

SCRUTINY OF BUSINESS CASE REVIEW (ROTHESAY PAVILION)

1. SUMMARY

- 1.1 The 24 January 2020 Audit and Scrutiny Committee meeting asked the Chief Internal Auditor (CIA) to carry out initial scoping for a possible scrutiny topic relating to Rothesay Pavilion and bring a report to the next meeting.
- 1.2 The report provides background information, presents an outline of an indicative scope and sets out some further factors for consideration.
- 1.3 Reports on the Rothesay Pavilion taken to various Council committee meetings have contained commercially sensitive information so have been tabled as exempt items. Commercially sensitive information has not been replicated in this report to avoid the need for it to be treated as an exempt item. The information contained in this report is information which is already publically available.
- 1.4 Should the Audit and Scrutiny Committee determine that a scrutiny review focused on the Rothesay Pavilion business case should be conducted then care will need to be taken in terms of what information is made available in any publically available report.

2. RECOMMENDATIONS

- 2.1 The Audit and Scrutiny Committee is asked to:
 - 2.1.1 Consider the indicative scope and objectives of a scrutiny review of the process followed to assess the Rothesay Pavilion business case.
 - 2.1.2 Consider the factors highlighted which may reduce the capacity of the scrutiny process to be robust and well evidenced.
 - 2.1.3 Consider an alternative area of focus relating to guidance on the award of external funding and review of future business cases.
 - 2.1.4 Determine whether they wish to conduct a review and, if so, the focus of the review, how they wish to proceed and the scale of the review to be conducted.

3. DETAIL

Background

- 3.1 In 2007, the Council decided to take each of the town centre and waterfront projects as part of the larger CHORD programme to Outline Business Case (OBC) stage and that these would be subject to independent scrutiny. It was agreed that one consultancy firm be appointed to prepare the OBC for all town

centre and waterfront projects and a separate firm appointed to score them against revised scoring criteria agreed by the Council in 2008.

- 3.2 Project boards of key stakeholders were established for each project comprising of relevant Councillors, officials and local stakeholders to work with the consultants and sign off their OBC.
- 3.3 The process for taking forward the CHORD Programme was endorsed in December 2008 by the Executive Committee. Each Project Board was tasked to prepare a Project Initiation Document (PID). In June 2011 a report detailing each PID associated with the CHORD Programme was presented to the Programme Management Board for consideration. The PID for Rothesay Pavilion was approved at this meeting.
- 3.4 In July 2011 consideration was given to a report advising on the next steps to be taken by the Rothesay Project Team following completion of the interim full Business Case (FBC) for Rothesay Pavilion.
- 3.5 Full Council considered the FBC at their meeting on 23 April 2015 and agreed the recommendations contained within. This was an exempt item as there was commercial information contained within the report.
- 3.6 Full funding for the project was achieved in September 2017 and a construction contract of £10.7 million was awarded to Messrs CBC on 29 November 2017 with a contract completion date of 31 July 2019.
- 3.7 Capital funding for the project is being provided by the Council and a number of external funders, including Heritage Lottery Fund, Highlands and Islands Enterprise, European Regional Development Fund amongst others.
- 3.8 On completion the building will be managed by Rothesay Pavilion Charity (RPC) who will lease the building from the Council for a term of 25 years.
- 3.9 A business case was developed in respect of the operations of Rothesay Pavilion in August 2014 and financial estimates for the first 5 years, which included an annual contribution from the Council, demonstrated that the operations would return a small surplus each year.
- 3.10 On 25 September 2014 full Council considered a report that outlined the need for revenue funding for the continued operation of Rothesay Pavilion beyond the completion of the CHORD repair and upgrading project. This was an exempt item as there was commercial information contained within the report.
- 3.11 Officers from RPC have been liaising with Council officers since the summer of 2019 in respect of the cash flow position of Rothesay Pavilion both prior to opening and over the first five years of occupation. The RPC has issued a funding request to the Council to provide additional revenue support. This request was considered by Council on 27 February 2020 as part of the 2020/21 budget setting process.
- 3.12 Members of the Audit and Scrutiny Committee have raised concerns over whether:
 - the original business case developed in 2014 was robust and realistic

- the business case was adequately assessed by the Council before the Council committed capital and revenue funds to the project.

3.13 The 24 January 2020 Audit and Scrutiny Committee meeting asked the CIA to carry out initial scoping for a possible scrutiny topic relating to Rothesay Pavilion and bring a report to the next meeting.

Indicative Scrutiny Scope and Objectives

3.14 **Indicative Scope:** Review the Council's approach to assessing the August 2014 Rothesay Pavilion business case, and the financial estimates for the first 5 years contained within it, to determine if the process was suitably robust and challenging.

3.15 When determining the wider objectives the Committee may wish to review whether the Council considered:

- business case structure
- clarity over the business case purpose, identified benefits, expenditure and funding streams
- benefits realisation
- required financial investment and project costs
- other external funding
- risk analysis
- stakeholder engagement

Restricting Factor

3.16 An extensive amount of time has elapsed since key decisions on the Rothesay Pavilion were taken. 14 years have passed since the original decision to take each of the town centre and waterfront projects as part of the larger CHORD programme to Outline Business Case (OBC) stage and seven years have elapsed since the Rothesay Pavilion business case was presented for review.

3.17 Whilst this does not mean that scrutiny of the process to review the business case will not be possible there is a risk that changes within the Council (including possibly key elected members and officers no longer being with the Council) might make it harder to gather the information required to come to an informed judgement.

3.18 In addition a number of the key people who were on the RPC Board at the time the business case was created have left and been replaced by new board members.

Potential Alternative Focus

3.19 Given the potential restrictions sets out in paragraphs 3.16-3.18 the Committee may wish to consider an alternative approach which would still focus on awarding Council funds to external parties and assessing business cases but would be a forward looking approach rather than retrospective.

3.20 When the Committee first considered the new approach to scrutiny there was a Committee development day held in November 2017 which set out some

broad ideas about what scrutiny might look like. As part of the presentation on that day it was considered that, broadly speaking, scrutiny can be divided into three categories

1. **horizon-scanning scrutiny** which looks ahead to changes that are likely to be necessary because of proposed developments usually external to the Council. The object of this being to inform the Council's preparations and put it in the best possible position to respond to likely challenges.
2. **pre-decision scrutiny** which examines the Council's proposals, objectives and draft programmes to inform their development before they are enacted. This can help the Council achieve optimum results by avoiding mistakes and making the best of opportunities.
3. **post-decision scrutiny** which looks at the implementation of Council policy, projects and performance in retrospect. This enables Scrutiny to review the effects of decision-making, policy and practice based on direct evidence of actual outcomes measured against intended goals. This enables the Council to identify mistakes, or unforeseen consequences so that the decision or activity can be refined and improved.

3.21 The scrutiny topics in the 2018/19 and 2019/20 annual scrutiny plans have focused predominantly on 'post-decision' scrutiny. There may be an opportunity for the Committee to consider the benefit of a piece of scrutiny that falls into the 'pre-decision' category'

3.22 On 24 January 2020 the Committee reviewed an audit report on Following the Public Pound (FTPP) which included a recommendation that a more comprehensive FTPP guidance document should be established which provides a more standardised and tiered approach providing greater clarity over roles and responsibilities and standardised templates for key stages in the process for assessing external funding requests. Work to develop that guidance is now underway and being led by the Council's Financial Services team.

Furthermore, review of business cases, including how they are scored, is something the Council's Strategic Asset Management Board have started looking at and are establishing a project team to take forward. It is important that the revised FTPP guidance reflects the conclusions of this work.

3.23 The Committee may wish to consider performing 'pre-decision' scrutiny of the revised FTPP guidance when it is completed so they can form an assessment of whether the Council's future approach to assessing external funding requests and business cases is robust before it is implemented.

4. **CONCLUSION**

4.1 There may be difficulties in scrutinising a decision and process taken seven years ago due to possible difficulty accessing the appropriate information and personnel. Whilst this does not mean it isn't possible there may be greater value in committing scrutiny time to a forward looking approach which focuses on proposed processes currently under development.

5 IMPLICATIONS

- 5.1 **Policy - None**
- 5.2 Financial -None
- 5.3 Legal -None
- 5.4 HR - None
- 5.5 Fairer Scotland Duty - None
- 5.5.1 Equalities – None
- 5.5.2 Socio-Economic Duty – None
- 5.5.3 Islands Duty - None
- 5.6 Risk – None
- 5.7 Customer Service - None

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