Corporate Director (Resources)

EXTERNAL AUDIT CAPITAL PROGRAMME AND PROJECT MANAGEMENT REPORT

1 Purpose

1.1 To provide the opportunity for the Audit Committee to discuss the Audit Commission Report on Capital Programme and Project Management arrangements at AVDC.

2 Recommendation

2.1 The Committee is asked to note the contents of the Report.

3 Supporting information

3.1 External Audit decided to undertake a review of the arrangements at AVDC for managing the Capital Programme and major projects. They were seeking reassurance that:

- the Council's wider management of its capital programme was adequate; and

- the internal resources and expertise needed to manage the size and complexity of its current capital programme were available.

3.2 The conclusions reached by the Audit Commission are shown in the Summary of their report. This states that the Council has introduced new capital programme and performance management arrangements which are sound.

4 Options considered

4.1 None

5 Reasons for Recommendation

5.1 This report is an integral part of the independent external audit process and requires formal reporting and consideration by a Committee of the Council.

6 Resource implications

6.1 None

7 Response to Key Aims and Objectives

7.1 The External Audit review process underpins the Council's own performance management framework which is designed to ensure optimum delivery of the key aims and outcomes in the Corporate Plan.

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Background Documents	Audit Committee papers

Capital Programme and Project Management

Aylesbury Vale District Council

Audit 2008/09

August 2009

audit commission

Contents

Introduction and background

1 Our initial risk-based planning for the 2008/09 audit identified that the Council had embarked on a large and ambitious capital programme of over £100 million. It had applied much of the proceeds its housing stock transfer to three major projects:

- theatre development - £42 million;
- works associated with the Town Centre regeneration - the Waterside retail development of the shopping area next to the new theatre - £5.7 million; and
- the offices project - a reconfiguration of the Council's current office accommodation - £12.1 million.

2 The Council also committed over £36 million to an enabling housing programme following the housing stock transfer.

3 On 15 April 2008, the Cabinet considered a paper on a revised capital programme covering the years 2008/09 to 2019/20. Cabinet:

- recommended that the Council adopt the revised capital programme;
- noted that the project to reconfigure office accommodation is subject to further reporting on options but the Council Chamber/Conference Centre element is proceeding; and
- agreed that the Council's Treasury Management Strategy be varied to enable Cabinet to approve borrowing for capital projects, if each project proposal can repay all financing costs over the reasonable life of the asset created.

4 The revised capital programme 2008/09 to 2019/20 prioritised:

- meeting the Council's commitments to provide affordable housing;
- the Theatre development;
- works associated with the Town Centre regeneration;
- the offices project; and
- operational projects where there is a contractual or policy commitment.

5 It excluded several smaller lower-priority projects (such as General Fund Shopping List projects) that were in earlier versions of the programme. The total value of these projects was £9.4 million. The cost of the revised capital programme was £100.6 million over the period 2008/09 to 2019/20 and compared to the Council's forecast of £100.9 million capital resources.

6 The revised construction cost estimate for the new theatre was £35 million, compared to a 2007 estimate of £28 million. The increase was largely due to tender prices being higher than the Council's external cost consultants had estimated. With fees the total estimated cost was £41.9 million, compared to the 2007 estimate of £33.4 million.

7 The offices project included a new council chamber at the Gateway site and moving most staff currently working in the town centre to new offices at the Gateway site. However, there were doubts about future office needs with the prospect of joint working as part of the enhanced two tier working Pathfinder project. So the Council reduced the scope of the next phase of the project to:

- the new council chamber; and
- setting up the options for releasing the Council's Friar's Square offices.

8 The informal briefing to the Audit Committee in May 2008 identified risks for each project (for example the decline in retail sales could put the future of the Waterside redevelopment in doubt). It also highlighted risks affecting the wider management of this large and complex programme such as the knock-on effect of the increased cost of the theatre on the affordability of the office project.

9 The Council saw the main risks as being:

- retail profits were down and similar schemes to Waterside were collapsing elsewhere;
- securing vacant possession at Waterside; and
- theatre costs going over £35 million.

10 If the Council did not manage its capital programme well it could fail to deliver some projects and fail to realise the projects' benefits. This would mean increased financial risks from delays and changes to the projects in the programme and significant financial and reputational risks to the Council.

11 Discussions with officers give us some reassurance that individual schemes were being actively managed. However, the 25 per cent increase in the estimated construction cost of the theatre project and the knock-on effect on the affordability of the office project was worrying. Appendix 1 sets out the background to the cost increases.

12 We therefore needed reassurance that:

- the Council's wider management of its capital programme was adequate; and
- the internal resources and expertise needed to manage the size and complexity of its current capital programme were available.

Audit approach

13 This project supported our opinion audit and our Code of Audit Practice responsibilities. The review was designed to:

- assess whether the Council's arrangements for managing both individual projects and the capital programme as a whole are fit for purpose;
- identify areas of weakness the Council needed to address so that the programme is delivered on time and to cost; and
- monitor implementation of any agreed improvements.

14 The scope of the review concentrated on the theatre, Town Centre regeneration (Waterside) and offices project. The Council's affordable housing programme was excluded since capital expenditure on housing is largely outside the Council's control. It depends on providing a fixed percentage of affordable housing in the new market housing development and as market housing development has declined so has affordable housing development. Housing has been a balancing factor in the capital programme but in future the Council intends that there will be a closer link between right-to-buy (RTB) sales and affordable housing building.

15 The project was designed in two phases. This report covers this first phase. For this we reviewed the Council's current arrangements to identify any weaknesses and to develop an improvement plan to provide 'fit for purpose' arrangements. Our key lines of enquiry were as follows.

- Does the Council have good arrangements for managing projects following established good practice?
- Does the Council have good arrangements for managing its capital programme to ensure that it delivers assets that will drive the district's growth agenda by following established good practice?
- Has the Council learned from the recent issues on major projects in its capital programme and has it made changes as a result?

16 In doing this we:

- reviewed key documents;
- interviewed key officers; and
- compared the Council's practices to established good practice.

17 In the second phase we will monitor the Council's implementation of the action plan and the impact of the new arrangements on how the Council manages its capital programme and its risks. Our key lines of enquiry will be as follows.

- What progress has the Council made in implementing its capital programme?
- What progress has the Council made in implementing any improvements and their impact?

Main conclusions

Summary

18 The Council has introduced new capital programme and performance management arrangements which are sound.

- The new capital programme is smaller (in the number of projects) than the one it replaced and does not contain a 'wish list'.
- The Council scrutinises prospective projects robustly before they are put in the programme or allowed to stay in it.
- The theatre project started under the old, looser regime and did not get the same scrutiny as it would now.
- Since its inception the theatre project has suffered from a gradual increase in scope and therefore cost, as well as the big cost increases last year.
- Current project management arrangements for the theatre to manage progress and cost are sound but even so it is likely that the eventual completed theatre will be a little late (less than two months) and a little over budget (well under £1m).
- Officers are identifying value engineering options that could reduce costs and putting them to the project board.
- The Council knows the current position and forecasts and has decided to live with them rather than make cuts that could make the theatre less successful.

Programme management

19 Up to 2007 the Council's capital programme was not well managed. Scrutiny of proposed projects was inadequate and entry into the programme was poorly controlled and not linked to capital resource availability. As a result the programme was unfocussed, too big and included a list of unfunded projects with little prospect of implementation.

20 The three main projects in the capital programme (the theatre, the town centre redevelopment and the offices project) started under these old arrangements. This means that they were not subject to the same robust scrutiny before entering the capital programme as they would be today.

21 The Council has improved how it manages its capital programme. Over the last two years it has reorganised its management team to Chief Executive, Director of Resources and Director of Services who is the client for all capital projects. It has set up a Strategic Investment Board to review the soundness of proposed projects before they enter the member arena. The Strategic Investment Board comprises the management team (Chief Executive, Director of Resources and Director of Services) plus the head of finance.

22 The Council has also adopted sound procedures to govern entry into its capital programme in a three stage 'gateway' process to include proposed projects in its capital programme and then on to delivery. The three stages are:

- concept appraisal, answering the question 'What are we trying to achieve?';
- project evaluation; answering the question 'Are we confident it can be done successfully?'; and
- delivery and assurance, answering the question 'Is the project going to plan?'.

23 As a result the capital programme is now smaller and better focused, centred on the three major projects. It is discussed by the Council's informal cabinet to ensure there are no surprises and then approved by Cabinet and the Council. Officers and councillors review it regularly and, at the time of this review in spring 2009, the latest review had been in February 2009.

24 The Council has significant receipts from the transfer of its housing stock to the Vale of Aylesbury Housing Association but capital funds are limited as capital receipts are likely to drop as result of the current recession. The latest capital programme allows for all projects to be completed without resorting to borrowing. However, no capital funding is available for any growth agenda implications unless the Council reverts to borrowing.

25 The Council has a buffer against unforeseen risks that could affect its capital programme. It set a minimum capital balance, a risk reserve, in the capital programme in 2008 and in February 2009 increased it to £7m. This is in addition to contingencies in each major project.

Project management

26 The Council has sound developed project management arrangements. The Council's new project management arrangements follow the principles of PRINCE 2 for all high status projects (for example over £200,000). The project owner is the Director of Services who is responsible for delivery of the capital programme. The project client represents the interests of the Council and ensures that projects meet the specifications and quality requirements. Each has a project manager and reports to the Corporate Monitoring Board. For documentation they need:

- a Project mandate;
- Options appraisal and feasibility study;
- Business case; Benefit profiles;
- Project Initiation Document (including communications plan, risk log, issues log, lessons learned log);
- Stage plans;
- Project plan;
- Highlight reports/End stage reports;
- Benefit reviews; End project report/Lessons learnt; and
- Post project review.

27 However, at the time of our review, no projects had yet been completed under these arrangements.

28 The client group is responsible for governance arrangements for capital projects. The steering group is a joint councillor, officer and consultant (as necessary) group. It governs and manages the portfolio of capital projects including resource management (finance and skills); programme level risks, issues and dependencies.

29 The principal's meeting reports to the steering group. It is responsible for direction and management of projects. Its members have authority to commit resources to the project and make key decisions. It comprises design team consultants, cost consultants, project managers, project owner (client) and enabling officers if required. It meets monthly to manage project delivery; oversee day to day activities and delivery; monitor project performance, quality, cost and delivery; deal with project risks unless it escalates them to the steering group; and reports progress and escalated items to the steering group.

30 The officers meeting comprises the project client; and other officers as appropriate. It meets monthly to approve a project plan and ensure it meets client requirements; review each stage as it is completed and approve progress to the next stage; review and approve stage and exception plans; approve changes; ensure that all products have been delivered and that acceptance criteria have been met; approve the end project and lessons learned report.

31 Project managers are consultants (Gardner and Theobold) who run the project on a day to day basis on behalf of the project client. The project manager ensures that the project delivers what it should to the required quality standards on time and within cost. The project manager submits a report to the monthly principals.

The way forward

32 The first phase of this review of the arrangements around individual project and overall programme management has identified that these are sound. Therefore, this provides us with assurance that the overall project management arrangements are robust.

33 The second phase was to be based on monitoring the Council's implementation of the action plan and the impact of the new arrangements on how the Council manages its capital programme and its risks. The key lines of enquiry were:

- what progress has the Council made in implementing its capital programme; and
- what progress has the Council made in implementing any improvements and their impact.

34 Given the findings from the first stage, no action plan has been produced. Instead we will monitor the impact of the new arrangements for capital programme management as part of the ongoing process of review of the Council's activities for the opinion audit, use of resources review and the work to support the managing performance element of the organisational assessment. If there are issues arising with either individual projects or the management of the overall capital programme we will discuss these with the Council prior to any decision on whether an additional, separate review is required.

Appendix 1 – Theatre cost increases

The estimated cost of the theatre project increased from £27.6 million to £35 million, an increase of £7.4 million. The council estimated in June 2008 that the most significant contributors to this increase were:

		£
1.	Original budget assumed that Value Engineering savings would be made but they were not achieved.	687,160
2.	Revision of services to incorporate enhanced catering requirements. Change of brief tendered competitively as part of mechanical sub-contract.	119,000
3.	Sub-structure tender returns produced a poor response. The Council invited ten contractors to tender only received only three, one of which rejected on technical reasons. The final tender was recommended to the Council summer 2007 and the budget increase was noted.	421,000
4.	Poor market response leading to second stage tender prices of about £18m, about 10 per cent higher than normal.	1,800,000
5.	Increase in the cost of preliminaries to reflect the project's complexity including:	
5a.	• the need for second tower crane to deliver project;	269,642
5b.	• extended construction programme – 12 weeks at £35,000 a week;	420,000
5c.	• extra staff throughout the project – 83 weeks at £5,000 a week; and	415,000
5d.	• increased allowances for attendant labour and waste management to reflect needs of tendered sub-contracts.	250,000
6.	Extended Willmott Dixon pre-construction fee due to extended process.	188,151
7.	Inclusion by Willmott Dixon of additional designers to complete areas of Contractor Design.	69,782
8.	Risk allowance included by Willmott Dixon for managing interfaces of Contractor Designed elements – cost not yet accepted by Design Team.	253,752

		£
9.	Inflation arising from a delay in starting the main contract. Work was programmed to start April 2008 but started in July. Costs increased in line with general BCIS inflationary predictions of 6 per cent per annum.	270,000
10	Unanticipated increased costs of specialist packages, including:	
10a.	• unanticipated complexity of the concrete package;	612,134
10b.	• the specialist changed advice on the timber façade;	250,000
10c.	• the decline in the value of the pound against the euro led to an increase in the cost of German timber;	150,000
10d.	• the rim feature on the roof;	200,000
10e.	• the external facades for the flytower and plant areas;	150,000
10f.	• the plinth;	100,000
10g.	• beacon allowance;	50,000
10h.	• internal promenade wall finishes;	90,000
10i.	• front of house floor finishes specification enhanced for durability;	50,000
10j.	• enhanced M & E specification for security measures;	150,000
10k.	• standby generator and increased electrical capacity;	200,000
10l.	• back of house lift; and	50,000
10m.	• quotations from utility companies significantly higher.	110,000
23.	Contingencies for the main works contract on site activities has been increased to reflect perceived risk of co-ordination problems.	90,000
24.	Allowance for a claim on sub-structure contract not funded from contingency.	200,000
		£7,615,620

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