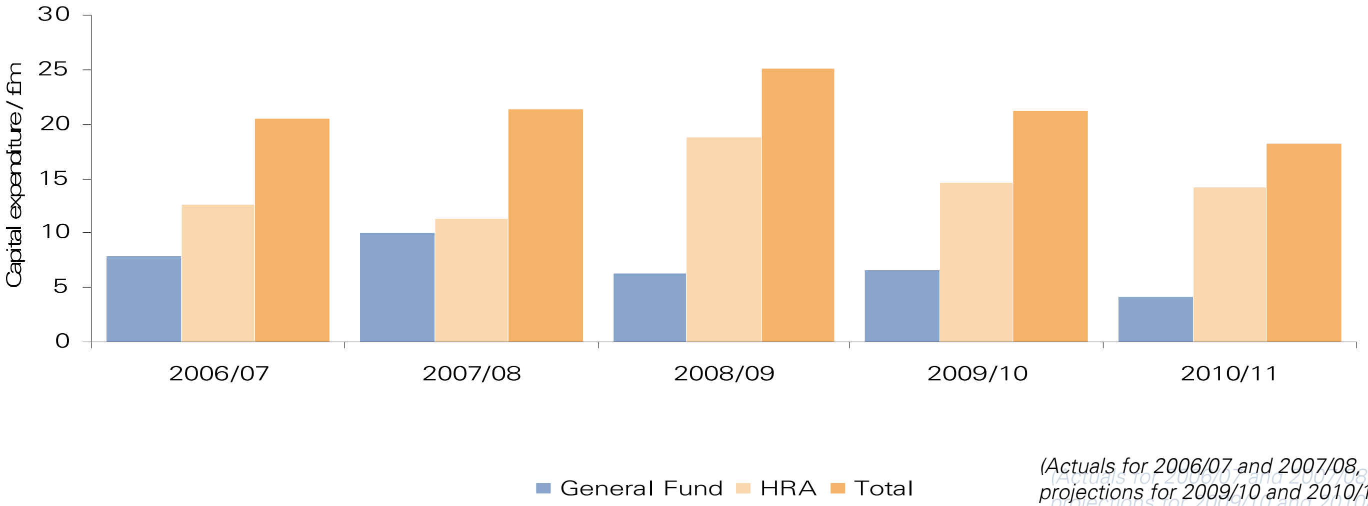
The Council funds its capital projects from a range of sources. Some projects are funded by specific government grants, such as disabled facilities grants, or other specific sources of funding, such as that received as part of a section 106 agreement with a property developer. Other projects are funded through more general mechanisms, such as capital receipts from the sale of existing assets, borrowing (which is repaid from revenue budgets) or directly from revenue funds.

In our report, we concluded that the Council was generally good at managing capital projects once they were agreed, but could improve the way it managed the capital programme in order that it could make the most effective use of its capital resources in seeking to achieve its strategic priorities.

Changes to the Capital Programme since our original report

When we undertook our review of the capital programme in early 2007, the Council had planned and commenced a significant programme of General Fund asset disposals, which would yield capital receipts that could be spent on capital projects. However, given the current economic climate, the Council has decided to defer the sale of these assets for the foreseeable future.

This reduction in the projected value of capital receipts has had an impact on the number of capital projects that the Council can reasonably hope to fund and, consequently, on the size and structure of the capital programme. The Housing Revenue Account capital programme has been relatively unaffected, as this is not reliant on General Fund capital receipts for the funding of projects. The Council has, however, reduced significantly the scope of the General Fund capital programme.

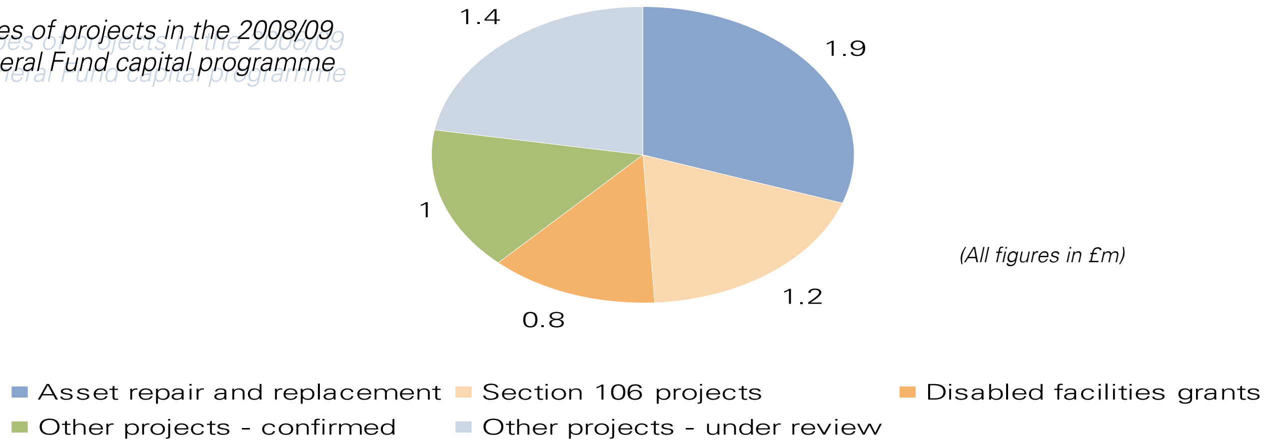


(Actuals for 2006/07 and 2007/08, budget for 2008/09 and projections for 2009/10 and 2010/11)

The Council has removed from the General Fund capital programme the majority of capital projects that would give rise to ‘new’ assets. Those projects that remain fall into one of five categories:

- projects that seek to repair or to replace existing assets;
- section 106 projects, where funding has been received from developers for a specific project;
- disabled facilities grants, where there is a statutory obligation for the Council to fund them;
- other projects where these are already under way or where funding has been committed; and
- other projects, the status of which is being reviewed – these may be removed from the capital programme.

Types of projects in the 2008/09 General Fund capital programme



In addition to reducing the size and scope of the capital programme, the Council has taken action to improve its management and operation.

Most significantly, the Council has established three boards which have a Council-wide remit, including specific responsibilities in respect of the capital programme:

- the transformation board assesses the viability of projects prior to their inclusion in the capital programme;
- the strategy board considers the capital programme as a whole, in order to ensure that it is affordable, that it represents the best use of the Council’s resources and that it will help the Council to further the achievement of its strategic aims; and
- the monitoring board is responsible – as the name suggests – for monitoring the progress of ongoing capital projects and for ensuring that any issues identified are addressed appropriately.

Each of these boards meets monthly and is made up of senior officers from across the Council.

The roles of the three boards in the management of the capital programme are shown below:

Transformation board	Strategy board	Monitoring board
Assessment of projects	*Development of programme*	*Monitoring and review*

Each project continues to be managed on a day to day basis by a nominated project manager within the business unit that is responsible for the project. The project manager has responsibility for both operational and financial aspects of the project.

Progress with implementation of specific recommendations

Recommendation	Action taken by the Council
1. The Council should ensure that all of the capital projects needed to achieve its strategic priorities are included in the capital programme. In order to achieve this, the Council may wish to consider adopting a more top-down approach to the development of the capital programme, with potential projects identified corporately by a group of senior managers and officers on the basis of the Council's strategic priorities.	Given the reduction in size of the General Fund capital programme in 2008/09, the Council did not solicit capital project bids from individual business units. Rather, the Council identified from its medium term financial strategy and from its budgeting processes what capital expenditure was required for the Council to meets its objectives. In the main, the projects identified were those relating to the repair and maintenance of existing assets, section 106 projects and disabled facilities grants. The projects proposed for inclusion in the capital programme were discussed and agreed by the strategy board prior to the finalisation of the programme.
2. The Council should consider reiterating to members and officers the importance of capital projects being linked closely to strategic priorities by grouping the projects on the capital programme by strategic priority, rather than by business unit.	The Council considered grouping projects on the capital programme by strategic priorities, but due to the reduced scope of the programme decided that grouping by business unit remained the most appropriate option. However, the Council does present its revenue budget by strategic priority area.

Recommendation	Action taken by the Council
3. The Council should assess all potential capital projects in terms of both feasibility (i.e. can the project be done?) and desirability (i.e. is this a project that we want to do?). In order to facilitate this assessment, the Council may wish to develop detailed criteria for each of these two dimensions of the project.	The capital programme currently includes to a significant extent only those projects where the Council has a statutory obligation to undertake them or where they relate to the maintenance of existing assets. As such, there has been little scope for the Council to assess the relative desirability of competing projects, as the current projects are all necessary for one reason or another.
4. The Council should develop a strict hierarchy of classifications for capital projects, enabling officers assessing potential projects to differentiate between projects that seek to maintain and protect existing assets and projects that seek to develop new assets. This will assist the Council in ensuring that new assets are not developed at the expense of the maintenance of existing assets.	The majority of current capital projects aim either to meet statutory or other obligations or to maintain the value of the Council's existing assets. There is, therefore, little scope to implement this recommendation within the management of the capital programme as it currently stands.
5. The Council should consider the whole life capital and revenue costs of each project, including ongoing maintenance costs, and should ensure that these costs are integrated into business unit budgets if the project is approved.	The Council considers the capital and revenue costs of each project proposed for inclusion in the capital programme, though usually only for a defined period, for example the first ten years of the asset's life. The revenue implications of each project are factored into the budget of the relevant business unit as part of the Council's annual revenue budgeting process.

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Recommendation	Action taken by the Council
6. The Council should consider establishing a high level officer group to scrutinise individual (or just major) projects thoroughly in terms of their feasibility and desirability prior to their inclusion in the capital programme and to prioritise projects in the event of competing demands for resources.	The Council has established a strategy board, which has responsibility for overseeing the capital programme and the projects within it. The strategy board is made up of senior officers from across the Council, including the Chief Executive, two executive directors and the Heads of Finance, Property and Policy. The strategy board meets on a monthly basis.
7. The Council should seek to introduce a greater element of flexibility in the timescales for the development and approval of capital projects and to make sure that relevant officers across the Council are aware of this.	The Council continues to allow multi-year projects and to permit officers proposing capital projects to profile capital expenditure as appropriate to the project. The Council recognises, however, that this existing flexibility may need to be communicated more effectively to officers involved in the preparation and development of capital projects.
8. The Council should seek, on an ongoing or periodic basis, to identify those capital projects that are unlikely to go ahead and to determine whether it is appropriate for them to remain on the capital programme.	The Council has reviewed all projects in the capital programme and has removed those that are no longer desirable or that look unlikely to go ahead in the immediate future.
9. The Council should allocate clear corporate responsibility for the management of the capital programme. The individual or group charged with this responsibility should have a clear remit and should also be provided with appropriate authority to receive any information that is required.	The strategy board is now responsible for the management of the capital programme. In exercising this responsibility, it also draws on the findings of the transformation board and the monitoring board.

Recommendation	Action taken by the Council
10. The Council should develop an appropriate corporate mechanism for monitoring the performance of capital projects. This monitoring should focus on both the financial position of each project and its operational performance (i.e. where is the project against the plan of activity?).	The performance of individual projects is monitored by the monitoring board, which considers both financial and operational aspects of performance.
11. The Council should be realistic about the number of capital projects that it can feasibly manage each year and should ensure that the capital programme is maintained at an appropriate level.	As a result of the constraints that the Council is facing in terms of capital financing, the Council has reduced significantly the number and scope of projects included in its capital programme.
12. The Council should consider requiring all recharges to capital projects to be processed at least quarterly, so that the financial performance of projects against budget can be monitored effectively.	All recharges to capital projects are now processed on a monthly basis.
13. The Council should conduct a periodic review of how it manages the capital programme, to ensure that any issues regarding the capital programme are identified and addressed promptly and appropriately.	The Council has recently undertaken a review of its management of the capital programme, which was informed in part by our value for money report. As a result of this review, the Council has made a number of changes to the way it manages the programme. For example, it has created the strategy, transformation and monitoring boards described in this report.

Recommendation	Action taken by the Council
14. The Council should conduct a periodic review of the effectiveness of the capital programme in furthering the achievement of the Council's priorities. This review could draw on post-implementation reviews conducted for individual projects.	The Council has not yet sought to undertake a review of the effectiveness of the capital programme in helping the Council to achieve its strategic priorities.
15. The Council should ensure that post-implementation reviews are undertaken for all significant projects (significant in terms of their nature, their novelty or the amount of funding involved) to determine to what extent they have met their objectives.	The Council recognises the importance of undertaking post-implementation reviews for capital projects, and has provided staff within each business unit with training in respect of the PRINCE 2 project management methodology. The Council does not consider it appropriate to undertake such reviews for capital projects relating to disabled facilities grants and asset maintenance, given the nature and the small size of these projects. However, it does plan to undertake post-implementation reviews of significant capital projects in the future.

Overall conclusion

The Council has taken considered action to improve its management of the capital programme, mainly through the establishment of the strategy, transformation and monitoring boards and the introduction of specific project management training for members of staff in each business unit.

The Council has also sought to rationalise the capital programme and to give greater consideration to the desirability and feasibility of projects. Although this is a consequence more of the significant reduction in the level of capital resources available to the Council than of a concerted effort on the Council's part to get better value for money from its capital programme, the end result is the same: a leaner capital programme that is more focused on the achievement of the Council's strategic aims.

Future challenges

At some point in the future, land and property prices will inevitably rally and the Council may wish to reconsider the possibility of disposing of some of its existing assets in order to generate capital receipts for reinvestment. This, together with funding from other sources, will increase the level of funding available for the Council's capital programme.

The challenge for the Council is to maintain the discipline that it has introduced into the management of the capital programme, particularly as the level of available capital resources increases.

Suggestions for further action

We would encourage the Council to ensure that the improvements that it has made to the management of the capital programme are embedded both corporately and across its individual business units, so that they can be maintained consistently in the future.

We would also encourage the Council to give further consideration to the areas highlighted in our value for money report that it has not yet had the opportunity to address, namely:

- assessing the desirability of potential capital projects, as well as their feasibility (recommendation 3);
- developing a scheme of classification for capital projects (recommendation 4);
- conducting a periodic review of the effectiveness of the capital programme in furthering the achievement of the Council's priorities (recommendation 14); and
- ensuring that post-implementation reviews are undertaken and reflected upon for all significant capital projects (recommendation 15).

Acknowledgement

We would like to thank the members and officers of the Council for their assistance over the course of this review.
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