Governance, Risk and Best Value Committee

10.00am, Thursday, 5 March 2015

Cameron House Community Centre: Review of Project Delivery – referral from the Education, Children and Families Committee

Item number	7.1
Report number	
Wards	All

Executive summary

The Education, Children and Families Committee on 9 December 2014 considered a report on Cameron House Community Centre: Review of Project Delivery. The Committee agreed to refer the report to the Governance, Risk and Best Value Committee for scrutiny.

Terms of Referral

Cameron House Community Centre: Review of Project Delivery

Terms of referral

1.1 The Governance, Risk and Best Value Committee had previously instructed that a report be submitted to the Education, Children and Families Committee on the project governance and building issues associated with the delivery of a new building for Cameron House Community Centre, prior to being submitted to the Governance, Risk and Best Value Committee for scrutiny.

1.2 On 9 December 2014, the Education, Children and Families Committee considered a report on the outcome of a review of the project carried out by external consultants, Turner and Townsend.

1.3 The Education, Children and Families Committee agreed:

1.3.1. To note the issues associated with the delivery of the project and the adoption of the Prince 2 project management methodology to mitigate potential failures for current and future projects.

1.3.2. To recognise the frustrating experience and service disruption for the community centre users during the process of defect resolution.

1.3.3. To note the commissioning of works to remedy the final outstanding defect identified in the review – i.e the low height of the entrance doors.

1.3.4. To refer the Acting Director's report to Governance, Risk and Best Value Committee for scrutiny.

For Decision/Action

2.1 The Governance, Risk and Best Value Committee is asked to consider the attached report.

Background reading / external references

Minute of the Governance, Risk and Best Value Committee 3 April 2014

Education, Children and Families Committee 9 December 2014.

Carol Campbell

Head of Legal, Risk and Compliance

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Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	Cameron House Community Centre: Review of Project Delivery – report by the Acting Director of Services for Communities

Education, Children & Families Committee

10am, Tuesday, 9 December 2014

Cameron House Community Centre: Review of Project Delivery

Item number	8.1
Report number	
Executive/routine	Executive
Wards	

Executive summary

The Governance Risk and Best Value Committee requested an independent review into the project governance and building issues associated with the delivery of a new building for Cameron House Community Centre.

The review highlights the shortcomings of the project governance processes in place at that time for the delivery of the project. This report goes on to illustrate how the Prince 2 project management processes now applied to capital projects provides a means to avoid similar issues arising with current projects.

Links

Coalition pledges	P44
Council outcomes	CO19
Single Outcome Agreement	SO4

Report

Cameron House Community Centre: Review of Project Delivery

Recommendations

1.1   It is recommended that Committee:

(i)   Notes the issues associated with the delivery of this project and the adoption of the Prince 2 project management methodology to mitigate potential failures for current and future projects.

(ii)   Recognises the frustrating experience and service disruption for the community centre users during the process of defect resolution.

(iii)   Notes the commissioning of works to remedy the final outstanding defect identified in the review – i.e the low height of the entrance doors.

(iv)   Refers this report to Governance, Risk and Best Value Committee for scrutiny.

Background

2.1   The Council approved a report outlining the asset management strategy for Community Education for the development of community education throughout the City of Edinburgh, in February 2004. The development of new community education centres from the Council's Capital Investment Programme 2004-2007 at four locations: Cameron House, Southhouse Burdiehouse, Royston Wardieburn and Nelson Hall, was approved. The report highlighted that the Cameron House building had a very limited life span and the estimated cost of a stand alone new build was approximately £1.8m.

2.2   A further report was approved in August 2006, which detailed the location of the new community centre on Prestonfield Park and a package of new community facilities, including enhancement of the park. This report summarised the extensive discussions and negotiations, between the local community and the Council, regarding the provision and location of the new community centre. In particular, the report noted the difficulties in reaching agreement on a proposed site due to the shortage of open space in the Prestonfield area.

2.3   The tender package for the project was combined with another community centre replacement (Valley Park). Cooper Cromar architects were appointed in 2005 to deliver multi disciplinary services and performed the contract

administrator role. The successful contractor was John Dennis Ltd, appointed in 2007.

2.4 The centre was completed in 2009, but suffered from two separate flooding incidents. The users also identified a significant number of issues over the course of the delivery of the project and subsequent outstanding issues once the building was handed over. Accordingly the Governance, Risk and Best Value Committee has instructed an independent review of the governance and building issues associated with the project, to report back to the Education, Children and Families Committee, which is the purpose of this report. The Council appointed external consultants, Turner and Townsend to carry out this review.

Main report

3.1 Turner and Townsend conducted the review between July and October 2014. All available information was provided, but full records to conduct the review have been difficult to find given that the data related to a project that commenced some ten years ago, in 2004, and due to a significant number of staff changes in the intervening period. However, enough information has been identified to assess the processes involved.

3.2 Significant comment in the Turner and Townsend report relates to the Council's project management processes at the time. These have been substantially developed in the intervening period and the Council now adopts more rigorous governance procedures through the Prince 2 methodology as a matter of course. The Council has approved that Prince 2 applies to all major projects above £5m in value. It should be noted that the community centre replacement was well below this threshold, however the Council would now still apply a Prince 2 approach for smaller scale projects by adopting the same principles. Given the significance of the change in practice from that time, a summary of Prince 2 roles and procedures is set out in Appendix 1.

3.3 It should also be noted that the Council has successfully delivered many complex high value projects (including for example its first and second education PPP projects), before Prince 2 was formally adopted, by following traditional industry protocols. Other community centre projects were also successfully delivered including the replacement Valley Park project, which was partnered with Cameron House during procurement. Projects such as Cameron House have been the exception to the norm. The value of the Prince 2 process is that, through consistent application, no projects should encounter the issues suffered on the Cameron House project.

3.4 The review considered the following main areas:

- Appointment of consultants
- Procurement of contractor
- Management of contractor

- Financial controls
- Project Management
- Communications
- Defect Rectification

3.5   The issues for each area are set out below (bullet pointed). A Council response to each set of issues follows.

Appointment of consultants

- A full set of archive files including the tendering process appear not to have been retained.
- A subsequent review of the cause of the flooding issues by the company which performed the Quantity Surveying role in the project team may not be considered to be an independent review.

3.6   Full project close out processes are now rigorously applied, ensuring the appropriate documentation is received from all parties and that appropriate documentation is retained.

3.7   Appointment of consultants is given consideration to ensure no perceived conflicts of interest arise.

Procurement of contractor

- More rigorous guidance on the selection scoring is recommended.
- Conducting post-tender negotiations with only one tenderer.
- Post-tender value engineering may have been offset by higher costs associated with undertaking the changes.
- It is unclear whether the addition of £46,000 of work from the contractor outwith the contract to resolve flooding issues followed procurement practices.

3.8   The Council's Commercial and Procurement Service (CPS) has undergone extensive transformation in recent years, most significantly since March 2012 with the development and delivery of the Commercial Excellence Programme. This programme aims to raise the standards in buying practices and processes across the Council, improve capacity and capability within CPS and generate operational and financial benefits through improved commercial and procurement activity Council-wide.

3.9   The Council's Contract Standing Orders (CSOs) set out the legal and operational framework within which procurement activity must be undertaken on behalf of the Council. Historically some practices were not optimum in terms of control and commerciality, with the CSOs remaining largely unchanged from 2001 to 2012. However, the CSOs underwent significant revision in 2012, with further revisals recommended in 2014 as a result of practical feedback from service areas, suppliers and elected members. These changes have been

designed to tighten control over the Council's purchasing procedures, whilst allowing greater flexibility in keeping up with changing legislation and procurement best practice. Under these revised rules, a project similar to Cameron House would be subject to much greater rigour and scrutiny on process, cost and quality, in order to meet the desired procurement outcomes.

3.10   Further improvements made through the Commercial Excellence Programme include the introduction of a tailored training and development programme for staff within CPS and Council wide. During 2014, a new procurement strategy has been approved by elected members, and a procurement handbook has been released which follows Scottish Government best practice to help ensure that there is a consistently high standard achieved in every procurement process.

3.11   The substantial progress made on the Commercial Excellence Programme can be evidenced by the recent high score in the Council's Procurement Capability Assessment, a government appointed external review which spans procurement activities across the Council. The score has improved from 51% in 2012 to 76% in September 2014. This is a significant achievement and puts Edinburgh as one of only two councils in Scotland currently in the 'superior performance' category.

3.12   With regard to timescales for document retention, at the time of the tender, tendering processes were generally undertaken in hardcopy, and records retained for 5-7 years, which is why only limited documentation is available for the review. This documentation is now managed and stored electronically, with records retained for 25 years.

3.13   With regard to value engineering, the Council's Senior Responsible Officers (SROs) and project managers are sufficiently experienced to assess whether value engineering changes can deliver a net saving and decide whether to action changes accordingly. The Prince 2 methodology means that proposed changes will be escalated through the project governance so that they are rigorously challenged rather than the decision being made by a sole individual. Of note is the standard presence of the Finance Division to challenge financial aspects of decisions in any project delivery structure. Finance were noticeably absent in the Cameron House project structure.

Management of contractor

- Delays associated with the issue of complete design information – possibly due to client changes.
- Practical completion was potentially not properly achieved at the certified date, with a significant number of both defective works and not yet complete works.
- Potentially premature issue of the Making Good Defects (MGD) Certificate by the architect.

3.14 With regard to potential client changes, Prince 2 has brought formal change request procedures and clear stage boundaries to project governance. Expectations are that a project will reach design freeze at Stage D of the Royal Incorporation of British Architects (RIBA) plan of work (ie before a contractor is appointed). Any necessary changes after that point will be rigorously assessed, with changes only approved by exception rather than the norm.

3.15 The role of the project manager, and the architect as contract administer, is to ensure that design information is issued in a timely manner. It is possible that the change of project manager during the project contributed to this.

3.16 There is often considerable pressure to accept practical completion early in order to meet client expectations and demands. What is not clear with Cameron House is the extent to which this was a feature. It is well recognised, however, that a handover that is too early is likely to be short sighted and potentially lead to long term costs and issues, and this will be recognised in future projects.

Financial controls

- The contract sum was for £1.91m; the final account was £2.04m (plus a further £0.1m for floor replacement). The most significant additions to the contract allowances were increased pile mat depth (£29k), and flood works during construction (£38k). There was a significant increase in the total contract valuation in the final months of the project.
- Developing engineering design details resulted in significant variations to the project.
- The reasons are not clear for a £10k increase to the contractors prolongation claim, and some procedural issues with the delay in the prolongation claims were noted.
- Instances of poor financial reporting are noted.

3.17 As indicated above, the absence of a financial presence on the project team is noticeable. Finance would now be involved in all project governance structures. It is recognised that correct levels of information must be available at key stages of the project to prevent changes or insufficient detail causing increased costs and time delays. Prince 2 requires that the project is considered at each key stage, with a gateway review before progressing to the next stage. This ensures that the project has been sufficiently developed and is ready to move to the next stage.

Project Management

- Briefing information for the architect was incomplete – eg earlier feasibility studies.
- Lack of robust interrogation of budgets at feasibility stage.
- Gateway reviews were not clearly conducted.
- Clear roles were not established, including the Senior Responsible Officer and a formal project manager, and there was a lack of continuity of staff.

- Not all reports required within the scope of the architect's commission appear to have been received.

3.18 Prince 2 ensures that clear roles and responsibilities are defined at the outset of a project (with the Projection Initiation Document). It also ensures timely gateway reviews are conducted through the life of the project. Part of the commencement of the project is assembling suitable briefing documents for the design team and these would normally be made available to the design team.

3.19 It should be noted that historically Council capital projects were set without reflecting inflation in the budget, and this, combined with optimism basis regarding delivery timescales, would mean that the budget could prove inadequate because of inflation between early feasibility work and project delivery. There was clearly extensive dialogue regarding the appropriate site for the centre which resulted in a prolonged delivery programme. Budget development for current projects now ensures that total project costs are reflected, including fees and furniture, that inflation is factored in and realistic programmes for delivery are set.

Communications

- Lack of involvement of the project manager in progress meetings in the on-site stages of delivery, and a noticeable absence of project manager involvement in the defects resolution.
- Lack of communications between the project manager and building users with users feeling that issues were not explained to them and were left unresolved.
- Abortive contingency plans made by the user when cancellation of work was not communicated to them.
- Lack of briefing of the users on operational matters at building handover.

3.20 There was clearly an issue with the extent of involvement with the project manager in the latter stages of the project. This would no longer be acceptable under Prince 2 – with regular project board meetings and reporting to the SRO, the project manager would require to be fully integrated into the project delivery processes.

3.21 Prince 2 sets out clearly defined roles, of which Senior User is one. The Senior User would be the user of the building and they would be represented at all project board and project team meetings. This would ensure that the building users would have a forum to influence the design, the delivery of the project and any changes, giving them a full understanding of the resulting building. It would be the Senior User's responsibility to ensure that that information is shared with all building users.

3.22 Project handover is an important stage of the delivery of a project, particularly as the technical and sustainable aspects of new buildings become more complex. Processes are now in place to ensure that appropriate handover documentation

and training is provided at the end of the project to ensure that the users can use the building to its optimum.

Defect Rectification

- Prolonged resolution of numerous building defects, particularly in plumbing and heating services.
- Preventative drainage measures (non-return valves) instructed by Council but not installed may have prevented or mitigated the subsequent flooding damage and prevented the need for £146k of further works for preventative and remedial works.
- The front entrance doors are too low in height; which appears to be a contractor error as the door height is not in accordance with the design drawing.
- Post completion flood works may not have the necessary building warrants.

3.23 There appears to have been a history of delays with resolving building defects. The review has identified that both Practical Completion and the issue of Making Good Defects (MGD) Certificate appear to have been premature with this project. This would have resulted in the users experiencing high levels of defects waiting to be resolved. The issue of the MGD certificate and accompanying final payment would have removed the Council's authority in being able to oblige the contractor to complete outstanding works. This was exacerbated by further works outwith the original contract requiring resolution as a consequence of the earlier flooding issues.

3.24 Accordingly, it is recognised that the users have experienced a protracted and very frustrating process of resolution. As indicated earlier in the report, premature handover of a project is recognised as creating a high risk of longer term issues.

3.25 The failure of the architect and the Council to ensure that non-return valves were installed is concerning. A meeting was held at the time to investigate solutions to the first flooding incident which recommended that non-return valves were installed, however this conclusion was not translated into an Architects Instruction at that stage of the project. The report indicates that had these valves been installed it is possible that £146,000 of additional work undertaken by the Council, and considerable operational disruption, could have been avoided. There is insufficient information, however, to clearly identify whether the failure to formally instruct the work lay with the Council or the architect.

3.26 Consideration will be given to installing non-return valves for future projects, with particular attention to sites which lie at a lower level . The designers would adhere to standards and design guides for the design and specification of drainage systems to meet building warrant and SEPA requirements.

3.27 The failure of the contractor to install front entrance doors as designed is now being addressed with works instructed to rectify this. The value of the works

associated with rectifying this potential latent defect is being established to identify whether these are significant enough to pursue the contractor for the recovery of these costs, although this is unexpected at this juncture.

3.28 It will be ensured that the necessary full statutory consents are in place for the building and any associated works.

Measures of success

4.1 Rectification of any outstanding defects at Cameron House Community Centre.

4.2 Lessons learned from the project incorporated into future project governance structures.

4.3 Rigorous application of Prince 2 principles to all projects.

Financial impact

5.1 This report relates to financial outlays by the Council in previous financial years. The only impact on current budgets is the rectification of the entrance door height, which will be contained within the Council's asset management works budget. In the event that these represent significant costs, consideration will be given to pursuing the contractor for reimbursement of these costs.

Risk, policy, compliance and governance impact

6.1 The report has highlighted the issues of not applying standard project management processes to a project. This has been well recognised with the subsequent approval of the application of Prince 2 principles to all projects; the level of governance being applicable in scale to the value of the project.

Equalities impact

7.1 The issues associated with the building affected users' opportunities to use the facilities. This would have had a detrimental effect on the groups that used the centre. The report presents a retrospective review and the resulting resolution of any outstanding defects now means that the building should be able to fully utilised by the user groups going forward.

Sustainability impact

8.1 The review identified issues such as flooding. It highlights the needs for more careful technical assessment of proposed sites for new buildings to avoid environmental issues arising. The application of non return valves on future projects, where appropriate, should minimise this risk in future.

Consultation and engagement

9.1   This report responds to review of project governance which interviewed affected stakeholders – ie the users of the building.

Background reading/external references

Not applicable.

John Bury

Acting Director of Services for Communities

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Links

Coalition pledges	P44 – Prioritise keeping our streets clean and attractive.
Council outcomes	CO19 - Attractive Places and Well Maintained – Edinburgh remains an attractive city through the development of high quality buildings and places and the delivery of high standards and maintenance of infrastructure and public realm.
Single Outcome Agreement	SO4 - Edinburgh's communities are safer and have improved physical and social fabric.
Appendices	Appendix 1: Prince 2 Procedures.

APPENDIX 1: PRINCE 2 PROCEDURES

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                    │  THE CITY OF EDINBURGH       │
                    │  COUNCIL                     │
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│  ISG Members     │ │    COUNCIL COMMITTEE        │ │ Project Team Meeting │
│                  │ └─────────────────────────────┘ │ Members              │
│  SRO(Chair)      │              ↑                  │                      │
│                  │ ┌─────────────────────────────┐ │ Project Manager      │
│  -               │ │  COUNCIL MANAGEMENT TEAM    │ │ (Chair)              │
│                  │ └─────────────────────────────┘ │                      │
│  Senior Supplier │              ↑                  │ -                    │
│                  │ ┌─────────────────────────────┐ │                      │
│  -               │ │ INVESTMENT STEERING GROUP   │ │ Senior User          │
│                  │ │        (ISG)                │ │                      │
│  Senior User     │ │ SENIOR RESPONSIBLE OFFICER  │ │ -                    │
│                  │ │        (CHAIR)              │ │                      │
│  -               │ └─────────────────────────────┘ │ Cost Advisor         │
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│  Project Office  │ │     PROJECT MANAGER         │ │ Design Team Leader   │
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│ Project          │                                 │ -                    │
│ Administration   │                                 └──────────────────────┘
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USER GROUP	ADVISORS	DESIGN TEAM	CONSTRUCTION TEAM
Senior User	Senior Estates Surveyor	• Architect • Quantity Surveyor/ Employers Agent • Structural Engineer • Mechanical and Electrical Engineer • CDM Co-ordinator • Specialist Consultants	• Main Contractor • Clerk of Works • (Facilities Management)
	Finance		
	Legal		
	Facilities Management		
	Sustainable Development Unit		

Prince 2 Roles and Responsibilities

Investment Steering Group (ISG)

The purpose of the ISG is to ensure that the project meets the business case and is delivered on time and to budget. The ISG is accountable for the success of the project and has responsibility and authority for the implementation of the project stages through to completion. The ISG is responsible for communications between the project team and stakeholders external to this. For example senior departmental Client representatives, elected officials and the public. The ISG structure is as follows:

- Senior Responsible Officer
- Senior Supplier
- Senior User
- Finance
- Project Manager

The **Senior Responsible Officer** is ultimately responsible for the project, supported by the Senior User and Senior Supplier. Key responsibilities defined in PRINCE2 include:

➢ Approve any additional supplier contracts
➢ Hold the Senior Supplier and Senior User to account
➢ Monitor and control the progress of the project at a strategic level
➢ Address issues and risks as appropriate
➢ Make decisions on escalated issues
➢ Chair ISG meetings
➢ Ensure overall business assurance of the project – which it remains on target to deliver, within agreed tolerances.
➢ Set project tolerances (delegated authority)

The **Senior User** represents the interests of the Client. Key responsibilities defined in PRINCE2 include:

➢ Ensure that the desired outcome of the project is specified
➢ Resolve user requirements and priority conflicts
➢ Ensure that any user resource required for the project are made available (e.g. access to building, brief development and design reviews)
➢ Make decisions on escalating issues, with particular focus on safeguarding the expected benefits
➢ Brief and advise user management on all matters concerning the project
➢ Provide the user view on follow-on action recommendations
➢ Undertake Project Assurance from the user perspective (user assurance) and, where appropriate, delegate user Project Assurance activities

The **Senior Supplier** represents the interests of those designing, developing, facilitating, procuring and implementing the project. Key responsibilities defined in PRINCE2 include:

➢ Confirm the viability of the project approach
➢ Ensure that proposals for designing and developing the project are realistic
➢ Advise on the selection of design, development and acceptance methods
➢ Ensure that the supplier resources required are made available for the project

➢ Make decisions on escalated issues, with particular focus on safe guarding the solution
➢ Resolve supplier requirements and priority conflicts
➢ Brief non-technical management on supplier aspects of the project
➢ Undertake Project Assurance from the supplier perspective.

Key responsibilities for **Project Manager** defined in PRINCE2 include:

➢ Prepare the PID
➢ Prepare the Highlight Reports
➢ Maintain the Risks and Issues Register
➢ Liaise with any external suppliers
➢ Lead and motivate the project management team
➢ Ensure that behavioural standards of team members are established
➢ Manage the information flow between the directing and delivering levels of the project
➢ Manage the programme progress and initiate corrective action where necessary
➢ Establish and manage the project's procedures – risk management, issue and change, configuration management and communication.
➢ Advise the ISG of any deviation from the plan