Just Capital...

Local Authority Management of Capital Projects
The Audit Commission

. . . promotes proper stewardship

of public finances and helps those

responsible for public services

to achieve economy, efficiency

and effectiveness.
Just Capital...

1. Meeting Needs

2. Effective and Efficient Teamwork

3. Time for Design

4. Value for Money

5. Delivering Projects

6. Project Completion and Review
# Capital Expenditure and Capital Controls

Meeting needs through capital expenditure

What capital projects do local authorities undertake?

A changing world

Construction industry changes

Local government changes

The principles of managing capital projects

Complex challenges

Structure of the report

## Meeting Needs

Project selection

Identifying needs

Defining objectives

The corporate dimension

Integrating projects with the capital programme

Recommendations

## Effective and Efficient Teamwork

Teamwork and communication

Establishing the team

Client role

Managing technical staff and consultants

Recommendations

## Time for Design

Authorisation and allocation of time

Approval to plan

Time for design

Time for pre-tender review

Design time and cost implications

Design and tendering

Provisional sums

Recommendations

## Value for Money

Procurement strategy

Approach to procurement

Tendering process

Other VFM techniques

Risk management

Cost planning

Value management and value engineering

Recommendations

## Delivering Projects

Well-managed projects

Information systems

Monitoring process

Monitoring progress

Acting on monitoring results

Controlling variations

Reporting significant problems

Recommendations

## Project Completion and Review

Project completion

Handover

Final accounts

Post-project review

Learning the lessons

Recommendations

## Next Steps

Better value for money

Good practice

Key questions

Appendix 1 –

When is it capital?

Appendix 2 –

Where does the money come from?

Appendix 3 –

Capital expenditure on services

Housing

Roads

Education

Economic regeneration projects

Acquisition of land, vehicles and information technology equipment

References

Index
Preface

In February 1995 the Audit Commission began a study of capital expenditure and acquisition by local authorities. The study is being conducted under both of the Commission’s statutory powers for studies, set out in the Local Government Finance Act 1982:

♦ Section 26 empowers the Commission to examine the performance of local authorities and to make recommendations highlighting best local practice in achieving economy, efficiency and effectiveness, known as the ‘three Es’; and

♦ Section 27 empowers the Commission to examine the effect of statutory provisions or ministerial directions or guidance on the three Es in local government.

This study is being carried out in two phases:

♦ Phase 1, the subject of this report, gives more emphasis to Section 26 issues and studies how local authorities manage their capital expenditure in terms of individual projects; and

♦ Phase 2, which will be published in 1997, focuses more on Section 27 issues and studies how local authorities both acquire resources to undertake capital expenditure and how they manage their capital programmes.

Phase 1 of the study will lead to local audits in 1996 and 1997. A management handbook based on Phase 1 will be published in autumn 1996.

Research for Phase 1 has involved:

♦ visits to 10 local authorities, examining the ways in which they manage their capital programmes, and looking in more detail at 21 separate projects;

♦ a postal survey of 60 authorities, obtaining information on the management of programmes and projects and on details of more than 700 individual projects. The survey requested information on projects reaching practical completion during 1994/95. Of the 60 authorities surveyed, 47 provided usable information, although in some cases it was incomplete; and

♦ comparing local authority practices with those in the private sector.

There is considerable variation in the success with which local authorities manage their capital projects, and this report identifies areas of good and bad practice. This report also shows that the methods by which central government influences the capital resources available to local authorities significantly affect their ability to achieve economy, efficiency and effectiveness. Phase 2 of the study will consider this issue in more detail.

The study has been carried out by a team from the Local Government Studies Directorate of the Audit Commission with support from Davis Langdon Consultancy. The Local Government Studies team comprised Max Peacock, on secondment from the Department of the Environment (DoE), and Carmel
Zammit, under the direction of Jon Vaughan Jones. The Davis Langdon team consisted of Adrian Jackson-Robbins, Malcolm Potter and Paul Coomber, under the direction of Jim Meikle. An advisory group of practitioners appointed by the local authority associations met four times during the study.

The Commission is grateful to all who helped. However, responsibility for the findings and recommendations in this report lies with the Commission alone.
Introduction

Capital expenditure is the money that councils spend, as part of their plans for delivering effective local services, on buildings and other large items that are expected to last for at least several years. Local authorities spend about £7 billion per year in capital expenditure.

Housing accounts for about 40 per cent of capital spending, transport for 20 per cent and schools for 10 per cent. Capital spending forms a significant part of nearly every council’s budget and over half of it is spent on constructing or renovating buildings.

Both the construction industry and local government are facing wide-ranging changes. A 30 per cent reduction in construction costs by the year 2000 is the target for the construction industry. The extension of compulsory competitive tendering to construction-related services and an increasing reliance on private sector finance are affecting the way that local authorities commission and manage construction projects.

Managing capital projects is a complex business. Local authorities should examine their performance against the criteria of a well-managed project.

Capital expenditure and capital controls

Meeting needs through capital expenditure

1. Local authorities in England and Wales undertake about £7 billion per year of capital expenditure. Although this figure has been relatively stable in cash terms since 1990, it represents a decline in real terms – and a cash decline is expected in 1996/97 (Exhibit 1).

Exhibit 1
Gross capital expenditure
(at 1995/96 prices)

Overall spending has declined in real terms.

2. Much of this substantial investment of public money is spent on buildings and other projects which will last for many years and, in some cases, substantially change the character of the local environment. Local authorities' decisions on capital expenditure should therefore be driven by their assessment of service and community needs, and how they can best be met. Capital expenditure – at its simplest defined as expenditure that is undertaken on large items expected to provide benefit for several years (a more detailed definition of capital expenditure is in Appendix 1) – should be part of an authority's overall plan for delivering effective services that meet local needs. It is not an end in itself.

3. Central government exercises considerable control over the way in which capital funds are acquired by local authorities, using complex rules that restrict local authorities' freedom to choose how much is spent, what to spend it on and when to spend it. Authorities often complain that the extent of central government control damages their ability to achieve best value for money. For example, many funding approvals are time-limited, which sometimes encourages authorities to spend the money while it is available, irrespective of whether that is the most sensible course of action. Authorities also claim that the overall amount of available capital finance is insufficient for their needs so that, for example, schools and other council properties are said to be deteriorating beyond an acceptable standard. In addition, they say that the demand for long-term capital refurbishment or replacement is increasing because constraints on revenue spending are resulting in routine maintenance being underfunded.

4. Such comments are frequently voiced within local government, and in Phase 2 of this study the Commission will consider the extent to which central control of capital finance inhibits local government's ability to achieve economy, efficiency and effectiveness. It will also consider increased access to European and other funding, and the Private Finance Initiatives (PFI), as well as the way in which local authorities manage their capital programmes within their overall service planning. The Phase 2 study therefore includes the selection of potential projects, the acquisition of funds and the process of prioritising competing projects so that the maximum benefit can be achieved from the available resources. It will also consider whether some authorities are better than others at managing capital programmes in a complex framework, and which examples of good practice could be shared more widely.

5. This Phase 1 report therefore reviews variations in local authority performance in planning and spending on particular capital projects to meet their service needs. It considers how they are managed once they have been accepted into an authority's overall programme and are being funded, posing such questions as whether individual projects meet users' needs, are they ready on time and do they cost what they are expected to cost?

6. The principles considered in this report apply to all major projects and can be understood without a detailed knowledge of capital accounting, capital funding or the services on which capital is spent by local authorities. However,
for those who wish to know more detail about these issues, there are three appendices:

♦ Appendix 1  When is it capital?
♦ Appendix 2  Where does the money come from?
  – Box 2.A  How an authority’s capital expenditure is financed
  – Box 2.B  The control system’s impact
♦ Appendix 3  Capital expenditure on services

What capital projects do local authorities undertake?

7. About 40 per cent of all local authority capital spending is on housing. In 1994/95, spending on council housing was £1.7 billion, almost entirely on improvements to existing properties. A further £800 million was spent on other housing, with about £300 million passed by local authorities to housing associations to support new building, and about £500 million given in improvement grants to low-income homeowners and disabled people.

8. After housing, most capital is spent on transport and education. Police and personal social services come next. Other services include fire, magistrates courts, sport and recreation, arts and libraries, coastal protection, economic regeneration and administrative buildings (Exhibit 2). Appendix 3 sets out more information on the purposes for which capital is spent in these services.

9. Capital spending varies widely between local authorities, from over £235 million per year to less than £1 million (Exhibit 3, overleaf). County councils, London boroughs and metropolitan districts spend on average around £39 million on capital expenditure per year and non-metropolitan districts around...
£6 million. Although the figure for non-metropolitan districts is significantly lower, their capital spending often represents a much larger proportion of their total revenue expenditure (Exhibit 4). This is because, unlike county councils and authorities in London and metropolitan areas, their revenue budgets do not include spending on education and social services.

Exhibit 3
Gross capital expenditure by authority in 1994/95

Levels of spending vary widely between authorities.

Source: Audit Commission analysis of DoE data for local authorities in England

Exhibit 4
Gross capital expenditure as a proportion of revenue expenditure

Capital spending is more significant for districts as a proportion of revenue spending.

Note:
Revenue expenditure includes both Housing Revenue Account (HRA) and non-HRA spending for local authorities in England. Non-HRA spending is spending net of income from sales, fees and charges. HRA spending is the ‘gross revenue expenditure’ on standard DoE definitions.
10. Although the principles of good project management apply much more widely, this report focuses primarily on construction projects, both new-build and renovation, since construction spending (excluding highways) represents well over half of all local authority capital expenditure (Exhibit 5). More than two-thirds of construction projects – representing over half of all construction spending – are renovation projects, with the amount of new building being much less (Exhibit 6, overleaf). This emphasis on renovation makes it essential that authorities pay particular attention to planning their programmes of maintenance and renovation, assess the cost-effectiveness of the various options available to them, and ensure that the skills available are appropriate to the type of work being undertaken.

11. This report does not examine highways projects, the acquisition of land or information technology equipment, the acquisition of vehicles, or the management of capital grants made to third parties outside the authority, such as housing associations or individuals who receive improvements grants.

12. This report uses survey and fieldwork data to evaluate performance and identify good practice in the management of individual capital projects. It specifically highlights those issues which the Commission’s research suggests should be reviewed by elected local members and senior officers within their own authorities. A more comprehensive approach to best practice in managing capital construction projects will be available to local authorities in two ways, through:

- local audits in 1996 and 1997; and
- a management handbook for local authority managers who are responsible for managing programmes and individual projects, which will be published in autumn 1996.
A changing world

13. It is particularly timely for members and officers to review their authority's management of construction projects now, as both the industry and local government are facing a period of significant change to which local government must respond.

Construction industry changes

14. In the wider construction industry, covering the private sector and the whole of the public sector, Sir Michael Latham's report, Constructing the Team (Ref. 3), targeted an ambitious 30 per cent reduction in construction costs by the year 2000, which he suggested could be realised through efficiencies gained from a more effective partnership between industry and client, the use of new forms of contract, greater use of standard construction components (and other technical improvements) and the adoption of cost-reducing techniques such as risk and value management (see Chapter 4).

15. Following the report, the Construction Industry Board (CIB) was established. This is a DoE-sponsored body funded jointly by government and the construction industry. It set up 12 working groups to oversee implementation of the report (Box A). Some of the groups have already produced detailed recommendations and others are expected to report by October 1996.

16. It is still too early for the report, or the groups set up to oversee its implementation, to have had much impact in either the public or the private sectors. Significant savings will be possible only if both clients and the industry work effectively together, avoiding the adversarial attitudes and practices which historically have been common. Central government has committed
Box A
Working groups set up by Construction Industry Board

<table>
<thead>
<tr>
<th>WG 1</th>
<th>Checklist guide on briefing</th>
</tr>
</thead>
<tbody>
<tr>
<td>WG 2</td>
<td>Construction strategy code of practice</td>
</tr>
<tr>
<td>WG 3</td>
<td>Code of practice for selection of subcontractors</td>
</tr>
<tr>
<td>WG 4</td>
<td>Quality/price mechanism for selection of consultants: development of central government’s register of consultants (ConReg)</td>
</tr>
<tr>
<td>WG 5</td>
<td>Single pre-qualification document for public sector work and development of contractor management information system (CMIS)</td>
</tr>
<tr>
<td>WG 6</td>
<td>Training issues</td>
</tr>
<tr>
<td>WG 7</td>
<td>Image of the industry</td>
</tr>
<tr>
<td>WG 8</td>
<td>Equal opportunities</td>
</tr>
<tr>
<td>WG 9</td>
<td>Education of construction professionals</td>
</tr>
</tbody>
</table>
| WG 10      | Liability and latent defects insurance  
Subgroup: – Insurance |
| WG 11      | 30 per cent reduction in real construction costs  
Subgroups  
Concept  
Design  
Tender/construction  
Operations/maintenance  
Benchmarking  
Total quality management (TQM) |
| WG 12      | Partnering |

itself to the principles of Latham and to becoming a best-practice client (Ref. 4); local authorities should consider doing likewise. Doing so will set local government a formidable challenge. For example, authorities may need to revise their standing orders and financial regulations if they are to apply the Latham principles in full.

Local government changes

17. Local government also faces major changes in the way in which it manages capital expenditure. Compulsory competitive tendering (CCT) for construction-related services (CRS) is having a major impact on technical services in all the larger authorities and many smaller ones. To prepare for CCT, many authorities are introducing service level agreements (SLAs), trading accounts, shadow business units, and in some cases they have voluntarily contracted out services.

18. In the longer term, spending departments – which have tended to rely on a pool of in-house technical staff to ‘tell us what we want’ – will have to become clearer about what they actually want and what they are willing to pay for. Even where local authorities fall below the CCT threshold for CRS, the use of trading accounts may encourage technical suppliers and departments to focus
their work – and charge for extras. Advice on construction matters may be available only at a price, encouraging better cost-awareness, but possibly also discouraging service departments from seeking professional advice, with the attendant dangers this would have. And technical departments may press to use external support services if they seem to offer better value, which may sometimes conflict with corporate policies. This new environment will therefore pose challenges for the maintenance of good teamworking between departments.

19. The Government’s proposed increased use of bid-led systems, its emphasis on using private sector finance through PFI and its strong encouragement to form local partnerships mean that managing capital projects is likely to become more, rather than less, demanding.

The principles of managing capital projects

Complex challenges

20. Capital projects are usually complex, posing significant management challenges. Each project is different. Many last longer than a year. A wide range of people with differing skills need to be co-ordinated, as must the availability of other resources such as equipment and materials. Site conditions and even bad weather can throw a project off course. Resource uncertainties are common, in both the private and the public sectors, adding to the risks associated with capital projects. For local authorities, the regime of central controls may have important implications – particularly influencing start dates and setting deadlines for completion. It is not surprising that things often go wrong. Two-thirds of the projects in the Commission’s survey ran late and half were 15 per cent or more late. Performance on managing projects to budget was better, although half of all projects were outside their contract sum by more than 5 per cent.

Structure of the report

21. The remainder of this report examines the management of capital projects in more detail. Chapters 1 to 6 are structured around the criteria of a good project (Exhibit 7). Each chapter identifies the study’s findings resulting from the Commission’s survey and fieldwork visits and recommends good practice to follow. The results and advice are summarised in Box B, p14. Chapter 7 charts the next steps for authorities to take.

♦ Chapter 1 – addresses how projects can be planned to make sure that they meet service needs, users’ requirements and clients’ specifications.
♦ Chapter 2 – considers how effective teams can be formed, managed and costed to develop capital projects from conception to completion.
♦ Chapter 3 – focuses on allowing sufficient time for design and project planning.
♦ Chapter 4 – examines how to achieve best value for money (VFM) at all stages, using tools such as risk management and value management.
Each chapter identifies the findings from the Commission’s study and recommends good practice to follow.

- **Chapter 5** – addresses project management and delivery issues and highlights the need for clear milestones, effective monitoring and good communications to ensure that it achieves the right quality of output on time and within budget.
- **Chapter 6** – deals with project completion and review.
- **Chapter 7** – sets out the next steps for members and officers to take in reviewing and improving their management of capital projects.
## Box B
Criteria of a good project – findings of the study

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Poor practice</th>
<th>Good practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meets needs</td>
<td>- Half of the projects surveyed appear budget-driven not needs-driven&lt;br&gt;- Needs not specified</td>
<td>- Projects based on users’ needs and service plans&lt;br&gt;- Users’ needs defined in project brief&lt;br&gt;- Integration of projects into corporate processes</td>
</tr>
<tr>
<td>Encourages effective and efficient teamwork</td>
<td>- Technical department takeover of client role&lt;br&gt;- Failure to manage technical skills&lt;br&gt;- Unjustifiably wide variation in fees for technical services&lt;br&gt;- Lack of appraisal of different ways of engaging consultants</td>
<td>- Clearly defined roles&lt;br&gt;- Good communication, especially with users&lt;br&gt;- Selection of appropriate fee mechanism for project&lt;br&gt;- Staffing flexibility to respond to uneven workflow</td>
</tr>
<tr>
<td>Allows time for design</td>
<td>- 40 per cent show differences of more than 15 per cent between design and tender estimates&lt;br&gt;- 26 per cent show differences between tender and contract costs&lt;br&gt;- 35 per cent show provisional sums greater than 10 per cent&lt;br&gt;- Examples of rushed design causing problems</td>
<td>- Early approval for design&lt;br&gt;- Late changes avoided&lt;br&gt;- Thorough preparation prior to tender&lt;br&gt;- Cost estimates updated throughout project&lt;br&gt;- Management of provisional sums</td>
</tr>
<tr>
<td>Addresses value for money</td>
<td>- Weak procurement strategies and cost planning&lt;br&gt;- Lack of systematic appraisal of risks&lt;br&gt;- Lack of rigorous scrutiny of alternative methods of meeting project objectives&lt;br&gt;- Weaknesses in tender processes – short tender periods – weak shortlisting processes – low cost-thresholds – excessive member involvement</td>
<td>- Clear procurement strategy&lt;br&gt;- Role of internal auditors understood&lt;br&gt;- Use of risk management&lt;br&gt;- Use of cost planning&lt;br&gt;- Use of published benchmarks&lt;br&gt;- Use of value management/value engineering</td>
</tr>
<tr>
<td>Is well managed during delivery</td>
<td>- Two-thirds run late&lt;br&gt;- Half fall outside the contract cost by over 5 per cent&lt;br&gt;- Monitoring information not available</td>
<td>- Regular monitoring based on clear process and good information&lt;br&gt;- Variations controlled</td>
</tr>
<tr>
<td>Provides lessons for the future</td>
<td>- Lack of post-project review&lt;br&gt;- Inadequate management of final accounts</td>
<td>- Proper project handovers&lt;br&gt;- Systematic post-project review&lt;br&gt;- Completion of final accounts promptly</td>
</tr>
</tbody>
</table>
A capital project is justified only if it meets service needs. Each project should, therefore, be assessed and compared with other options to make sure that it is the most cost-effective way of meeting an identified need and fulfilling an agreed service delivery plan.

The project’s objectives should be defined in a specific project brief and agreed with those who are to use, sponsor, design and deliver it.

Local authorities have many competing demands on their resources. Individual projects form part of a much wider process of prioritising overall needs, preparing bids for funds, managing a council’s asset base and agreeing a capital programme. Every project should, from beginning to end, be integrated into an authority’s capital planning process.
Project selection

22. The purpose of a project is to meet service needs, and expenditure is justified only if it does so. Service needs should be assessed, and options for meeting them appraised, before a project is proposed for acceptance into the programme. In addition, authorities should be clear about the implications for capital, revenue and other resources, including the availability of necessary skills. Authorities should also be sure that a project relates to their service delivery strategy. For example, to meet the needs of elderly people they may decide to:

♦ provide domiciliary care through their own staff;
♦ provide daycare in their own buildings, using their own staff, vehicles and equipment to deliver care;
♦ provide residential care through their own staff in buildings they acquire or build; or
♦ enable others to provide such services – for example, through contracts or other involvement with the private and voluntary sectors.

23. The balance and exact form of service delivery will vary from one authority to another, but it is important that all projects are justified in terms of developing the agreed service plan.

24. It is also important that authorities select projects on the basis of a full understanding of users' needs and that they are not working to outdated data or outmoded service delivery assumptions. Census data, surveys, focus groups, feedback from frontline staff, study of best practice and service trends will all help authorities to identify accurately users' needs.

Defining objectives

25. A project's objectives should be defined by the sponsor – the service department – and agreed by the appropriate committee. The committee should confirm that the project addresses the objectives properly, and does so with optimum economy and efficiency. Appraising different options for delivering the agreed project objectives is essential at this stage; value management techniques are particularly relevant (see Chapter 4).

26. Projects should be justified in a business case that analyses and evaluates the projected costs and benefits of the proposed investment. The bigger and more complex the project, the more detailed the business case will need to be. Larger projects may well require a full feasibility study to scope the project in more detail, confirm that it is possible to meet needs in the way proposed and to justify the investment in terms of the proposed benefits.

27. The project brief is the cornerstone of a successful project, since it should be based upon a detailed analysis of the needs of the end-users of the project. It must establish the essential and desirable outcomes of the project so that they can be agreed and signed off by the project sponsor, the users, the programme manager and project manager well before contracts are let (Case Study 1).
28. In the 21 fieldwork projects studied by the Commission, the authorities generally worked hard to ensure that projects addressed needs. Service departments prepared project briefs based on an analysis of the needs of end-users to establish agreed essential and desirable outcomes of projects. In three-quarters of the fieldwork projects this worked well. Where it was not successful, there was either confusion over who the real client was, or a failure of the various players – client department, users, designers, building contractors – to understand what was required or what would be delivered.

29. But not all projects derive from justified needs (Case Study 2) and analysis of cost estimates suggests that many appear to be shaped more by budget ceilings.

---

**Case Study 1**
An example of a well-prepared project brief

Attention to detail in designing a project brief helps to deliver a project that meets its objectives.

After Lancaster City Council had established a need for a new sports centre and considered potential options and phased construction, the next step was to produce a clearly written project brief which was agreed by all the parties involved. Advice was sought from the Sports Council to ensure that lessons learned from other projects would be picked up. For example, the centre was intended to attract international standard badminton, so the brief had to specify the minimum height of the hall and the limits on air movement – which had major implications for the ventilation systems used. Partly as a result of the attention paid to getting the project brief right, the project has been successful in attracting events and users.

---

**Case Study 2**
An example of an aborted capital scheme

Substantial capital sums can end up being misdirected unless there is a rigorous option appraisal and an up-to-date cost estimate.

A shire district was considering a £2 million scheme to build new offices so that all departments would be under one roof. None of the existing offices were separated by more than five minutes’ walking time. While the existing offices were not modern, they were of an acceptable standard and the external auditor investigated the basis of the plan.

It was found that:
- there was a feasibility study which was 10 years old and for a different site;
- the original plan was devised before the council invested in a computer network and modern telecommunications system which now linked all offices; and
- there was no up-to-date cost estimate.

The auditor invited the council to review whether its plans would provide value for money. Members decided not to proceed with the scheme.
Integrating projects with the capital programme

30. Capital projects should be selected to meet a defined service need. However, an authority will have many competing demands on its resources. Individual projects form part of a much wider process of:

♦ assessing and prioritising the authority's overall needs;
♦ preparing bids for funds;
♦ managing the authority's asset base; and
♦ agreeing a capital programme.

31. These issues will be discussed in more detail in Phase 2 of the Commission's report. However, it is important that from beginning to end, projects are clearly related to the authority's corporate capital planning process. In order to achieve this, each project should go through five key phases (Exhibit 8).

Potential capital projects should arise as part of an authority's service delivery plan. The authority must agree projects corporately to ensure that they fit with corporate objectives and that the resource implications are fully considered. For example, an authority will want to test that a project is being brought forward as part of a planned, service-orientated process rather than as a consequence of an individual member's or officer's particular interest. The priority of one project will have to be weighed against the claims of others. Once over these hurdles, the way is then clear to include a project in the capital programme, to give the project sponsor/programme manager approval to plan it and to appoint a project manager.

Detailed planning and consultation should now take place. Again, there may be a corporate dimension to this issue – particularly if a project is time critical. For example, a director of education may identify the need for accommodation for a new reception class which has to be in place by a certain date. Adjusting the council's capital programme to deliver this will require corporate action. Procurement issues will also be considered at this point. Authorities usually adopt the traditional route to procurement, considering design issues first and appointing a building contractor by a tendering process.

Once the construction team is in place, costs are known and funding confirmed, the programme manager can give approval to start on site. The project then moves into its third phase: delivering the specification in the design except where variations are agreed.

Careful monitoring is required during the planning and delivery phases, so that the project and programme managers can make necessary adjustments in the light of progress – with regular reports to those responsible for the authority's overall capital programme.

And every project should be rigorously reviewed on completion, so that lessons can be learned for planning future projects.
19

**Exhibit 8**
The corporate dimension

From inception to completion, projects should be related to an authority’s corporate capital planning process.

Source: Audit Commission

32. An essential feature of all five stages of the project is good co-operative working between service departments, technical departments and the end-users of a project. Effective teamwork is considered in the next chapter.
Recommendations

Meeting Needs

1. The purpose of capital projects is to meet service needs. Local authorities should make sure that projects:
   ♦ are based on an accurate understanding and assessment of users' needs;
   ♦ reflect and support agreed service delivery plans;
   ♦ have objectives clearly defined in a project brief; and
   ♦ are justified in a business case, including an appraisal of different options for delivering the agreed project objectives.

2. Individual projects form part of a much wider corporate capital planning process. Local authorities should put in place corporate procedures to:
   ♦ test that projects meet their overall priorities and service strategies;
   ♦ identify any time-critical elements of a project; and
   ♦ monitor the development of projects.
Many people must work together to ensure that capital projects are successful. Project teams need to be well organised and co-ordinated.

In a construction project, the fundamental role of the local authority is that of client. Authorities vary in the way that they organise this function. Whatever model is adopted, authorities should make sure that staff are clear about their respective roles, are given the appropriate level of authority to match their responsibilities, and are equipped to fulfil their roles.

Most local authorities rely on in-house technical support for projects. Authorities should avoid staffing for peaks in their capital programme.

There is an unjustifiably wide variation in fees for technical services, which is not linked to whether authorities use internal or external consultants. Effective management of the fee process is more important than whether the consultancy service is provided in or out of house.

2 Effective and Efficient Teamwork
Teamwork and communication

Establishing the team

33. Many people must work together to ensure that capital projects are successful. They need to be well organised and co-ordinated. Every project must have a client – the person or organisation responsible for procuring the construction works, paying for them and owning the completed assets. In a local authority, the client is normally the responsible service committee, working through a relevant department. It is essential for the authority to establish clear client responsibility. These must be a committee and department which ‘own’ each project. Within the client department there are different potential roles, such as project sponsor and project manager. The sponsor needs to be a senior person, often the director, who is able to give overall direction, to appoint and manage a technical team, to manage the project, decide on a procurement strategy, carry out an effective tendering process, and ensure good communications and teamwork between all involved (Exhibit 9). Typically the director of education will be the sponsor for a major project in a school. The sponsor is the focal point for key decisions about progress and variations, but appoints a project manager to manage the project on a day-to-day basis and to ensure that proper communications are established and maintained with all the other players throughout its duration (Ref. 5).

34. Managing projects is complex. Both in the planning and execution stages one key task for all involved, and especially the project manager, is to maintain good communication and effective teamwork:

- within the authority, between the project team and the project sponsor;
- within the authority, between staff from technical and client departments as well as accountants, lawyers and planners;
- between the authority and its contractors and subcontractors;
- between the authority and outside bodies – such as local partners, external funders and regulators – and the public; and
- between the authority and the end-users of the project.

35. Communicating with users can be just as important during the life of a project as it is during planning and design. For example, in one school in Greenwich, good liaison on site between the contractor and the premises manager ensured that noisy drilling took place as the bell sounded at the start of the morning break, thus minimising the adverse impact on both pupils and teachers.

Client role

36. In a construction project, the fundamental role of the local authority is that of client, as part of its function as service provider to the community. Authorities organise themselves in a variety of ways to secure fulfilment of the necessary roles (Exhibit 10, p24). There is no universal model of best practice. The key requirement is for a comprehensive organisational structure that defines responsibilities clearly and ensures that people are empowered with sufficient authority to match their responsibility. It is essential for local authority client departments to train and equip key staff to fulfil their role if
Exhibit 9
The team

A large capital project involves many people.

Source: Audit Commission
they are to be able to follow good practice in project management. Within the client department, the sponsor must plan well in advance in order to identify the people needed to deliver particular projects, and monitor their availability against changing requirements as projects progress. Many authorities retain an in-house technical capacity; this not only delivers a technical service, but is frequently responsible for some aspects of the client role, in particular for acting as ‘expert client’ for the procurement of construction work.

37. Many of the fieldwork authorities were good at organising communications and co-ordinating stakeholders. But some weaknesses were apparent. In a small minority of projects, service departments lacked the expertise to fulfil the client role, so it was taken over by the technical team. Where this occurred, evidence from the fieldwork suggested that service departments could lose ownership of the projects, with the risk that end-users might be dissatisfied with the outcome. This tendency emphasises the need for the roles of client and project teams to be clearly defined.

Managing technical staff and consultants

38. The technical nature of many projects means that professional advice will be required throughout. Authorities need to strike a balance: too little professional input brings risks, too much is expensive. Fieldwork authorities were good at appointing their technical teams. But some found it difficult to match the available skills to the workload. In one authority, an increase in capital resources was not matched by an increase in the skilled staff available, either in-house or out-of-house, and this led to problems in using the increased funding well. One-third of authorities had to reduce the size of their technical departments to match a declining workload.
39. Within a project, different levels of activity are needed at different stages. These fluctuations must be matched to the people and skills available. This can be more difficult when the majority of professional advisers are in-house rather than bought in on contract. To manage skills against workload, there must be accurate, up-to-date information which is easy to use so that managers can plan, cost and allocate resources (Case Study 3).

40. Authorities vary in the extent to which they use in-house or external professionals. Most authorities in the Commission's survey retained a large in-house capability. Only one-third tended to rely on external consultants (Exhibit 11, overleaf). Where authorities choose to rely mostly on internal staff, they should avoid staffing for peaks and use the external market to cope with uneven increases in their capital programme. This provides a rationale for maintaining internal expertise, regularly testing the market and getting the benefits of a flow of best practice between in-house and private sector providers. It should also help authorities to deal with the inevitable fluctuations in the size of their capital programmes. Some authorities have decided that, taking account of past experience and future projections, they can obtain best value for money by outsourcing or externalising technical and professional services. However, they too need to make sure that the form of contract they adopt does not lock them into paying high fees if the level of their capital programme dips.

**Case Study 3**

How Wirral Metropolitan Borough Council’s Department of Property Services manages technical skills

Systems for organising and monitoring resources help to make sure that staff time and skills are deployed to best effect.

Wirral Metropolitan Borough’s property services department has installed a computer-based management information system (LAMP) which among other things holds:
- details of project programmes – actual and planned;
- the percentage actually completed for each stage of each project;
- target predictions of resources required for each team member of a project;
- records of actual time spent by each team member on each stage of the project; and
- hourly rates for each member of staff.

Outputs from this system provide:
- overall projections of people’s availability in a summary format;
- reports on the overall health of each project, indicating the total time spent against targets, time remaining, fee position, etc; and
- time and cost reports on individual members of staff against the targets set.

**Resource management**

Resource targets are set at the start of each project to establish both the cost of fees and the time commitment of each team member. These are reviewed, and adjusted if necessary, as a regular agenda item for each design team meeting. Managers receive regular summary reports relating to all ongoing and predicted workload. These allow decisions to be made with respect to:
- staff levels and work allocation;
- expenditure and project viability; and
- fee levels for similar work.
Exhibit 11
Fees of in-house technical staff as a percentage of total fees

Most authorities retained a large in-house capability.

Source: Audit Commission survey

41. In selecting and managing members of the technical team, whether internal or external, authorities will need to balance quality with price (Case Study 4). Choosing consultants is particularly difficult because their remit may be hard to define precisely at the appointment stage. Project managers will need good contract management skills; they must be able to define clearly what each professional is expected to do, and how they interact with other professions, since failure to do so can lead to a confusion of roles, duplication of effort, and unnecessary expenditure. It is not enough to appoint a firm which happens to have the right professional qualifications and the lowest bid – it is essential to choose people who have relevant experience, a good track record, and who are likely to work well within the constraints of the project (Refs. 6 and 7).

Case Study 4
Selecting consultants

A thorough selection process is more likely to result in the appointment of appropriate consultants.

The London Borough of Greenwich appointed private architects on a £5 million estate action project to reclad and otherwise improve a towerblock. The consultant selection process was thorough and included:
- a pre-qualification procedure;
- a presentation by shortlisted consultants; and
- selection on a range of criteria, including price.

In this case the lowest tender was not the one selected.
42. From the Commission’s survey, there is wide variation in the level of professional fees charged to projects (Exhibit 12). There is no correlation between fee level and the use of internal or external consultants. Nor is there any link between fee levels and cost or time overruns. This suggests that many who pay high fee levels fail to get commensurate value from them. Fee levels range from less than 2 per cent of the contract cost to more than 30 per cent. The median fee level for renovation projects is 13 per cent and for new-build projects 15 per cent.
43. More detailed analysis of the Commission’s survey shows that projects with fee levels above median values were not uniformly spread throughout the authorities surveyed. All the projects in one authority, for example, were above the median, whereas the project fee levels in seven others fell below the median. This would seem to indicate that effective management of the fee process is more important than who provides the consultancy service.

44. One way that authorities can obtain better value for money in this area is by taking advantage of competition in fee levels to reduce costs. But very low fees are not always an indicator of efficiency. They may, for example, be concealing a proper allocation of costs. Low fees can also be a false economy if professionals are always encouraged to take the quickest solution rather than looking for the most cost-effective one for the project as a whole. As an example, one district council employed a structural engineer at a relatively low fee as part of an economic development project. Both the architect and the contractor suspected that the structural work was over-designed and therefore unnecessarily expensive, but neither was in a position to challenge the professional expertise of the engineer. The unproved implication was that, to save time, the engineer had chosen a simple but expensive solution that more than met the safety and design standards for the project.

45. Pricing fees as a percentage of project cost is potentially risky – consultants then have little incentive to control the overall cost of the scheme. An alternative way of pricing consultancy is by the use of a lump sum instead of percentages. This is most appropriate when the work required is clearly defined. Some practitioners have suggested that consultants should share any savings identified against the original budget with the client, so giving a practical incentive to seek extra value. However, other approaches might be more appropriate. For example, if the programme for a large project must be compressed so that construction has to start before design is complete, a management fee-based approach should be considered. Alternatively, if the client’s requirement can be fully and accurately defined at an early stage, design and build transfers more risk to the contractor and might offer better value for money. Fees will be a particular focus of attention during the audits of capital expenditure that follow this report.

46. Having established a technical team, it is then necessary to ensure that the project is properly planned and designed. This is the subject of the next chapter.
Many people must work together to ensure that capital projects are successful. Local authorities should define clearly the client role – in terms of the respective responsibilities for the project sponsor and project manager – and the relationship with end-users, the design team and other technical specialists.

If local authorities choose to rely heavily on internal staff for technical and professional services, they should avoid staffing for peaks and use the external market to cope with uneven increases in their capital programme.

There is an unjustifiably wide variation in the level of professional fees charged to projects. Local authorities should make sure they obtain best value by:

- charging all appropriate costs to projects;
- identifying the most cost-effective method for pricing consultancy for each particular project; and
- using the external audit of capital expenditure to benchmark professional fees against the median values identified in the Audit Commission's survey.
The golden rule of the six Ps - prior preparation and planning prevents poor performance - applies particularly to capital projects.

Authorities should adopt proper authorisation procedures for including a project in their capital programme and specifying how far to go with planning it. If authorities do too much early design work they risk wasting money on schemes that may not go ahead. If they do little preparatory work, they risk having to rush project design and delivery with all the problems that can cause.

The greatest opportunity to reduce costs and avoid costly mistakes is at the start of a project. Late design changes increase costs.

Allowing sufficient time for design enables cost estimates to be updated at key stages. This in turn should generate more accurate cost predictions and reduce the allowance in tenders for contingencies.
**Approval to plan**

47. Planning a project takes time, but it is essential for ultimate success and for achieving good value for money. The golden rule of the six Ps – prior preparation and planning prevents poor performance – applies particularly to capital projects.

48. Proper authorisation procedures are required to accept a project into the programme and to specify how far its planning may proceed. Service committees, or a panel of senior officers, should formally authorise further development.

49. Once an authority has decided that a potential project represents the best way of meeting a defined need and so should be given some level of priority within the programme, formal approval should be given for work to begin on planning the project. Formal approval should involve users, the project manager and the programme manager ‘signing off’ a project justification document. Although some fieldwork authorities have robust approval mechanisms which enable planning of a project to begin once it has entered the programme, others do not allow detailed design to begin until funding for the project is secure. This is understandable. It may be difficult to afford design costs if they relate to a project which is not certain to go ahead. But apparent caution can ultimately lead to higher expenditure if preparatory work has to be rushed to meet deadlines once funding does become available (Case Study 5, overleaf).

50. Affordability is, of course, important. Expenditure on planning and design must be balanced against a judgement of the resources likely to become available. Authorities will not want to spend so much on designing projects which are unlikely to be built that they are unable to deliver projects that are affordable. But skimping on time for design is a significant risk. Cost estimates are more likely to be inaccurate, which in turn makes planning and controlling an authority’s overall capital programme more difficult. Having planned projects on the shelf brings the added advantage of enabling an authority to benefit from time-limited funding, should it become available late in the year. Authorities should therefore aim to begin planning early in cases where projects have a realistic prospect of being included in the programme within two or three years, even though funding may, for the moment, be uncertain.

51. Funding of early planning work will need to be charged to revenue budgets in the first instance. However, once approval for a scheme is confirmed and capital funding identified, design costs may then be capitalised, although such expenditure cannot be treated as capital if a project is aborted (Ref. 8).

52. Approval to plan is just that: approval to undertake more detailed planning, and not to start work on site. It authorises the project manager to spend money on planning, but further review is required before giving approval to start on site.
Case Study 5
A social services project in a county council

Rushing to spend money by the year-end can mean inadequate preparation, higher risk and a poorer value product.

A county council bid for supplementary credit approval (SCA) funding for two new drop-in centres for mentally ill people and some minor projects, as part of the Government’s care in the community programme. Its total bid was £650,000. The Department of Health (DoH) notified the council in June 1994 that it was to be awarded an SCA of £300,000. The money had to be spent by 31 March 1995.

With an award less than half its bid, the social services department had to rethink its original strategy. Setting aside £250,000 for a single project to provide a drop-in centre for schizophrenic people in an area of the county that had no current provision, the department decided that new build was not an option within the timescale. It proceeded to:

♦ identify a suitable property in a central town (this was a disused former shop);
♦ negotiate to purchase through the council valuers;
♦ consult with the local branch of the National Schizophrenia Association, which was to run the centre, on both design and operation;
♦ engage the in-house building surveyors to draw up plans to renovate and redesign the property, carry out a structural survey and invite tenders for a contractor to carry out the building work;
♦ seek committee approval for the purchase of the property; and
♦ seek planning approval for the works and change of use of the property.

All this took time. Getting committee approvals took up two months, as did negotiating for the sale of the property.

Project design was rushed. The invitation to tender was issued in early January 1995 and only a little over two weeks allowed for bids. The tenders ranged from £125,000 to £160,000, against a pre-tender estimate of £92,000. The council accepted the lowest tender, but only after drastically pruning the scope of work to bring the agreed contract sum down to £89,000 (from £125,000). The pruning included patching rather than replacing the existing roof and cancelling plans for external painting.

The valuer succeeded in reducing the price demanded by the property owner, but this caused delay in obtaining possession, which in turn meant that access to the site for council officers was restricted until the purchase had been agreed. Two days after the contractor had started on site, the district council's building control officers formally reported that the higher floor-loading standard required by the change of use would require underfloor investigation before further work could continue. They then appointed a structural engineer to investigate the underfloor area, and carried out some additional structural work. This put the project more than £20,000 over budget, extended the contract duration from a planned 9 weeks to a total of 17 weeks, and took the work well past the end of the financial year, with the attendant risk of losing some £70,000 of SCA funding.

In the event, the DoH issued a further SCA in 1995/96 which met part of the overrun. The county council ended up losing about £40,000 of borrowing power and had to make up the gap from its own revenue reserves in order to complete the project.

The project illustrates several of the problems associated with local authority construction work.

♦ Targeted, time-limited funding meant that the vital pre-construction phase was rushed.
♦ Rushed planning and design led to:
– skimming on preparatory work, so increasing risk;
– poor cost estimation; and
– poor use of the market, by allowing contractors insufficient time to cost bids and setting over-tight contract periods.

♦ When costs exceeded initial expectations, the tendency was to work with the existing budget ceiling, regardless of the VFM implications of changes; failure to replace the roof will almost certainly mean that additional maintenance work will be needed in the near future, disrupting the service and potentially costing more in the long run.

The authority could have adopted good practice in two ways which could have reduced the impact of time-limited funding:
♦ A more pro-active approach to management by both client and technical side might have saved time and hence both saved money and improved quality. For example, they might have:
  – identified the site before funding was confirmed; and
  – tried to obtain earlier access to the building.
♦ A more flexible approach by the authority – for example, by reassessing priorities and reallocating resources within the capital programme – might have achieved greater VFM, albeit at a higher cost in that year, had the roof been replaced.

However, the end-users of the centre were very happy with the outcome. They were grateful to have the facility at all. And they painted the outside themselves.

Time for design

53. Detailed design should begin as early as possible. Because the greatest opportunity to reduce costs (and avoid costly mistakes) exists at the start of a project (Exhibit 13, overleaf) the risk of wasting money on planning some projects which do not get built will normally be outweighed by the risk of skimming on time for the design and preparation of those that do go ahead. It is essential that users, the project manager and the programme managers are all consulted about, and approve, the design of each project, since it is the design which most influences costs and success in meeting needs. Formal control documentation should be maintained to ensure that all parties 'sign off' the design and agree with it. Yet the research carried out for this report suggests that this essential element in planning is not well done in many projects, leading to late design changes and probably increased costs.

54. Authorities should be alert to the dangers of rushed design. But with time-limited funding, there can be a particular pressure to rush, even if it constitutes only a small proportion of total funding. Case Study 5 showed that authorities can lose more by trying to meet a deadline in order to acquire time-limited funds than by finding alternative sources of funding for properly planned projects. (The Phase 2 report will explore some of the ways in which programme managers can mitigate the effects of time-limited funding.)
Time for pre-tender review

55. Authorities should also allow time for the programme manager to undertake a formal review once a project has reached the stage of invitation to tender, before deciding whether or not to proceed. The review should confirm whether the project still addresses the authority’s priority needs, and whether resources available are sufficient – but not excessive – for its purpose. The review should be carried out in conjunction with end-users, the client department and project manager, as well as technical experts. The project sponsor, on behalf of the client department and the end-users, should sign off their agreement at this point, to minimise the chance of expensive, late changes to the project.

Design and tendering

56. Allowing sufficient time for design should generate accurate predictions of costs and few significant changes after tenders have been opened. But in two out of five projects surveyed, there was a difference of more than 15 per cent between the estimated cost at final design stage and the lowest tender (Exhibit 14). There were differences between the successful tender and the contract sum in 27 per cent of contracts (Exhibit 15), suggesting that there were many design changes during post-tender negotiations. While such design changes are often necessary to comply with budget limits, there can be risks to value for money, as Case Study 5 showed, and they may also undermine the competitive tender process.
Exhibit 14
Tender sum compared with scheme design estimate

The difference between the tender sum and the scheme design estimate exceeded 15 per cent for two out of five projects.

Source: Audit Commission survey

Exhibit 15
Agreed contract sum compared with the successful tender sum

Differences between the successful tender and the contract sum suggest that many design changes are made during post-tender negotiations.

Source: Audit Commission survey
57. Problems at the tender stage can be minimised if cost estimates are updated during the design phase of a project as more information becomes available about its likely costs. Resources can be switched elsewhere if the original estimate proves too high, or bids for more money made if that would provide better value for money. But in over half of all projects, there was no evidence that the total cost estimate had been updated between the initial estimate at inception, the scheme design estimate (when the site had been fixed and the overall design agreed), and the pre-tender estimate based on the bill of quantities in the tender document (Exhibit 16). Nor was this practice confined only to small-value projects. This suggests that many initial budget estimates are regarded as ceilings so that design work is focused on designing more to budget than to need. Clearly budgets must be a constraint on design, but the existence of unchanged estimates at all three stages should be questioned.

Provisional sums

58. Provisional sums and contingencies are included in a contract to cover items that have not been sufficiently measured or described for the contractor to price or, in the case of a renovation, to allow for additional items that may be discovered as a project progresses. A symptom of inadequately detailed planning can be the allocation of too high a percentage of the contract price to a provisional sum. In 35 per cent of projects, provisional sums and contingencies represented more than 10 per cent of the contract sum (Exhibit 17). Best practice within the construction industry indicates that these figures are high and that tenders are being let before schemes have been sufficiently designed. However, there can sometimes be good reasons for a high level of

---

**Exhibit 16**

**Updating cost estimates**

Cost estimates for over half of all projects are not updated between initial estimate, scheme design and pre-tender stages.

---

Source: Audit Commission survey
Exhibit 17
Provisional sums and contingencies as a percentage of the contract sum

In 35 per cent of projects, provisional sums and contingencies represent more than 10 per cent of the contract sum.

Source: Audit Commission survey

uncertainty at tender stage. For example, in an external refurbishment of a block of flats, an authority may decide that the cost of erecting scaffolding in advance to examine the building in detail may not be justified. They might prefer to include provisional sums in the contract, allow the contractor to erect scaffolding at the start of the job, and then review the state of the building before reaching a final decision on the work to be done. But there are often alternatives to using provisional sums. Even if the amount of work remains uncertain, more cost control and a greater element of competition can be exercised by using provisional quantities or schedules of rates, so that unit costs can be compared. And heavy use of provisional sums and contingencies can undermine client control of a project if it:

♦ places a significant proportion of the budget directly under the control of technical advisers; or
♦ reduces the proportion of a tender to which effective competition applies because contractors cannot compete on that part of a tender bid which is specified as provisional sums or contingencies.

59. Local authorities commonly use the Joint Contracts Tribunal (JCT80) or similar forms of contract, which presume that works are being designed and measured (even if approximately) prior to tender. Heavy use of provisional sums is a strong indicator that the value or extent of the works remains substantially unclear, undermining the basis of the contract and exposing the authority to the risk of ‘claims’ and disputes.

60. The time allowed for design can, therefore, have a significant impact on costs. But achieving value for money in the management of capital projects covers a much wider range of issues. These are addressed in the next chapter.
Recommendations

Time for Design

1. Local authorities have to achieve a balance between progressing schemes so that they are ready to go ahead when funding becomes available and spending money on projects which are unlikely to be built. Authorities should have clear procedures for:
   - accepting a project into their capital programmes; and
   - specifying how far its planning should proceed.

2. There is the greatest opportunity to reduce costs and avoid mistakes at the start of a project. Local authorities should allow sufficient time for:
   - detailed design;
   - users, the project manager, the project sponsor and programme manager to be consulted and approve the design of the project;
   - a pre-tender review of projects; and
   - updating estimates throughout the pre-tender period.

3. Local authorities should examine alternative options for pricing a contract if provisional sums are estimated to be in excess of 10 per cent of the contract sum.
A key part of any project is considering how best to procure its delivery. This involves choosing between in-house or external expertise, deciding whether or not to pre-select specialist contractors, and opting between a design and build route or the traditional designer-led approach. Authorities should evaluate and select procurement options on a project-by-project basis.

Most projects will involve tendering. Authorities should review each aspect of their tendering procedures to make sure that they conform with best practice. They should also put as much effort into making contracts work as they do into selecting contractors.

There are three other ways for authorities to maximise value for money: evaluating systematically the risks associated with projects, using the most up-to-date information to cost each component of a project, and developing the use of value management and value engineering techniques.
## Procurement strategy

### Approach to procurement

61. A key part of planning any project is to consider the best method for procuring its delivery. Authorities should have a procurement strategy that identifies all the goods and services required for a project and how to obtain them in the most effective way, and identifies potential suppliers (Case Study 6). For example, elements of a procurement strategy include choosing between in-house or external expertise, deciding whether or not to pre-select specialist contractors, and opting between a design and build route or the traditional designer-led approach, typically using the JCT80 form of contract (Box C). Other methods of procurement include different forms of management fee contracting. These were not observed during the study.

<table>
<thead>
<tr>
<th>Case Study 6</th>
<th>Newark and Sherwood District Council’s energy efficiency programme</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The project background</strong></td>
<td>In 1985 Newark and Sherwood District Council undertook an energy audit of their 7,500 tenanted dwellings. This indicated that more than 50 per cent were seriously deficient. Faced with these shortcomings, Newark developed an energy strategy to deal with the problem on a selective, ‘layered’ approach, based upon incremental improvement.</td>
</tr>
</tbody>
</table>
| **The procurement strategy** | The procurement strategy aimed to take account of:  
♦ working in occupied premises;  
♦ fluctuating availability of funding;  
♦ cost-effective solutions;  
♦ practical and economic work packages; and  
♦ using local labour where possible. |
| **A typical solution adopted** | Most of the solutions adopted by Newark and Sherwood were piloted to test effectiveness, construction constraints and programming of the work. This involved pre- and post-contract discussion with the builders concerned. For example, the optimum ‘package’ for ‘cavity fill’ was found to be 250 dwellings in one geographical area. A rolling programme of 11 contracts was undertaken, based on the JCT Minor Works Form of Contract. Documentation was simple and quick to prepare, using information from the property database. This enabled contracts to be started swiftly as funding became available. A full-time clerk of works was employed on a fixed contract to supervise each package. This was found to be very cost effective as it relieved the architect of the majority of supervision. Meetings were held at the start of the project but otherwise only if problems arose. Progress was reviewed by the architect and clerk of works. |
| **Outcome** | Adopting these and other measures, the council was able to make real progress in improving the energy efficiency of its housing stock. The average insulation cost was £142 per dwelling. On-costs were minimal, the greatest on-cost being the clerk of works at £8 per dwelling. |
Traditional procurement

In practice, the great majority of construction projects undertaken by local authorities are procured on the traditional basis. This approach frequently works well, but should not be considered an automatic choice, particularly for projects that are large, complex, or are required to be carried out very rapidly.

The key features of the traditional approach are that:

- the client appoints a technical team to take the brief of requirements, design the works and provide cost advice;
- the technical team leader acts as the client's principal adviser and agent throughout the project;
- the technical team provides design and other documentation as a basis for tenders for the construction works; and
- the client engages a contractor to construct the works to the technical team's design.

Although the contract for construction is between client and contractor, all instructions to and communication with the contractor is through a 'contract administrator' (normally the technical team leader), who has to act impartially between client and contractor.

Advantages and difficulties

The traditional approach has potential advantages:

- the client can maintain a close relationship with the technical team, important if detail design is critical;
- commitment to major expenditure (under the construction contract) is not finalised until the design is well developed and it is possible to be clear about final construction costs; and
- it is widely familiar and understood, and frequently works well on smaller, simpler projects.

Potential difficulties include:

- the sequential process of design development, tendering and construction cannot be readily compressed or overlapped;
- separate responsibilities for design and construction can too easily:
  - inhibit the potential contribution of the contractor to the design, particularly in relation to 'buildability'; and
  - hinder teamwork and contribute to confrontation and dispute over responsibilities.

- the fact that it is often difficult to integrate the design contribution of specialist suppliers and installers; and
- its track record is not good on large and complex schemes, or when design and measurement are not completed as required in readiness for tender.

cont. overleaf
Design and build

Design and build is used less by local authorities than the traditional approach, but has been successfully employed on suitable schemes.

Under design and build, the client enjoys single-point responsibility for both design and construction. There are two main approaches that give the client varying degrees of influence over the design process:
- contractor’s total design, in which the contractor is responsible for the entire process of design from the point of taking the client’s brief; and
- develop and construct, where the client employs a ‘scope design team’ to take the project to scheme design stage and give cost advice. The contractor tenders on the basis of the scheme design, but is responsible for completing the design and every aspect of the process thereafter.

Compared with traditional procurements, design and build arrangements make heavy demands on the client in defining project requirements prior to seeking tenders at a relatively early stage in the development process. In a develop and construct arrangement, the scope and design team have a key role in helping to define the brief and the key features of the design. In contractor’s total design, the client may require independent technical help, in particular with developing the brief, and providing cost advice.

Once the contract has been placed, the contractor is fully responsible for:
- design work beyond the point reached at tender stage;
- the quality and integrity of the completed design, as built; and
- the progress and quality of the construction work.

Advantages and difficulties

Design and build offers the following benefits to the client:
- a single, clear point of responsibility;
- transfer of design risk;
- potential savings of time and cost, through the integration and overlap of design and construction; and
- clarity of final cost at an early stage.

Design and build also has potential problems:
- commercial pressures on the contractor can lead to compromise in quality, particularly in design;
- design standards may be difficult to define in the first instance, leading to disappointment or dispute; and
- late changes in the brief are likely to be difficult and expensive to implement, if the client was unable to deliver a complete and clear statement of requirements prior to tendering.
All fieldwork authorities were conservative in their approach to procurement. Their projects followed the traditional pattern. Typically, a service department would ask the technical department (often the architect's department) to design and cost a potential scheme. The architects would then design the scheme in consultation with the service department. Following a scheme's approval by the service committee and its acceptance into the authority's overall programme, the architect would contract out the construction work, using one of the standard JCT family of contracts.

Such an approach often works well, but not always. It is rare for authorities to adopt an explicit procurement strategy or to question their own traditional approach. Authorities adopt the traditional route because they are familiar with it and may not have the relevant skills to manage unfamiliar types of contract. But benchmarking procurement strategies against best practice indicates that risks could have been reduced or a better outcome achieved in one-quarter of projects.

The Latham Report (Ref. 3) is clear that better relationships must replace the traditional antagonism between clients and contractors if better value for money is to be achieved in construction. If local authorities adopt an approach akin to that advocated by Latham, officers will have to work more closely with professionals and contractors, and authorities will have to develop different ways of managing their relationships. The problem of adversarial relationships is not just about the form of contract. In real life, design and build and management fee contracts can also go sour. The problem is one of culture and trading relationships. Changing the form of contract will solve nothing if the local authority is interested only in avoiding risk and the contractor is determined to press claims. A commitment to developing a partnership and making it work is also required.

Most local authorities already adopt an approach that is designed for more collaborative working. Internal technical departments frequently work very closely with client departments. Local contractors often have a long-term interest in working with authorities and are keen to develop good working relationships.

In seeking the benefits of closer working, authorities must also maintain high standards of public accountability, including benefiting from competition. It is possible to adopt an explicitly partnering style of working after appointing a contractor through competition. There are examples in the private sector, such as the Rover Group, where the client selects its contractor from three or four possible firms, and works with the chosen firm in a partnership way. A similar approach in local government would mean that officers would have to exercise more discretion than at present, in particular by using different tendering procedures. While the potential benefits would be considerable, there would need to be robust procedures to ensure probity. Earlier regular involvement by internal audit could be an appropriate response (Case Studies 7 and 8, overleaf).
Auditors can help to assure quality and improve systems as work progresses.

Case Study 7
The director of property services at Thurrock Borough Council makes regular use of internal audit to undertake process auditing of its capital projects and to quality-assure specific areas of work. He said, ‘People were a bit suspicious at first, but now they regard the auditors positively as part of the team.’

Case Study 8
Doncaster Metropolitan Borough Council appointed one of its quantity surveyors to an internal audit post. This arrangement has worked very successfully, improving the quality of audit information for both finance and technical departments, as well as leading to a better working relationship at ground level.

67. However, internal auditors should be independent of management, and must not get involved in managing projects directly (Ref. 9). But with suitable arrangements, internal auditors can also add value. London Underground delegates much greater responsibility to its project managers than do most local authorities. In return, probity and quality assurance are maintained by using auditing techniques. Each project has an assigned auditor who audits processes on behalf of the project manager on a pre-agreed and risk-related cycle. Although the process was considered time-consuming when it was first introduced, there are now many managers who find the discipline involved helpful.

Tendering process
68. Having decided on their procurement method, authorities need to use an appropriate selection process. For most projects this will involve tendering. Other routes, such as negotiation, may sometimes be appropriate – for example, where a small amount of work follows on from a larger contract – but these should be the exception rather than the rule. The tender competition should ensure that the market is fully tested and that good VFM is achieved. Authorities should pay particular attention to:

♦ tender periods;
♦ shortlisting processes;
♦ tender limits;
♦ the role of elected members; and
♦ probity.

69. Potential contractors need to be given adequate time to consider how to meet the project requirements and calculate costs. Inadequate time for the tender period will mean that this process will be rushed, with either a premium on the price for uncalculated risk or an under-bid which leads to cost-cutting during the project to recoup a loss. The National Joint Consultative Committee for Building (NJCC) code for traditional contracts defines a norm of 28 days for the tender period. But more than half of all projects surveyed had used shorter periods (Exhibit 18).
4 Value for Money

Exhibit 18
Duration of tender periods

For over half of all contracts the time allowed for contractors to tender is below the recommended industry norm.

Source: Audit Commission survey

70. The number of tenderers invited to tender should be kept reasonably low to give contractors a reasonable chance of success and to reduce administrative costs. Latham points out that the NJCC Code of Procedure for Single Stage Selective Tendering recommends that a maximum of six firms be invited to tender, with two names in reserve in case any of the initial six decline to bid. Ideally, a shortlist should incorporate some contractors which have previously performed well, and some new contractors for comparison. One authority established a good shortlist by allowing the technical team to select three likely tenderers on the basis of their experience and then three further tenderers on a random basis from an approved list of suitably qualified contractors.

71. Inadequate shortlisting processes identified in the fieldwork included those which relied purely on professional judgement and were therefore open to question on both probity and VFM grounds, and others that were purely random because of past accountability worries – and so failed to take advantage of professional judgement or good relationships built up over time with individual contractors.

72. Cost-thresholds for full external advertisement of tenders should not be set too low, since this will generate a lot of work, nor too high, since this runs the risk of not obtaining enough bids to achieve fully competitive results. Authorities vary in the threshold values they set for a full external advertisement of tenders. One county council set a limit of £20,000 – a relatively low figure which leads to burdensome procedures for officers. A unit of three staff is fully occupied in dealing with applicants and checking references.

73. If an authority uses and maintains an approved list of a limited number of suitably qualified contractors, it can advertise most tenders only to contractors on the list. Full external advertisement can then be restricted to the largest projects, including those where such advertisement is required under European
Union regulations, or to ensure that the authority tests the wider market often enough each year to satisfy itself that it is receiving competitive bids.

74. On the basis of fieldwork, about one-third of authorities need to improve their tendering processes. In particular, some authorities maintain, at some expense, an approved list but then fail to make best use of it to ensure that tendering is as efficient as possible. Either the list is too large or they tend to advertise too many contracts too widely. Careful evaluation is needed to screen firms that wish to be on the approved list. Councils should review a sample of firms’ past projects for performance against time and cost, and examine their records on issues like health and safety, compliance with environmental regulations, quality assurance and staff development. Authorities will, however, need to take into account the cost to contractors of complying with pre-qualification requirements. Group 5 of the CIB’s working groups (see Box A, above) is currently developing proposals for single pre-qualification documents for public sector contracts.

75. Where thorough pre-qualification processes are in place, authorities will need to justify not accepting the lowest tender. However, very low tenders should be evaluated rigorously to make sure they meet the required quality standards.

76. The role of elected members in tendering should be to define and monitor the procedural framework (including tender limits) and the exception limits within which the process operates. Only in unusual circumstances, such as when there is a recommendation not to choose the lowest bid which meets the quality criteria, should they be further involved. But the fieldwork suggests that members often play a more active role. For example, at one metropolitan district council, members have to approve the list of tenderers. This adds a delay of 6 to 12 weeks to the process.

77. Well-planned projects can also maximise value for money by using techniques such as risk management, cost planning, and value management and value engineering.

Risk management

78. Risk management is the systematic review of the unknowns associated with a project. It covers not only health and safety issues, but any factors that could materially affect the project. Its aim is to identify and quantify each risk where possible. Informed decisions can then be taken on whether to accept each risk and how best to manage it. Risk management should be started early in a project's life – it should be one of the factors taken into account in the feasibility study and then reviewed regularly thereafter.

79. Part of risk management is assessing who is likely to be the best party to manage a particular risk. Ideally, this is the party with the most experience and resources to deal with it. Any risk can be passed on to a contractor, but only at a price, with authorities paying a premium to contractors for accepting risks that they might be able to manage better themselves.
80. The techniques of risk management are widely available (Ref. 10). Even a limited knowledge of them encourages a systematic approach and can help to avoid major risks being overlooked, and any consequent major disasters (Box D).

81. Formal risk management was not evident in the fieldwork authorities, although local authorities routinely undertake some elements of risk management (Case Study 9, overleaf). But the bigger the project, the more formal the procedures need to be, since their cost is usually small in comparison with the overall project, and very small in comparison with the cost of things that go wrong.

Cost planning

82. Cost planning is a well-established technique that involves designers in breaking down an overall budget to cover the component parts of a project. It is an ongoing process between the technical team and the client. Enabling cost to be integrated with design should help to prevent big differences between final estimates and tenders.

Box D
Checklist of typical risks

<table>
<thead>
<tr>
<th>General risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Fraud and corruption</td>
</tr>
<tr>
<td>♦ Injury to third parties or their property</td>
</tr>
<tr>
<td>♦ Competence and financial integrity of contractors, subcontractors and suppliers</td>
</tr>
<tr>
<td>♦ Health and safety on site</td>
</tr>
<tr>
<td>♦ Fire, storm damage</td>
</tr>
<tr>
<td>♦ Collapse, subsidence, vibration</td>
</tr>
<tr>
<td>♦ Ground conditions, condition of existing building</td>
</tr>
<tr>
<td>♦ Adverse weather</td>
</tr>
<tr>
<td>♦ Supply/labour shortages</td>
</tr>
<tr>
<td>♦ Inflation/taxes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project-specific risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Project not meeting service needs</td>
</tr>
<tr>
<td>♦ Changes in service needs</td>
</tr>
<tr>
<td>♦ Changes in legislation affecting users</td>
</tr>
<tr>
<td>♦ Changes in central government policy/regulations</td>
</tr>
<tr>
<td>♦ Adverse environmental impact</td>
</tr>
<tr>
<td>♦ Business risks (e.g. competing projects)</td>
</tr>
<tr>
<td>♦ Funding availability</td>
</tr>
<tr>
<td>♦ Political risks (e.g. library closures opposed by local campaign)</td>
</tr>
</tbody>
</table>
83. Cost-planning techniques are well understood in local government, though the number of cost overruns identified in the survey suggests that they may be more honoured in the breach than the observance. Estimating project costs is not a mechanical process. It requires judgement based on experience and involves interaction between different professionals, particularly architects and quantity surveyors. There are extensive, published databases that give costs of components, recent tender prices and indices showing price changes over time (an example is shown at Box E). Such publications are typically updated every three months, and authorities should ensure that those who are estimating project costs are making full use of relevant information.

---

**Case Study 9**

*Risk management assessment undertaken by Devon County Council*

Careful research at the start of a project will help to minimise the risk of a project failing to meet service needs.

The service risks (and the underlying need for a major project at a community college) were tested by:

- analysing general population trends;
- undertaking a local population survey (including interviewing local GPs);
- examining predictions in the local housing market (including interviewing estate agents and developers);
- analysis of all the education services in the area; and
- identifying current and proposed curriculum requirements and testing these against current and planned provision with full involvement of college staff.

The existing facilities were also tested by:

- undertaking a comprehensive condition survey;
- auditing the existing facilities against the authority standards; and
- drilling boreholes to test ground conditions.

Construction work was carried out over 94 weeks while the college was still operational. Measures taken to address associated risks of danger and disruption included:

- building a temporary road on to the site so that construction traffic was separated from pupils; and
- producing a very detailed programme as part of the tender documentation, setting out the order of work, phasing, access ways to be kept open and communication methods, with the full involvement of the school staff.

The project was considered very successful by the council, by the contractor, and by the college – which was at no time prevented from carrying out its planned business.

Not all risks can be predicted. Government policy to expand General National Vocational Qualifications (GNVQ) was announced during the project and sixth-form facilities at the college are now more crowded than originally envisaged.
### E in situ concrete/large precast concrete – excluding overheads and profit

The following prices are for ready mixed concrete ready for placing excluding any allowances for waste or overheads and profit.

#### E10 in situ concrete – mixed concrete prices (£/m³)

<table>
<thead>
<tr>
<th>Mix Description</th>
<th>Mix 7.5N/mm² - 40mm aggregate</th>
<th>Mix 10N/mm² - 40mm aggregate</th>
<th>Mix 15N/mm² - 40mm aggregate</th>
<th>Mix 20N/mm² - 20mm aggregate</th>
<th>Mix 25N/mm² - 40mm aggregate</th>
<th>Mix 30N/mm² - 20mm aggregate</th>
<th>Mix 40N/mm² - 20mm aggregate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal Portland cement</td>
<td>41.71</td>
<td>41.71</td>
<td>42.13</td>
<td>44.18</td>
<td>44.46</td>
<td>45.32</td>
<td>46.93</td>
</tr>
<tr>
<td>Sulphate resistant cement</td>
<td>43.51</td>
<td>43.51</td>
<td>44.13</td>
<td>46.55</td>
<td>47.98</td>
<td>49.02</td>
<td>50.68</td>
</tr>
<tr>
<td>Normal Portland cement with water-repellent additive</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>51.30</td>
<td>51.59</td>
<td>52.44</td>
<td>54.06</td>
</tr>
<tr>
<td>Normal Portland cement air-entrained</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>46.55</td>
<td>47.12</td>
<td>48.36</td>
<td>50.54</td>
</tr>
<tr>
<td>Lightweight concrete using Lytag medium and natural sand</td>
<td>-</td>
<td>-</td>
<td>55.58</td>
<td>56.72</td>
<td>57.86</td>
<td>59.38</td>
<td>62.61</td>
</tr>
<tr>
<td>Site mixed concrete</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normal Portland cement</td>
<td>51.30</td>
<td>50.62</td>
<td>-</td>
<td>54.54</td>
<td>61.78</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sulphate resistant cement</td>
<td>53.45</td>
<td>52.56</td>
<td>-</td>
<td>57.07</td>
<td>65.30</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

#### E in situ ready mixed concrete; 10N/mm² - 40 aggregate (1:3:6)

<table>
<thead>
<tr>
<th>PC £</th>
<th>Labour hours</th>
<th>Labour £</th>
<th>Material £</th>
<th>Unit</th>
<th>Total rate £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundations</td>
<td>-</td>
<td>1.30</td>
<td>7.54</td>
<td>45.95</td>
<td>m³</td>
</tr>
<tr>
<td>Isolated foundations</td>
<td>-</td>
<td>1.50</td>
<td>8.70</td>
<td>45.95</td>
<td>m³</td>
</tr>
<tr>
<td>Beds over 450mm thick</td>
<td>-</td>
<td>1.00</td>
<td>5.80</td>
<td>45.95</td>
<td>m³</td>
</tr>
<tr>
<td>150-450mm thick</td>
<td>-</td>
<td>1.30</td>
<td>7.54</td>
<td>45.95</td>
<td>m³</td>
</tr>
<tr>
<td>not exceeding 150mm thick</td>
<td>-</td>
<td>1.90</td>
<td>11.02</td>
<td>45.95</td>
<td>m³</td>
</tr>
<tr>
<td>Filling to hollow walls</td>
<td>-</td>
<td>3.40</td>
<td>19.71</td>
<td>45.95</td>
<td>m³</td>
</tr>
</tbody>
</table>

#### E in situ ready mixed concrete; 20N/mm² - 20 aggregate (1:2:4)

<table>
<thead>
<tr>
<th>PC £</th>
<th>Labour hours</th>
<th>Labour £</th>
<th>Material £</th>
<th>Unit</th>
<th>Total rate £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundations</td>
<td>-</td>
<td>1.30</td>
<td>7.54</td>
<td>48.68</td>
<td>m³</td>
</tr>
<tr>
<td>Isolated foundations</td>
<td>-</td>
<td>1.50</td>
<td>8.70</td>
<td>48.68</td>
<td>m³</td>
</tr>
<tr>
<td>Beds over 450mm thick</td>
<td>-</td>
<td>1.00</td>
<td>5.80</td>
<td>48.68</td>
<td>m³</td>
</tr>
<tr>
<td>150-450mm thick</td>
<td>-</td>
<td>1.30</td>
<td>7.54</td>
<td>48.68</td>
<td>m³</td>
</tr>
<tr>
<td>not exceeding 150mm thick</td>
<td>-</td>
<td>1.90</td>
<td>11.02</td>
<td>48.68</td>
<td>m³</td>
</tr>
<tr>
<td>Filling to hollow walls</td>
<td>-</td>
<td>3.40</td>
<td>19.71</td>
<td>48.68</td>
<td>m³</td>
</tr>
</tbody>
</table>

Source: Spons’ Architects’ and Builders’ Price Book, Davis Langdon & Everest, 1996 edition
Value management and value engineering

84. Some technical professionals believe that there is a tendency to adopt the first design that meets all the requirements, especially where there are time pressures. This in itself can mean that alternatives, which may provide better value for money, are never explored. But even once a feasible design has been agreed, there is scope to improve its VFM by reducing costs or improving quality. Value management and value engineering are systematic reviews of projects to improve their efficiency and effectiveness. Value management is concerned with the whole procurement process from the initial concept through to construction. It clarifies and confirms the project objectives before considering how they can best be achieved. Value management is characterised by workshop meetings, involving the client and the technical team, which are held at key stages of the project and are led by an experienced facilitator. These workshops critically evaluate the concept and design development to test whether the client’s objectives are being met and to find ways of improving value.

85. Value engineering, sometimes confused with value management, is a more restricted process which focuses upon individual components or materials to examine the appropriateness of the level of specification and associated costs. Although several fieldwork authorities were using elements of value management informally, only one authority had formalised its approach (Case Study 10). In view of the sums of public money being spent, this is a disappointing finding. In the private sector, there are examples of value management and value engineering producing impressive results (Case Study 11).

86. Developing VFM techniques is essential; it will provide the basis for the successful delivery of a project. Delivering projects is discussed in the next chapter.

Case Study 10
Improving value on an education project

West Sussex County Council achieved a significant cost reduction by a critical appraisal of the scheme initially proposed; in particular, by:

- examining alternative uses for existing accommodation in conjunction with related needs for additional space;
- comparing the cost of options for adaptation/new build against benefits achieved (structural alterations and/or modifications to building services were major cost factors); and
- consolidating new build largely into one extension with a simple link to existing accommodation.

The authority claimed that a saving of 25 per cent was achieved on the estimated cost of the initial scheme (£676,000).
Case Study 11

Value management and engineering in the private sector

British Airports Authority (BAA) worked with its project manager and subcontractors to use value management and engineering to reduce the project cost and completion time for a canopy over its proposed visitor centre at Gatwick's South Tower.

BAA initially proposed a 100m long, 14m wide, barrel-vaulted rooflight to form an atrium for the visitor centre. When completed with double-glazed curved glass, as specified, the roofing contractor, Coxdrome, estimated the cost at £650,000.

Mace, a project management firm which works regularly with BAA, was asked to produce a feasibility study for the visitor centre. Mace asked its trade subcontractors to come up with ideas for cost savings and arranged a design workshop with BAA's designers to discuss alternative solutions. The original design required bespoke materials and structural steel support, but Coxdrome were able to offer two cheaper solutions that required less sophisticated 'engineering'.

Balancing cost against design, BAA rejected the cheapest alternative for aesthetic reasons, but accepted the second at a cost of £420,000 – a saving of 35 per cent. By working closely with Coxdrome and using standardised panels, the timetable for procuring the roof was reduced from 33 to 18 weeks.

Mace's managing director, Ian McPherson, said:

"This is a prime example of how value management can cut costs. All subcontractors are encouraged to become involved at an early stage – preferably when objectives are being discussed. At these design workshops, the subcontractor's alternatives can be thrashed out between designers and construction managers. The discussions are not just about cutting costs. The aim is to add value. This can mean that solutions are found that, for example, improve lifetime costs."

Reproduced from Building (8 March 1996)
Recommendations

Value for Money

1. Local authorities should evaluate and select procurement options on a project-by-project basis.

2. Local authorities should use the external audit of capital expenditure to review their tendering procedures to make sure that:
   ♦ the time allowed for submitting a tender meets the industry-recommended norm;
   ♦ the number of tenderers invited to bid is kept reasonably low to give contractors a reasonable chance of success and to reduce administrative costs;
   ♦ procedures for drawing up lists of approved contractors are thorough, but take account of the cost to contractors of complying with pre-qualification requirements;
   ♦ cost-thresholds for full external advertisement of tenders are balanced between being so high that there are too few bids and so low that too much administrative work is generated; and
   ♦ elected members approve and monitor tendering procedures and agree those circumstances which would trigger their involvement in the tendering of a particular project.

3. Local authorities should develop a partnership approach to working with construction contractors, but should maintain high standards of probity and should define the role of their internal auditors in this process.

4. Local authority project teams should apply cost-planning techniques in a rigorous manner, using the most up-to-date information available.

5. Local authorities should develop a systematic approach to risk management, especially for large projects.

6. Local authorities should develop the use of value management and value engineering techniques.
The hallmark of a well-managed project is the delivery of its planned objectives to the right quality, on time and within budget. But two-thirds of capital projects run late and half are outside the contract sum by more than 5 per cent.

Six key steps will help authorities to manage the delivery phase of a project: putting information systems in place, agreeing a monitoring process, monitoring progress regularly, acting on monitoring results, controlling variations, and reporting significant problems to members.
87. The hallmark of a well-managed project is the delivery of its planned objectives to the right quality, on time and within budget. Broadly speaking, local authorities work hard to deliver projects to the right quality, particularly by involving users such as council house tenants throughout projects. But in the Commission’s survey, two-thirds of projects ran late and half of all projects were 15 per cent or more behind schedule (Exhibit 19). One-quarter of projects cost more than 5 per cent above the initial contract sum and one-quarter more than 5 per cent below (Exhibit 20). In those projects which did overrun, authorities granted extensions of time in nine out of ten cases. This suggests that authorities accepted that the delays were out of the contractors’ control. Good management of the delivery of a project will help to reduce the risk of projects running late.

88. There are six key steps in managing the delivery phase of a project, once the project manager has given the approval for work to start on site (Exhibit 21).

Information systems

89. Good management is impossible unless local authorities have good management information systems to control the progress of projects. The Commission’s survey requested information that would be needed by authorities carrying out monitoring and reviews of projects due to reach completion in 1994/95. But although all the authorities in the survey volunteered to take part, more than one-fifth of them provided no returns. Some of the returns that were provided were incomplete in material details. For example, 19 per cent of those returned contained no data on professional fees.

Exhibit 19
Construction period as a percentage of planned period

Two-thirds of projects run late.

Source: Audit Commission survey
Exhibit 20
Increase in construction costs

One-quarter of projects cost more than 5 per cent above the initial contract sum and one-quarter more than 5 per cent below.

Source: Audit Commission survey

Exhibit 21
Six key steps in delivering projects

The hallmark of a well-managed project is to deliver its planned objectives to the right quality on time and within budget.

Source: Audit Commission
90. A project manager in one authority said: ‘On the basis of my experience, including the private sector, I thought this authority was good at managing its projects. The Commission's survey poses straightforward data requests to which it should be easy to respond. But we have found it so difficult that I am now doubtful as to how well we are managing.’ In the audits that will follow this report, auditors will review the management information available to individual authorities to help them identify what should be done to improve this essential building block for good project management.

Monitoring process
91. Authorities vary in their approach to monitoring the delivery of their projects during the year. In some smaller authorities there are powerful informal mechanisms where relevant officers meet regularly and, with the benefit of long experience and mutual trust, manage to keep their projects on track with very little fuss. Other authorities, particularly larger ones, require more formal arrangements (Case Studies 12 and 13). Whatever approach authorities choose to adopt, the accountabilities for all aspects of the project should be clearly defined and agreed.

Case Studies 12 and 13

Styles of project organisation

Authorities vary in their approach to project monitoring.

Case Study 12
Wirral Metropolitan Borough Council covers areas both of former docklands and of heavy industry that have seen significant decline in traditional sources of employment, and relatively rural and prosperous districts. In 1993 the population was over 300,000.

Technical services are provided to the borough by the Directorate of Property Services, which is certificated to ISO 9000 (formerly BS5750). The formal quality management system ensures that projects are thoroughly documented, and imposes a discipline on communications and other aspects of project management. This greatly facilitates administration and underpins proper accountability, but it is recognised that this in itself does not generate genuine teamwork.

Case Study 13
Newark and Sherwood District Council covers both an area in which coal mining was until recently a major industry, and an area in which agriculture is (and continues to be) the traditional principal activity. In 1993 the population served was over 100,000.

The Department of Building Design does not have a formal quality management system, and procedures rely relatively heavily on informal contacts between officers and members. This is greatly facilitated by:
♦ all departments being located in one building;
♦ long-serving staff; and
♦ a relatively stable political environment.

This informal approach has generated an ethos of team working, but one which could be vulnerable to changes in key personnel or external pressures.
Monitoring progress

92. The project manager must keep track of detailed progress on the project, both in terms of work achieved against the project plan, and in terms of spending against budget.

93. Monitoring should be monthly (matching the normal cycle of valuation of work undertaken for the purpose of contractual payment to the contractor), and undertaken by an individual technically qualified to do so, normally the cost consultant (usually a quantity surveyor) or an architect.

94. All key variables should be monitored including, where applicable:

♦ money spent and committed to date;
♦ production of outstanding design information;
♦ progress on site against plan;
♦ production and approval of installation drawings;
♦ expenditure of provisional sums;
♦ adjustments to payments in respect of any subcontractors nominated by the authority;
♦ status of contingency sums;
♦ net cost of variations to date;
♦ appointment of subcontractors;
♦ net cost of anticipated variations; and
♦ notified and anticipated 'claims' by the contractor.

A cumulative valuation of the cost of construction work completed, excluding the effect of variations and claims, provides a valuable indicator of progress by comparing actual with anticipated expenditure. It also helps to forecast cashflow.

95. Reliable monitoring is dependent upon authorities following basic good practice. This involves regularly revising provisional quantities, provisional sums and measuring variations, etc. It is also important to monitor a contractor's planning and ordering and the design team's information flows. Good, full-site records are essential. This also enables the operation of planned closure procedures, and facilitates both the issue of the practical completion certificate and rapid settlement of the final account.

96. When projects to be monitored are of a minor works nature, it will not be cost effective to have elaborate monitoring procedures. In these instances, it may be more appropriate to put in place arrangements to monitor the minor works programme as a whole.

Acting on monitoring results

97. All authorities collect and report information during the life of a project as part of the process of valuing work done by, and making payments due to, contractors. But most authorities do not use such information as a spur to action. For example, authorities did not appear to use forecasts of project
cashflow to give early warning of excessive expenditure or delays. This disappointing finding suggests that many projects are not being well managed, and may help to explain why so many overrun on time or cost.

98. Knowing how individual projects are progressing will also allow programme managers to bring forward or delay other projects so that best use is made of the resources available. Authorities are often under pressure to spend money by a fixed date, usually because it is a condition attached to some or all of the funding. Many authorities respond to such pressures by resorting to ‘spend-up syndrome’. They try to accelerate the delivery of projects, often falling victim to the tendency of non-technical people – members and officers – to underestimate the time needed to plan projects properly and the risks involved when proper planning is skimped. However common it may be, spend-up syndrome leads to problems. In some cases, auditors have found authorities using accelerated payments (Case Study 14), or succumbing to a temptation to overvalue work completed at the year-end or to anticipate payments by writing cheques in advance and keeping them in the safe until contractors complete the work meeting their value. Such actions bring risk to both probity and value for money, and are therefore unacceptable.

Controlling variations

99. In most contracts, variation in the final sum payable to the contractor is possible under the terms of the contract. Variations may arise from:

♦ shortcomings in the design information;
♦ unavoidable changes, such as redesign in response to unforeseen ground conditions or defects in existing buildings. When necessary to avoid delay, these should be actioned immediately by the technical team, in accordance with recognised procedures, and reported retrospectively;
♦ relatively minor items affordable within available contingency sums, which can be actioned immediately by the technical team; and

---

**Case Study 14**

**Accelerated payments**

Accelerated payments undermine sound financial management.

An authority was carrying out a major scheme funded by Derelict Land Grant from central government. There was considerable slippage on the scheme and the regional government office was anxious to spend all its allocation by 31 March.

The authority feared that it would lose the allocation if it did not take it up before the end of the year, so it entered into an agreement with the contractor to make an accelerated payment to enable the contractor to secure its supply of materials.

Once the contractor had proved that it had arranged to make payment to its supplier, the authority made a payment to the main contractor and claimed the money from the government department, which was received by 31 March.

Subsequent audit enquiries showed that while all the materials were supplied, it took over eight months for them to be delivered. As a result, a private sector supplier had effectively been given an interest-free loan of £1 million for that period.
items that are optional in technical terms, including changes requested by
the client. The cost of these – including the estimated cost of any potential
claim for disruption by the contractor – should be estimated by the team's
cost consultant for project sponsor approval prior to implementation, and
the budget adjusted accordingly.

100. The cost of a variation should be obtained from the contractor before
giving the go ahead for it to be undertaken. If there is an apparent need to
increase the budget, the technical team should seek to identify options for
making compensating savings.

101. To keep variations to a minimum, there should be formal approval
procedures, with a requirement for significant changes to be signed off by a
senior person from the sponsoring department who is not based on site.
Minor variations should also be reported to the sponsor. Records of progress
on the contract, including all variations, should be maintained in a systematic
way. This is particularly important so that authorities can respond
appropriately to any future claims by contractors and facilitate post-project
review and audit.

102. In general, authorities had clear procedures in standing orders and
financial regulations to control variations. But success in applying the
procedures in practice was variable, even for different projects within the same
authority. Sometimes the formal approval procedures were invoked to give
retrospective sanction to actions which had already taken place.

Reporting significant problems

103. Members need to be kept aware of significant problems on individual
projects, because these may become more difficult and expensive to resolve if
decisions are delayed. But members should normally avoid involvement in the
management of individual projects. An exception would be where a political
or strategic decision is required – such as in carrying out a major regeneration
scheme with external partners and authority-wide implications – where
members must represent the authority.

104. Delivering a project on time, to specification and within budget means
that the main purpose of the project has been realised. However, completing
the project and learning the lessons from it are also important parts of the
process. These elements are discussed in the next chapter.
Recommendations

Delivering Projects

1 Local authorities should aim to improve their performance in managing projects to time and within budget by making sure that:

♦ information systems are in place to control the progress of projects;
♦ the process for monitoring the project is understood and agreed by all the parties involved in the project;
♦ the project manager keeps track of detailed progress on the project and monitors all the key variables at least on a monthly basis;
♦ the results of monitoring are considered and acted on;
♦ clear procedures are in place for authorising, reporting and recording variations; and
♦ significant problems are reported to members.
Organising the handover of a new or renovated building in a systematic fashion will help to make sure that the facility is used properly and that all the necessary documentation is complete.

As soon as a project is completed, authorities should aim to settle the final account as quickly as possible. Delays make it difficult to budget for future capital work because of increased uncertainty in assessing resources available against liabilities outstanding.

Post-project review seems to be the exception rather than the rule. Systematically reviewing the lessons from each project can help authorities plan future projects that deliver better value for money.
Handover

105. When a new or renovated building is handed over to the user, a certificate of practical completion is issued by the contract administrator – usually the leader of the design team. At handover, the client will expect to receive all the necessary information: for example, as-built drawings, specifications, manuals, etc. In the best cases, occupiers received demonstrations and personal instructions from the contractor or the technical team. Despite the importance of this contractual event, which marks the end of the builder’s free access to the site, one fieldwork authority could not show the auditor practical completion certificates for recently completed projects.

Final accounts

106. Information generated during the contract should be filed to facilitate resolution of disputes and settlement of final accounts. For example, in 15 per cent of projects which ran late, authorities used project data to claim Liquidated and Ascertained Damages (LADs). Prompt settlement of final accounts is important. Delays in settling final accounts make it difficult to budget for future capital work because of increased uncertainty in assessing resources available against liabilities outstanding. And authorities can be vulnerable in the face of claims. Yet only one-third of the authorities in the Commission’s survey could provide a full analysis of outstanding final accounts. And in the authorities that provided information, progress was slow; 63 per cent of final accounts which had been outstanding for more than a year at 1 April 1994 were still outstanding a year later.

Learning the lessons

107. Well-managed authorities should review the lessons from each project:

- to review what was achieved at what cost, an essential element of proper accountability; and
- to learn from the successes and failures of a project, so that future projects can deliver better value for money.

Authorities that do not collect and use management information during the life of a project are unable to take advantage of such information to learn the lessons of the project later – the only way that they can avoid repeating the same mistakes is by depending on the memories of a few individuals.

108. It was rare to observe regular, post-project review in fieldwork authorities, a finding that was endorsed by the survey. However, a minority of authorities systematically review experience from their projects, adopting standards and specifications seen to have worked well (Case Study 15). Such systematic review can potentially:

- inform design approaches and standards for future use;
- lead to improvements in procurement and other procedures;
- help to refine standing select lists of potential contractors; and
- raise performance generally by using information to build up a series of internally generated benchmarks.

LADs are contractual amounts that a contractor is liable to pay as a result of delays in completion.
A systematic approach to post-project review can lead to improvements in procurement and save money.

**Thurrock Borough Council** reviewed costs after a project to re-clad a towerblock overran its budget, as further blocks needed re-cladding. Initial negotiations with the previous contractor identified where savings could be made. As a result, cladding materials and heat exchangers were obtained by negotiating directly with the manufacturers, after testing the market with other suppliers. This resulted in a saving of £70,000 to £100,000, on a project worth £1.6 million.
Recommendations

Project Completion and Review

1. Local authorities should ensure that the arrangements for managing the handover of a project are organised systematically.

2. Local authorities should aim to settle final accounts promptly.

3. A post-project review is an important element in the project cycle. Local authorities should review each project to:
   ♦ establish what was achieved at what cost; and
   ♦ learn from the successes and failures of a project, so that future projects can deliver better value for money.
The Commission’s study identified several authorities which met most of the criteria of a good project. But none had all the elements of good practice in place. Many authorities could achieve much better value for money. Members and officers should use the criteria, best practice and key questions to assess their own performance.

Central government’s control of the capital expenditure system inevitably influences local authorities’ actions and their ability to achieve economy, efficiency and effectiveness. Phase 2 of the Commission’s study will address this issue.

7 Next Steps
Good practice

109. This report has drawn on the experiences of successful local authorities as well as the expertise of the private sector to identify criteria against which the management of projects can be judged.

110. The Commission's study identified several authorities which followed many of the criteria of a good project. Good practice was observed in action under all the headings (except for formal risk management and value engineering). Given the difficulties experienced by local authorities in managing their projects in the face of limited and uncertain resources, their level of success in doing so is noteworthy. But no one authority had all the elements of good practice in place. Evidence from time and cost overruns, and from expenditure on professional fees, suggests that many could achieve much better value for money.

Key questions

111. Bearing in mind the large sums of public money spent on capital schemes and the insatiable demand for capital expenditure, all authorities should review and improve the management of their capital projects. They should use the criteria and best practice in Box A (p11) and the recommendations at the end of Chapters 2 to 6 as a benchmark against which to assess their own performance. To help members and officers to apply these criteria, key questions to address are set out below (Boxes F and G). More information on how to implement good practice will be included in the management handbook (autumn 1996) and help with assessing their own performance will be available to individual local authorities through the audits that follow. The local audits will also gather additional information about authorities' management of their capital programmes and projects. The results will inform part of the Phase 2 report in 1997.

112. The report has recognised that the central government control system inevitably influences local authorities' actions and their ability to achieve economy, efficiency and effectiveness, without analysing the effect of that influence. Phase 2 of this study will be published in spring 1997; it will consider the impact of the central government control system in more detail, evaluate authorities' success in managing their programmes, consider the balance between bid-led and needs-based capital allocations and review funding through the European Union and the Private Finance Initiative.
### Box F

**Key questions for elected members**

<table>
<thead>
<tr>
<th><strong>Meeting needs</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. How well does our capital planning process enable us to assess whether projects:</td>
</tr>
<tr>
<td>are the best way of meeting service needs?</td>
</tr>
<tr>
<td>meet overall priorities and service strategies?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Effective and efficient teamwork</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>2. How effective are the arrangements between service departments and technical departments for working together on capital projects?</td>
</tr>
<tr>
<td>3. What were fee levels as a percentage of contract value for the projects that were completed in the last financial year?</td>
</tr>
<tr>
<td>4. How effective are we at having the right level of technical services in place at the right time and at the right cost?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Time for design</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Do our approval mechanisms enable us to plan potential projects well in advance while still giving us control over the decision to start work on an individual site?</td>
</tr>
<tr>
<td>6. How often are cost estimates being updated as projects develop and how are revised estimates related to budget constraints?</td>
</tr>
<tr>
<td>7. How many invitations to tender in the last financial year included an allowance for provisional sums of over 10 per cent?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Value for money</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Have we reviewed our policy on procurement in the light of the Latham Report, <em>Constructing the Team</em>?</td>
</tr>
<tr>
<td>9. How many projects in the last financial year have we applied risk management techniques to?</td>
</tr>
<tr>
<td>10. How could value management and value engineering help us achieve better value for money?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Delivering projects</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>11. How and how often does the project sponsor report to members?</td>
</tr>
<tr>
<td>12. What scale of problem or variation with a project would require a reference to members?</td>
</tr>
</tbody>
</table>
**Box F (cont.)**

**Key questions for elected members**

<table>
<thead>
<tr>
<th></th>
<th>Project completion and review</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.</td>
<td>What proportion of projects completed in the last financial year:</td>
</tr>
<tr>
<td></td>
<td>† ran more than 15 per cent late, and why?</td>
</tr>
<tr>
<td></td>
<td>† exceeded their contract cost by more than 5 per cent, and why?</td>
</tr>
<tr>
<td></td>
<td>† have outstanding final accounts and what is the value of possible claims?</td>
</tr>
<tr>
<td>14.</td>
<td>What changes have we made to the way that we manage this year’s projects as a result of last year’s experience?</td>
</tr>
<tr>
<td>15.</td>
<td>Do we receive reports on the value achieved from our capital projects and the extent to which we achieved the objectives intended?</td>
</tr>
</tbody>
</table>
**Box G**

**Meeting needs**

1. How are we including an understanding of users’ needs when we propose and design projects?

2. Before presenting projects to members, how rigorously do we:
   - define the objectives of the project in a project brief?
   - assess projects against corporate objectives and service plans?
   - justify projects in a business case and consider whether there are other options for meeting the service need?
   - identify the time-critical elements of a project?

**Effective and efficient teamwork**

3. How good are we at defining, for each project, the roles of project sponsor and project manager and the relationships they have with end-users, the design team and other technical specialists?

4. How far are professional consultancy costs – whether internal or external – being charged to projects?

5. Are arrangements in hand to benchmark fee levels against the median values from the Audit Commission’s survey?

6. To what extent (and how) are we matching the method of employing and paying consultants to the type of project?

**Time for design**

7. How are we ensuring that we are allowing sufficient time for:
   - the detailed design of projects?
   - project sponsors and end-users to be consulted and to sign-off project designs?
   - updating design costs?
   - pre-tender reviews?

**Value for money**

8. Has a report on procurement been submitted to members, in the light of the Latham Report, *Constructing the Team*, covering:
   - tender limits and tender periods?
   - approved lists and shortlisting processes?
   - elected member involvement?
   - partnership working, probity safeguards and the role of internal audit?
### Key questions for council officers

#### Delivering projects

<table>
<thead>
<tr>
<th></th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>How are we making sure that our estimates of design costs reflect established cost planning techniques and up-to-date data?</td>
</tr>
<tr>
<td>10</td>
<td>What skills do we need to develop to be able to apply risk management, value management and value engineering techniques?</td>
</tr>
<tr>
<td>11</td>
<td>How effective are our project information systems and procedures in terms of enabling us to monitor progress on site, and check spending and commitments against progress made?</td>
</tr>
<tr>
<td>12</td>
<td>What changes do we need to make to our standing orders and financial regulations so that the responsibility and process for authorising and reporting variations are clearly defined?</td>
</tr>
</tbody>
</table>

#### Project completion and review

<table>
<thead>
<tr>
<th></th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Are we managing project handovers in a systematic way?</td>
</tr>
<tr>
<td>14</td>
<td>How well are we monitoring the settlement of final accounts?</td>
</tr>
<tr>
<td>15</td>
<td>Do we have corporate procedures for reviewing the lessons from each project, and how can we make sure that the lessons are spread throughout the council?</td>
</tr>
</tbody>
</table>
Appendix 1 – When is it capital?

For local authorities, capital spending is defined in Part IV of the Local Government and Housing Act 1989. Capital expenditure includes ...

(b) the acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures; where enhancement means the carrying out of works which are intended:
– to lengthen substantially the useful life of the asset; or
– to increase substantially the open market value of the asset; or
– to increase substantially the extent to which the asset can be used for the purposes of or in connection with the functions of the local authority concerned.

Statute is silent as to what ‘substantially’ means. Ultimately the courts would have to take a view on a case-by-case basis if the accounting treatment of an item was challenged – for example, by an auditor or objector.

In practice, it is left to local authority accountants and auditors to exercise their judgement about what falls within the definition. Redecorating a flat and replacing cracked window panes would be unlikely to count as capital. It would not substantially enhance the value of the flat. If the same work was carried out in 1,000 properties, the authority’s overall bill might be over £1 million – but would still not be capital, for the same reason. On the other hand, a large number of minor repairs to the same flat over a short period might arguably improve it substantially.

Some authorities appear to capitalise some items of expenditure of quite small value. One authority included erecting a notice board at a school as an individual capital contract within a group of larger ones. A minor repair to a fire door might be quite inexpensive – but could be counted as capital if it meant that the property could then be used to house a homeless family. It could be argued that it substantially improves the authority’s ability to house the homeless.

Not all expenditure that meets the definition in the Act will actually be treated as capital in an authority’s accounts (‘capitalised’). If spending is to be financed from revenue reserves, there is no material reason to distinguish spending on capital and revenue items. Some authorities charge all town hall maintenance to a reserve fund kept for that purpose which is topped up each year from revenue; this might pay for quite large conversion and heating system improvements that would be capitalised by other authorities.
Local authorities finance their capital expenditure in four main ways: by borrowing, by grants received from government and other sources, by selling land and property (capital receipts), and by using revenue funds (Exhibit 2.1). Central government restricts the extent to which sales can be used to finance new spending. Government also either directs or strongly influences the timing and nature of spending financed through borrowing and grants by its allocation of resources between authorities. The control system for England is described in Box 2.A. Some of the features, which have a significant impact on the management of an authority's programme, are discussed in Box 2.B. The rules for Wales are different, but their impact is similar.
**Box 2.A**

*How an authority’s capital expenditure is financed*

<table>
<thead>
<tr>
<th>External sources</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Capital Guidelines</strong></td>
<td>Annual Capital Guidelines (ACGs) are issued to local authorities for five major service areas:</td>
</tr>
</tbody>
</table>
| | – housing  
| | – transport  
| | – education  
| | – personal social services (PSS) and  
| | – other services  
| | The sum of these ACGs, less a proportion of an authority’s usable receipts, is issued to each authority as a block Basic Credit Approval (see below). |
| **Credit approvals** | Credit approvals are issued by government departments and allow a fixed amount of spending to be financed by borrowing (or other forms of credit) during a given financial year. They come in two forms: |
| | • Basic Credit Approvals (BCAs)  
| | • Supplementary Credit Approvals (SCAs)  
| | A Basic Credit Approval (BCA) is issued to each local authority in December and relates to spending in the following financial year. The spending can relate to any service but, in practice, this freedom is heavily influenced by government departments.  
| | Supplementary Credit Approvals (SCAs) are normally restricted to a specific service, programme or project. SCAs can be issued at any time up to six months after the end of the year to which they relate.  
| | The way in which SCAs are awarded varies. Often they are issued during the year as a result of a bidding competition for funds arranged after the national budget announcement in late November. Sometimes a ‘promissory’ letter provisionally allocates the SCA, with a formal allocation given later once the scheme is complete or has reached an agreed stage. Where it becomes clear that an authority cannot use up an SCA that it has been awarded or promised by the year end – perhaps because of practical delays on site – the issuing department may be able to re-allocate the support to other authorities.  
| | Certain grants are awarded by the European Union (EU); for example, from the European Regional Development Fund. Under the capital control system, such grants are not allowed to finance expenditure directly. Instead, the Government issues SCAs of an equivalent value to the authority which has been awarded the EU grant. |

*cont. overleaf*
**Box 2.A (cont.)**

| Credit arrangements | Certain contracts which involve a local authority gaining the benefit of a capital asset without paying its full value immediately are classed as 'credit arrangements'. Examples include deferred purchase arrangements (where a third party provides a council facility in exchange for payments several years later), and certain leases (where the leased asset reduces significantly in value during the term of the lease). These arrangements are essentially substitutes for financing a purchase directly through borrowing – and the control system in effect treats such contracts as though they were borrowing. In practical terms, an authority’s capital resources are reduced in the year that the contract is signed by the total capital payments made under the contract, just as they would have been had a direct purchase been made. Leases of office buildings are probably the most common credit arrangements. Operating leases of assets for under three years – for example, the hire of cleaning equipment – are not treated as credit arrangements and so escape the capital controls. Recent changes in regulations have also allowed leases of non-housing land and building for up to 10 years to escape the controls. |
| Departmental grants | Capital grants are issued by government departments for some specific programmes and projects. Examples are Single Regeneration Budget (SRB) schemes and the Department of Transport’s (DoT) Transport Policies and Programmes (TPP) approvals (50 per cent grant aided – the remainder is given through credit approvals). |
| Non-departmental grants | Bodies such as the Arts and Sports Councils, English Heritage and the Millennium Commission may give grants to authorities for specific projects. Between them, these bodies have received over £1 billion for distribution from the National Lottery. |
| Private sector contributions | In some cases, the private sector may see an advantage in paying for work on assets that belong to the local authority. The most common examples are work on access roads to new commercial or industrial developments and work on town-centre pedestrianisation schemes. |
| Private Finance Initiative (PFI) | The Private Finance Initiative (PFI) has become one of the Government’s main instruments for delivering high quality and cost-effective public services. Its aim is to bring the private sector more directly into the provision of public services, through private financing of capital investment in services and exploiting the full range of private sector management, commercial and creative skills. PFI has not developed in local government to the same extent as in other parts of the public sector. However, recent changes to the capital finance system for local authorities are likely to result in more PFI projects being developed. |
### Internal sources

| Capital receipts | Local authorities can raise money through the sale of their capital assets. However, except where authorities are debt-free, the capital control system limits the proportion of such money which can be used to finance new spending. The standard proportions are 25 per cent for council house sales and 50 per cent for most other types of asset. These restrictions do not apply in certain cases where the proceeds from the sale will be used to buy a similar asset – the in-and-out rules – eg, where a old fire station is sold to raise money for a new one.

The restrictions were almost completely relaxed from November 1992 to December 1993 to provide a boost to the construction industry. Further targeted relaxations have since been introduced. The revised proportions available are as follows:

<table>
<thead>
<tr>
<th>Car parks</th>
<th>90%</th>
<th>From 1 September 1995 for one year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shops (retail property)</td>
<td>90%</td>
<td>From 1 September 1995 for one year</td>
</tr>
<tr>
<td>Crematoria</td>
<td>90%</td>
<td>From 1 January 1996 for 18 months</td>
</tr>
<tr>
<td>Agricultural smallholdings (including county farms)</td>
<td>90%</td>
<td>From 1 April 1996 for two years</td>
</tr>
<tr>
<td>Education assets</td>
<td>75%</td>
<td>From 1 April 1996 for two years</td>
</tr>
</tbody>
</table>

The usable proportion of capital receipts can be carried over to future years if it is not spent immediately. Some smaller authorities have a large pool of usable receipts arising from sales of their housing stock to tenants or housing associations.

The Government takes usable capital receipts into account when it makes its capital allocations each December. Through the ACG the Government defines its view of the relative need for capital expenditure for each authority. The Government then subtracts from the ACG a figure of receipts taken into account (RTIA) in order to arrive at the authority’s BCA. The RTIA is a proportion of the authority’s usable capital receipts, usually between 15 and 30 per cent. For 1996/97 the total of RTIAs amounts to £425 million out of total usable receipts of £2 billion. Usable receipts are defined as those held at the previous 31 March, and those received in the ensuing year.

The purpose of this system is to transfer resources from areas that are rich in receipts to those which are not. It may achieve this. But it also encourages authorities to seek to spend the usable portion of their capital receipts in the year in which they arise to avoid them being used to reduce their BCA. As receipts are taxed in this way for each year that they are held, there is a continual incentive to spend them quickly.

cont. overleaf
### Box 2.A (cont.)

| **Housing Revenue Account (HRA) – revenue** | The Housing Revenue Account (HRA) housing capital programme can be supported by HRA revenue – ie, council tenants’ rents. This varies widely. Authorities visited showed a variation from nil to over £10 million per year. The HRA ringfence means that rents cannot be used to finance non-HRA capital spending and, vice versa, general fund revenue funds cannot be used to renovate council housing. |
| **General fund – revenue** | Other ‘general fund’ revenue reserves can be used to finance non-HRA capital projects. Some authorities maintain reserves which are earmarked for future capital projects. The size of such reserves varies widely. |
| **Debt-free funding** | Some authorities (about 40) have paid off all their external and outstanding loan debt. They are allowed to use all their future capital receipts on new capital schemes; in addition, they may spend the proportion of past capital receipts that they were previously prevented from spending, provided this does not put the authority back into debt. |
The control system described above has a significant influence on the way in which programmes are decided and managed. The most important features are that:

- access to resources is restricted;
- government funding is decided on an annual basis, with limited longer term assurances;
- some resources must be used within strict time limits;
- some resources may be used only for specific purposes; and
- bidding competitions are increasingly used to allocate resources between authorities.

### Restricted access to resources

**Borrowing and government grants**

Permissions to finance expenditure by borrowing (‘credit approvals’) and most grants are controlled by central government departments.

**Credit arrangements**

Rather than simple borrowing, there are alternative, contractual ways of benefiting from a capital asset, while spreading the cost over several years. Examples are ‘deferred purchase’ and ‘finance leasing’. The control system forces authorities to make an up-front provision for such arrangements, met from credit approvals or other resources. This has tended to make alternatives to borrowing unattractive.

**Cost of borrowing**

The Government intends that the ongoing costs of new borrowing (loan repayment and interest) will, for most projects, be met in full each year through the revenue support grant system. In practice, there is often a discrepancy between the rates at which authorities borrow and the normalised assumptions on which grant is based. Moreover, although an authority’s Standard Spending Assessment (SSA) may increase, its revenue budget may not if it is capped.

**Capital receipts**

Only 25 per cent of the proceeds from council house sales and 50 per cent of most other capital receipts can, in general, be used to finance new capital spending. The remainder must instead be held in financial investments or used to repay loan debt. The ‘usable’ part of capital receipts may be spent on any service, at any time. (If an authority has already repaid all of its loan debt – as has happened for about 40 local authorities – it may then use the whole of its capital receipts for new spending.)

**Revenue**

The HRA ringfence prevents cross-subsidy between rent-payers and council taxpayers. As a result, HRA revenue may be used only to finance capital spending on council houses, and general fund revenue may be used only for general fund (ie, non-HRA) purposes.

There is no legal restriction on the amount of capital expenditure that can be financed from revenue. But overall, non-HRA revenue spending is restricted by capping rules. So, for most authorities, extra revenue spending on capital will have to be matched by reductions in services elsewhere.
If capital expenditure on council housing is financed from HRA revenue, it must be paid for by increased rents, since there is no alternative source of income. But the Government has capped the increase in rents it will recognise for housing benefit (HB) purposes. If rents rise by more than this, the cost of the extra HB for the tenants who receive it has to be met by those tenants who do not receive HB.

Authorities can obtain funding for some projects from the Arts and Sports Councils, English Partnerships, the Rural Development Commission and various other non-departmental government bodies. Grants from the European Regional Development Fund and other EU programmes are important for some authorities, mainly to help with regeneration projects. In addition, contributions from private sector companies – typically to provide access roads or to contribute to pedestrianisation schemes – can form part of the programme.

Central government departments make grants for some specific programmes and projects. Examples are schemes under the SRB or housing improvement grants (60 per cent grant-aided).

Normally conditions are attached to grants. They may cover only a proportion of a scheme’s cost, requiring the authority to find the balance of funding from elsewhere. Such an approach can help ministers to stretch the money allocated to promote central priorities, and authorities need to consider whether to ‘top up’ such schemes, taking into account their other priorities for expenditure.

Funding allocations are made annually for local authorities, like most of the public sector. When the present system of capital controls was adopted in 1990, the Government began to announce forward intentions of future funding, though guarantees apply only to approved schemes where work has started on site. Annuity of funding therefore generates some uncertainty over future levels of funding, making it harder for local authorities to undertake long-term planning of capital programmes. It also encourages authorities to spend time-limited funds by the year-end, whether or not such expenditure is good value for money.

Credit approvals relate to expenditure in a specific financial year. Most are issued by government departments just before Christmas for the following financial year. They must therefore be used within 15 months or the spending power is lost. Some SCAs may become available during the financial year with shorter time limits.

Although not a formal limit, there is also an incentive to spend usable capital receipts quickly, since the Government offsets the level of credit approvals it issues to each authority.
by a percentage (usually 15 per cent – 30 per cent) of receipts held at the end of each year, through the RTIA mechanism.

Resources for specific services or projects
SCAs and grants are almost always restricted to particular services or projects. The main tranche of credit approvals (basic credit approvals) is not formally restricted to specific services, in practice, but has strings attached, because:
- use of ‘HRA’ credit approvals for non-HRA purposes leads to loss of housing subsidy; and
- allocation of ‘non-HRA’ credit approvals is frequently linked to specific projects – so that an authority switching resources away from such projects needs to have a convincing explanation for the government department responsible if it is to receive continued funding.

The overall effect is that government departments can be reasonably sure that the resources that they approve will be used by local authorities on ‘their’ projects. The situation contrasts with the revenue support system, where government departments have relatively little influence over the use of block grant by authorities.

Bidding competitions
The Government allocates capital resources partly according to need and partly on performance. Traditionally, each authority has received a share of the overall resources. Even where authorities have had to submit bids, such as for Housing Investment Programmes (HIP) and TPPs, decisions have reflected an assessment of need as well as the quality of the bids. The Government has tended to allocate an increasing proportion of resources on the basis of bidding competitions such as SRB, the Challenge Fund, Regional Challenge, the Housing Partnership Fund, Estates Renewal Challenge, Schools Renewal Challenge and DoT’s ‘package approach’ to local transport problems. The Government has recently gone ahead with a pilot Capital Challenge competition – worth £600 million over three years – in order to evaluate the possibility of the bulk of credit approvals being issued in a similar way.

Increasingly, therefore, authorities must bid for funds competitively. This can have a significant impact on traditional programming, not just because management resources must be allocated speculatively to prepare bids and identify bidding opportunities, but also because funding is often conditional on the authority:
- working in partnerships with other local bodies such as Training and Enterprise Councils (TECs), voluntary organisations and the private sector;
- attracting private sector investment; and
- contributing its own resources – usable receipts or revenue – to the project.
Partnerships with other bodies can require new management skills and arrangements, as well as adding new risks. (They need not, of course, necessarily be tied to bid-led funding.) The impact that success, or lack or it, will have on the remainder of the planned programme is an added complication of competitions, which authorities must take into account.
Appendix 3 – Capital expenditure on services

The services that receive most capital expenditure are housing, roads, education and economic regeneration (economic development, planning and industrial and commercial estates). The Government strongly influences the services on which capital is spent. The position in England is described below. Arrangements in Wales differ, but the approach is broadly the same.

Housing

In 1994/95, the largest expenditure was on council housing, with total spending at £1.7 billion. As government policy is for housing associations (HAs) to take over the role of providers of new social housing, local authorities are building few new council houses. Therefore, almost all of this money was spent on programmes to upgrade, such as installing central heating, insulation, rewiring, re-rendering, re-roofing, window replacement, recladding of towerblocks and landscaping, as well as on routine 'large item' maintenance work. In some areas, the DoE's Estate Action programme (now absorbed within the SRB) has provided money towards remodelling and almost complete renewal of problem estates. A few authorities are still involved in slum demolition and the provision of internal sanitation.

Local authorities may, in effect, transfer their capital spending power to HAs, to allow new HA stock to be built in their areas, usually in exchange for nomination rights to the tenancies. About £320 million was passed to HAs by local authorities in 1994/95. Such expenditure is not covered by this study.1

The number of council houses has decreased significantly over the last 20 years (from 5.1 million in 1980 to 3.6 million in 1995) by tenants exercising their right to buy and, in about 40 cases, by transfers of all or a large part of the council stock to HAs. Although this trend is expected to continue, subject to a change in government policy, authorities are likely to remain the biggest provider of social housing for the foreseeable future and will continue to be major capital spenders on housing stock (Ref. 10).

Local authorities also have a role in improving private sector housing, since they provide means-tested grants for repair and improvement work to low-income homeowners. They provided £485 million in 1994/95, with central government directly reimbursing 60 per cent of the total. The administrative system for these grants has caused difficulties and has had an adverse effect on capital programming in some authorities. However, the Government's 1995 White Paper, Our Future Homes (Ref. 11), has proposed changes to its operation and sets out the wider government objectives for housing. This study does not examine improvement grants.

1 The Commission is undertaking work in collaboration with the Housing Corporation to review the value for money obtained by housing associations.
**Roads**

While central government is responsible for maintaining motorway and trunk roads (trunk roads are A roads judged to be of national importance), local authorities have the responsibility for the remaining A roads and nearly all lesser roads. The boundary between capital and revenue is at its most blurred for highways. However, authorities normally charge new roads and maintenance work on A roads to capital, but not maintenance of other roads. Capital maintenance varies from providing a completely new road surface to ‘surface dressing’ – a temporary measure to improve the surface and increase skid resistance. Work on street lighting and maintaining or building bridges is also usually capital, but not gritting or maintaining verges.

Government provides capital support for road safety measures, so these are also generally treated as capital spending. The work ranges from speed humps and pelican crossings to cycleways and town centre traffic re-routing, often linked to pedestrianisation schemes. Highways authorities often delegate maintenance work to lower tier authorities. So a non-metropolitan district may act as an agent for the county, providing local traffic schemes in a large town.

Authorities often act as agents for central government in maintaining motorways and trunk roads. Such spending is fully reimbursed and is counted as Department of Transport rather than local authority spending in the official figures. The complex relationships between local authority highways departments and other agencies such as the Highways Agency, utilities companies and others are outside the scope of this study.

**Education**

Capital expenditure on education consists of maintenance work on primary and secondary schools and work to convert, improve or add to existing facilities (including providing mobile classrooms and resurfacing playgrounds). There is also a steady need to build schools in response to population increases or rationalisation programmes – where, for example, a new school with modern facilities will replace a number of small, older schools.

Local authorities are responsible for allocating capital resources between their schools. Nearly all such schools are locally managed. This means that the school is entirely responsible for spending its own annual revenue budget, including day-to-day maintenance. A school may, however, be able to ‘save up’ money to pay for a small capital scheme or to contribute to a larger one, thereby influencing how money is distributed.

Capital work in schools can pose special problems. It is highly desirable for work to be scheduled tightly to fit within holiday periods. Larger scale or urgent work during term-time carries health and safety risks for pupils and staff as well as the potential for disruption through noise and dust.
Economic regeneration projects

Some areas qualify for special government funding and for EU funds because of industrial decline. Regeneration projects can vary greatly. A few examples are:

− reclaiming derelict land;
− providing seed-bed workshops for small firms;
− pedestrianisation and improvement of town or city centres; and
− provision of tourist facilities such as heritage centres.

Usually such regeneration work occurs in partnership with other public sector bodies, the voluntary sector and the private sector. The parties work together to obtain funds and produce complementary private and public schemes as part of a programme of work to improve an entire area. This sort of co-operation should not be confused with the contractual 'partnering' arrangements within the construction industry (discussed separately in the report). And it is not the same as the types of scheme envisaged under the government's private finance initiative (PFI) which involve the private sector directly in providing public sector facilities in exchange for a return. The PFI will be considered in Phase 2 of the study.

Acquisition of land, vehicles and information technology equipment

Expenditure to acquire land, vehicles and information technology equipment applies across a range of services. These categories of spending are not covered in this report, although the Commission has reported on land (Ref. 1) and information technology (Ref. 2).
References


Index  References are to paragraph numbers

<table>
<thead>
<tr>
<th>Topic</th>
<th>Paragraph Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated payments</td>
<td>98</td>
</tr>
<tr>
<td>Accountability</td>
<td>66, 91</td>
</tr>
<tr>
<td>Adversarial relationships</td>
<td>64</td>
</tr>
<tr>
<td>Affordability</td>
<td>50</td>
</tr>
<tr>
<td>Assessment of needs</td>
<td>2, 22-31</td>
</tr>
<tr>
<td>Auditing/auditors</td>
<td>66-7, 98, 111, Box G</td>
</tr>
<tr>
<td>Bid-led systems</td>
<td>19</td>
</tr>
<tr>
<td>Budget ceilings</td>
<td>29, 57</td>
</tr>
<tr>
<td>Business case</td>
<td>26</td>
</tr>
<tr>
<td>Capital controls</td>
<td>3, 20, 112, Appendix 2</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td></td>
</tr>
<tr>
<td>by service</td>
<td>7-8, Appendix 3</td>
</tr>
<tr>
<td>by type of authority</td>
<td>9</td>
</tr>
<tr>
<td>by type of project</td>
<td>10</td>
</tr>
<tr>
<td>defined</td>
<td>2, Appendix 1</td>
</tr>
<tr>
<td>sources of</td>
<td>Appendix 2</td>
</tr>
<tr>
<td>Capital programmes</td>
<td>4, 40, 50</td>
</tr>
<tr>
<td>Integrating projects with</td>
<td>30-2</td>
</tr>
<tr>
<td>Capital projects</td>
<td>7-12</td>
</tr>
<tr>
<td>aborted</td>
<td>29</td>
</tr>
<tr>
<td>authorisation</td>
<td>48-9</td>
</tr>
<tr>
<td>integration with capital programme</td>
<td>30-2</td>
</tr>
<tr>
<td>management of</td>
<td>12</td>
</tr>
<tr>
<td>performance in planning and spending</td>
<td>5</td>
</tr>
<tr>
<td>potential</td>
<td>31</td>
</tr>
<tr>
<td>principles of managing</td>
<td>20</td>
</tr>
<tr>
<td>priority</td>
<td>31</td>
</tr>
<tr>
<td>Client department</td>
<td>36, 55, 65</td>
</tr>
<tr>
<td>Client responsibility</td>
<td>33, 99</td>
</tr>
<tr>
<td>Client roles</td>
<td>33, 36-7</td>
</tr>
<tr>
<td>Communication</td>
<td>33-7</td>
</tr>
<tr>
<td>Competition</td>
<td>44, 66</td>
</tr>
<tr>
<td>see also tendering</td>
<td></td>
</tr>
<tr>
<td>Compulsory competitive tendering (CCT)</td>
<td>17, 18</td>
</tr>
<tr>
<td>Construction costs</td>
<td>14</td>
</tr>
<tr>
<td>Construction industry, changes in</td>
<td>14-16</td>
</tr>
<tr>
<td>Construction Industry Board (CIB)</td>
<td>15</td>
</tr>
<tr>
<td>Construction-related services (CRS)</td>
<td>17, 18</td>
</tr>
<tr>
<td>Consultants</td>
<td></td>
</tr>
<tr>
<td>contracts</td>
<td>40</td>
</tr>
<tr>
<td>fee levels</td>
<td>42-3</td>
</tr>
<tr>
<td>pricing</td>
<td>45</td>
</tr>
<tr>
<td>selection and management of</td>
<td>41-3</td>
</tr>
<tr>
<td>Consultation</td>
<td>24, 31, 53</td>
</tr>
<tr>
<td>Contracting out</td>
<td>17, 40</td>
</tr>
<tr>
<td>Contracts</td>
<td>40</td>
</tr>
<tr>
<td>controlling variations</td>
<td>99-102</td>
</tr>
<tr>
<td>forms of</td>
<td>59</td>
</tr>
<tr>
<td>JCT form</td>
<td>61, 62</td>
</tr>
<tr>
<td>management</td>
<td>41</td>
</tr>
<tr>
<td>provisional sums and contingencies</td>
<td>58-60</td>
</tr>
<tr>
<td>Cost-awareness</td>
<td>18</td>
</tr>
<tr>
<td>Cost estimates</td>
<td>29, 50, 56-7</td>
</tr>
<tr>
<td>Cost planning</td>
<td>82-3</td>
</tr>
<tr>
<td>Design process</td>
<td></td>
</tr>
<tr>
<td>approval to plan</td>
<td>49, 52</td>
</tr>
<tr>
<td>cost estimates</td>
<td>56-7</td>
</tr>
<tr>
<td>cost of</td>
<td>49-51</td>
</tr>
<tr>
<td>late/post-tender changes</td>
<td>54-6</td>
</tr>
<tr>
<td>time-limited funding</td>
<td>50, 54</td>
</tr>
<tr>
<td>time for</td>
<td>53-4</td>
</tr>
<tr>
<td>End-user</td>
<td></td>
</tr>
<tr>
<td>European Union</td>
<td>73, 112, Appendix 2</td>
</tr>
<tr>
<td>Feasibility study</td>
<td>26</td>
</tr>
<tr>
<td>Fees</td>
<td></td>
</tr>
<tr>
<td>competition</td>
<td>44</td>
</tr>
<tr>
<td>percentage of total</td>
<td>40</td>
</tr>
<tr>
<td>pricing</td>
<td>45</td>
</tr>
<tr>
<td>variation in level</td>
<td>42-3</td>
</tr>
<tr>
<td>Final accounts</td>
<td>106, Box F, Box G</td>
</tr>
<tr>
<td>Government controls</td>
<td>3, 112, Appendix 2</td>
</tr>
<tr>
<td>Handover to user</td>
<td>105</td>
</tr>
<tr>
<td>Information provision</td>
<td>39</td>
</tr>
<tr>
<td>Information systems</td>
<td>89-90</td>
</tr>
<tr>
<td>Joint Contracts Tribunal</td>
<td>59, 61, 62</td>
</tr>
<tr>
<td>Latham Report</td>
<td>14, 64, 70</td>
</tr>
<tr>
<td>Liquidated and Ascertained Damages (LADs)</td>
<td>106</td>
</tr>
<tr>
<td>Monitoring process</td>
<td>31, 36, 91-104</td>
</tr>
<tr>
<td>acting on results</td>
<td>97-8</td>
</tr>
<tr>
<td>controlling variations in</td>
<td>99-102</td>
</tr>
<tr>
<td>contracts</td>
<td></td>
</tr>
<tr>
<td>good practice</td>
<td>95</td>
</tr>
<tr>
<td>keyvariables</td>
<td>94</td>
</tr>
<tr>
<td>minor works</td>
<td>96</td>
</tr>
<tr>
<td>reporting significant problems</td>
<td>103</td>
</tr>
<tr>
<td>National Joint Consultative Committee for Building (NJCC)</td>
<td>69, 70</td>
</tr>
<tr>
<td>Negotiation</td>
<td>68</td>
</tr>
<tr>
<td>NJCC Code of Procedure for Single Stage Selective Tendering</td>
<td>70</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>40</td>
</tr>
<tr>
<td>Partnerships</td>
<td>19, 64-6</td>
</tr>
<tr>
<td>Planning</td>
<td>31</td>
</tr>
<tr>
<td>approval</td>
<td>47-52</td>
</tr>
<tr>
<td>expenditure</td>
<td>50</td>
</tr>
<tr>
<td>funding</td>
<td>51</td>
</tr>
<tr>
<td>Post-project review</td>
<td>31</td>
</tr>
<tr>
<td>learning lessons from</td>
<td>107-8</td>
</tr>
<tr>
<td>Pre-tender review</td>
<td>55</td>
</tr>
<tr>
<td>Topic</td>
<td>Page</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>Private Finance Initiatives (PFI)</td>
<td>4, 19, 112, Appendix 2</td>
</tr>
<tr>
<td>Probit</td>
<td>66, 67, 98</td>
</tr>
<tr>
<td>Procurement strategy</td>
<td>31, 33, 61-7</td>
</tr>
<tr>
<td>benchmarking</td>
<td>63</td>
</tr>
<tr>
<td>elements of</td>
<td>61</td>
</tr>
<tr>
<td>traditional route</td>
<td>63</td>
</tr>
<tr>
<td>Professional fees</td>
<td>See Fees</td>
</tr>
<tr>
<td>Professionals, in-house or external</td>
<td>39-40</td>
</tr>
<tr>
<td>Programme manager</td>
<td>49, 53, 54, 55, 98</td>
</tr>
<tr>
<td>Project brief</td>
<td>27, 28</td>
</tr>
<tr>
<td>Project completion</td>
<td>105-6</td>
</tr>
<tr>
<td>Project management</td>
<td>10</td>
</tr>
<tr>
<td>communication and teamwork in</td>
<td>34</td>
</tr>
<tr>
<td>good practice</td>
<td>21, Box B, 109-111</td>
</tr>
<tr>
<td>hallmark of success</td>
<td>87</td>
</tr>
<tr>
<td>key questions for members and officers</td>
<td>111</td>
</tr>
<tr>
<td>outcome statistics</td>
<td>87</td>
</tr>
<tr>
<td>Project manager</td>
<td>27, 31, 34, 41, 49, 52, 53, 55, 88, 92</td>
</tr>
<tr>
<td>Project monitoring</td>
<td>See Monitoring process</td>
</tr>
<tr>
<td>Project selection</td>
<td>25-8</td>
</tr>
<tr>
<td>defining objectives</td>
<td>22-4</td>
</tr>
<tr>
<td>Project sponsor</td>
<td>25, 27, 31, 33, 36, 101</td>
</tr>
<tr>
<td>Provisional sums and contingencies</td>
<td>58-60</td>
</tr>
<tr>
<td>Quality assurance</td>
<td>67</td>
</tr>
<tr>
<td>Risk management</td>
<td>14, 78-81</td>
</tr>
<tr>
<td>Role of elected members</td>
<td>31, 48</td>
</tr>
<tr>
<td>authorising projects</td>
<td>76</td>
</tr>
<tr>
<td>monitoring projects/problems</td>
<td>103</td>
</tr>
<tr>
<td>key questions for</td>
<td>111, Box F</td>
</tr>
<tr>
<td>Service delivery</td>
<td>23-4, 31</td>
</tr>
<tr>
<td>Service department</td>
<td>25, 28, 32, 37, 62</td>
</tr>
<tr>
<td>Service level agreements (SLAs)</td>
<td>17</td>
</tr>
<tr>
<td>Shadow business units</td>
<td>17</td>
</tr>
<tr>
<td>Specification</td>
<td>31</td>
</tr>
<tr>
<td>Spend-up syndrome</td>
<td>98</td>
</tr>
<tr>
<td>Support services</td>
<td>18</td>
</tr>
<tr>
<td>Teamwork</td>
<td>32, 33-46</td>
</tr>
<tr>
<td>between departments</td>
<td>18</td>
</tr>
<tr>
<td>selecting and managing members for</td>
<td>41</td>
</tr>
<tr>
<td>Technical department</td>
<td>32, 38, 62, 65</td>
</tr>
<tr>
<td>Technical service</td>
<td>17, 36</td>
</tr>
<tr>
<td>Technical staff</td>
<td>38-40</td>
</tr>
<tr>
<td>Tendering process</td>
<td>33, 68-76</td>
</tr>
<tr>
<td>and cost estimate updates</td>
<td>57</td>
</tr>
<tr>
<td>and cost implication</td>
<td>56-7</td>
</tr>
<tr>
<td>cost-thresholds for full external advertisement of tenders</td>
<td>72-3</td>
</tr>
<tr>
<td>need to improve</td>
<td>74</td>
</tr>
<tr>
<td>number of firms invited to tender</td>
<td>70</td>
</tr>
<tr>
<td>pre-qualification processes</td>
<td>75</td>
</tr>
<tr>
<td>pre-tender review</td>
<td>55</td>
</tr>
<tr>
<td>role of elected members</td>
<td>76</td>
</tr>
<tr>
<td>shortlisting</td>
<td>70-1</td>
</tr>
<tr>
<td>time allowance</td>
<td>69</td>
</tr>
<tr>
<td>Time allocation</td>
<td>50</td>
</tr>
<tr>
<td>Trading accounts</td>
<td>17, 18</td>
</tr>
<tr>
<td>User needs</td>
<td>24, 28</td>
</tr>
<tr>
<td>Users, communicating with</td>
<td>32, 35, 37, 53, 55</td>
</tr>
<tr>
<td>Value engineering</td>
<td>84-5</td>
</tr>
<tr>
<td>Value for money (VFM) techniques</td>
<td>77-86</td>
</tr>
<tr>
<td>Value management</td>
<td>25, 84-5</td>
</tr>
</tbody>
</table>
District Auditors were first appointed in the 1840s to inspect the accounts of authorities administering the Poor Law. Auditors ensured that safeguards were in place against fraud and corruption and that local rates were being used for the purposes intended. The founding principles remain as relevant today as they were 150 years ago. Public funds need to be used wisely, as well as in accordance with the law. The task of today's auditors is to assess expenditure, not just for probity and regularity, but for value for money as well.

The Audit Commission was established in 1983 to appoint and regulate the external auditors of local authorities in England and Wales. In 1990 its responsibilities were extended to include the National Health Service. For more information on the work of the Commission, please contact:

The Audit Commission
1 Vincent Square
London
SW1P 2PN
Tel: 0171 828 1212