

Members' Library Service Request Form

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Document Title	Review of Capital Programme Management

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Additional information:

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Designation	Head of Housing and Environment
Date	30/05/13

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REPORT TO: Members' Library Service

MEETING DATE:

BY: Executive Director (Services for Communities)

SUBJECT: Review of Capital Programme Management

1 PURPOSE

- 1.1 To advise the Members of the results of a review carried out on the management of capital projects across the Council.

2 RECOMMENDATIONS

- 2.1 Members are asked to note the report and the changes which will take place as a result of the review.

3 BACKGROUND

- 3.1 Over the past few years the Council has invested heavily in new building and in the refurbishment of existing facilities. As an example, during 2011/12, the Council's gross capital spend on General Services was almost £38.3 million. For 2012/13 the budgeted General Services spend was set at £31.2 million.
- 3.2 While the majority of projects are within the agreed capital allocation there have also been a number of recent developments which have exceeded the allocated capital sum. As a result of this the Council initiated a review of its current arrangements for the management of capital projects. Audit Scotland has also recently completed a review of 'Major Capital Investment in Councils'. This report has been considered by officers – and its recommendations incorporated into the work outlined below.
- 3.3 Appendix A contains details of the various projects which have been highlighted in previous finance reports as exceeding the allocated capital sums. The appendix lists a number of the specific reasons for over-spends.
- 3.4 The table below considers some of the common themes associated with delays in completion and/or increased costs and taking into account the Audit Scotland report, sets out a number of recommendations for future adjustments to processes and procedures.

Number	Findings	Recommendations
1	Capital budget allocations are set before there is sufficient design and cost detail.	Outline Business Case (OBC) to be produced at the project's initial approval stage – and before inclusion in the budget. The OBC provides clarity about the overall value and purpose of the project, its contribution to business goals and the optimum balance of cost, benefit and risk for its effective delivery. The OBC will include contingency allowance for design development and risk which will be refined as the project develops. Budgetary allowance to be made for ICT and costs associated with relocation, furniture removals etc. This is essential given the lead-in times required for responses to Planning Applications where costs are provided for S75 agreements and there is insufficient time for development of client requirements, design development and consequent cost certainty.
2	ICT costs not fully considered when Outline Business Cases are being developed.	An ICT Asset Plan will be produced detailing where the Council is likely to face additional ICT requirements as a result of capital projects.
3	Project briefs and client requirements are insufficiently developed before budgets are set.	Full Business Case Project Description and Brief to be developed to a greater level of detail to ensure that requirements and outcomes are clear. Formal stage approvals for design and cost to contain sufficient detail to enable client departments to understand the proposals
4	Delay and additional costs associated with Utilities: electricity, gas, water and BT with ever more onerous requirements for load capacity assessments and upgrading of utility infrastructure, paid for by the Council. In addition there is a lack of options offered for consideration, often fragmented and unreliable records of the existing infrastructure held by the Utility companies, delays to providing quotations/connections / disconnections, fragmented business groups within utility organisations which do not adequately communicate with one another.	Continuing engagement with utilities to ensure good relationships and timely communication: utilities to be highlighted as cost and programme risk within cost plans and capital budgets until risk is closed.

5	Programme management and control could be improved throughout project stages.	A staffing review is underway within the Project Team. One of the objectives of the review is to enhance the resource available for project management – monitoring and managing the risks and costs throughout the project and escalating to the Corporate Asset Group where it is not practical to contain risk or cost.
6	Officers and Elected Members are unclear on how the process of initiating, managing and finalising capital projects is intended to work within East Lothian Council	<p>A Process Map will be developed linking the initiation of a project (Outline Business Case), the management of the process, the role of the Corporate Asset Group and the project's final reporting.</p> <p>Briefing for Elected Members and Officers on the capital planning/monitoring process.</p>
7	In the current economic climate there is a risk that contractors are submitting tenders which are often at the margins of profitability. They then seek to recoup costs/generate profit through aggressive claims and exploitation of contract conditions, e.g. extensions of time with costs.	Review of Forms of Contract in use and consider use of other contractual arrangements including formal partnering contracts where the partnering contractor is involved as part of the delivery team from an early stage. Allocate increase resource to ensuring that all information is finalised at pre-tender stage and adequate allowance is made to cover unforeseen risks, e.g. for refurbishment /alteration works.
9	Capital overspends are often highlighted late in the development of the project meaning that remedial/offsetting action cannot be taken.	Lead Project Officers to monitor project expenditure to ensure that risks are highlighted at an early stage and adjustments are made to make savings elsewhere to compensate. These reports are to be produced to timetable and be escalated to the Corporate Asset Group as required. These reports to form one of the building blocks for the quarterly reports to Cabinet with the same High/Medium/Low financial risk assessments carried out.

10	In the past the Council has failed to learn lessons from previous capital budget over-runs.	This report is the first step in improving some of the processes and procedures in management of capital budgets. Going forward the Council should aim to complete post-project reviews on all significant capital projects i.e. those costing more than £500k. These reports would highlight whether anticipated benefits have been realised, whether the project has been delivered within cost and timescale and what lessons can be learned.
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4 POLICY IMPLICATIONS

4.1 None.

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required

6 RESOURCE IMPLICATIONS

6.1 Financial – many of the recommendations outlined above will make a positive contribution to improving the overall financial management of the Council.

6.2 Personnel – None.

6.3 Other – None.

7 BACKGROUND PAPERS

7.1 Report to Council 28 August 2012 entitled 2011/12 Year End Financial Review

7.2 Audit Scotland Report March 2013 – Major Capital Investment in Councils

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DATE	30 May 2013

APPENDIX A

Summary of issues associated with Capital Project overspends 2012

Ormiston Community Centre approved (Feb 2011) budget was £951,572, £900,000 for the main construction works and the balance for statutory and professional fees. The Capital Plan amount reflects just the £900K.

- There was no allowance made in the report for furniture. Savings had been required on the main tender anyway and it was agreed with the client group that an inventory of the existing furniture would be made as there was little budget for new. However, most of the furniture was disposed of as the client group did not deem it acceptable. Furniture, white goods, removal costs etc came to c. £8,000.
- An extension of time was granted because the engineered timber frame supplier withdrew from Scotland at short notice and this took the project past Christmas, giving an additional 2 weeks on the 5 granted.
- We had commissioned external architects to assist with taking the contract to tender stage and extended this to include post-contract as we did not have the resources in-house to manage the job. There was additional structural engineering works required to deal with boundary issues and redesign to make savings. Additional external fees (over allowance in Tender report) is approx £50K.
- There were also some additional IT costs.

Dunbar Community Centre overspend - c. £200K

This is accounted for by a wide range of issues, including

- Additional costs around preparing for the demolition of the existing buildings which were on the site (utility disconnection costs not included in original project, dealing with vandalism to make the buildings secure before main contract started)
- Costs associated with removal and relocation of furniture from the Countess Youth club and Scout hut. Rental costs for temporary storage for both and hire of temporary accommodation.
- Significant amount of additional fill material required due to soft spots not identified by ground investigation.
- Drainage redesign to Scottish Water's requirement for additional attenuation on site to minimise flood risk.
- Additional footpaths and lighting to meet Transportation's requirements around the area
- Additional costs associated with the detailed structural frame design.
- Scottish Water supply delay meant road management system (traffic lights etc) had to be retained for 2 – 3 months longer than budgeted for.
- Revised Scottish Water mains water supply route
- Additional fire protection works, smoke detection etc. required at a late stage
- Additional changes to client requirements and Care Commission requirements
- Additional ELC IT requirements to upgrade and future-proof local IT infrastructure
- Additional client requirement for IP telephony upgrade
- Omissions from measured Bill of Quantities (hall panelling)
- Extension of time due to delays
- Alteration to fencing to play area

Brunton Hall

Main items affecting the overspend:-

- Additional attic structural steel to support the Air Handling Units, technical access walkways and lighting trusses.
- Attic condition and electrical services in the main hall floor discovered when it was opened up. This led to replacing most of the lighting in the Concourse below plus security wiring to the Caretakers' office. This also necessitated a different resilient support system for the Junckers flooring.
- Mechanical and electrical variations.
- Additional Fire Safety and Building Control requirements identified after work started.
- Additions for Audio Visual installations, particularly DCI compliant cinema where the brief was particularly late.
- Roof work and re-instatement of internal finishes following the blockage of an internal RWP that flooded Customer Services. Final costs awaited for insurance claim.
- Revisions to the main hall acoustic ceiling
- Likely extension of time costs for additional works

The Heugh, Nth Berwick Depot

Main issues affecting overspend were:-

- Additional attenuation tank, hydrobrakes and petrol interceptors for surface water drainage required by Scottish Water post contract
- Delay due to Business Stream (Scottish Water arm) late advice that existing water supply capacity was insufficient – new route had to be found and negotiated with neighbours
- Electrical power supply route had to be altered to suit neighbouring business's demands.