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THE CITY OF EDINBURGH COUNCIL

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Item no
Report no E/408/06-07/CE

Capital Investment Programme – Financial Resources Planning and Project Delivery

Executive of the Council

12 December 2006

Purpose of report

1 This report responds, on an interim basis, to the decision of the Executive, at its meeting on 14 November 2006, to ask me to report in December on improving financial resource planning and project delivery. This decision was taken in the context of consideration of the report by the Director of Finance on Capital Monitoring 2006-2007 – Half Year Position, when he reported significant slippage in expenditure.

Main report

2 It is important to recognise that the Capital Investment Programme and other major projects currently comprise over £500 million of investment. Major projects include:

- National and Regional Sports Facilities
- Usher Hall redevelopment
- Schools PPP2
- three new special schools
- primary schools amalgamation
- provision of four new care homes
- corporate office rationalisation (FFF)
- a new Roads Depot at the former Ethicon Site
- Port Edgar development
- City Park development
- Tron Kirk development
- the Braid Burn and Water of Leith Flood Prevention Schemes and
- major housing regeneration projects.

3 Projects supported by the Cities Growth Fund are also being managed within the Council. In parallel with the directly managed programme, Council managers are also involved in activities of Council companies, including Waterfront Edinburgh Limited and PARC (Craigmillar), and a further major resource issue is the tram project being managed through **tie**.

4 Delivery of capital projects is further complicated by the understandable requirement for the Council to be accountable and open to scrutiny. This entails a greater level of consultation with stakeholders, planning and related bodies and the local communities, thus adding to the project delivery programme. As a public body, the Council is also subject to more onerous procurement and tendering procedures which have tended to make its capital projects less appealing to the market, leading to prolonged tendering periods and cost reduction exercises. The Council does, however, have good project management arrangements, based on Treasury guidance which provide a corporate focus to the management of major projects.

Council Review 2007

5 Council Review 2007 has recognised the benefits of strengthening the management arrangements for property related projects through the re-brigading of staff to form a Corporate Property Group within City Development. A Corporate Asset Management Group has also been established, led by the Director of City Development, comprising senior representatives of all Council Departments. Within its remit, the group has responsibility for all investment planning and monitoring of the Capital Investment Programme.

6 As part of Council Review 2007, the Head of Corporate Property commissioned an independent review of the construction market in Edinburgh, involving consultation with professional bodies and contractors. The conclusions of the study which impact on the delivery of Council capital projects are shown below.

(a) The current market is buoyant and is likely to remain so for the foreseeable future. As a result, contractors are able to choose projects which are attractive to them.

(b) Contractors are experiencing problems in labour availability and increases in the cost of materials.

(c) Contractors prefer to form a close working relationship with clients which enables them to be involved in projects at an early stage, to input to the design process and negotiate commercial costs on an open book basis. In contrast, traditional tendering procedures, with a significant risk of being unsuccessful, are no longer attractive to the market.

(d) The spending power of the Council is attractive to the market but this is diluted due to the large number of projects for which the market is invited to tender on an individual basis.

7 Critical to the successful delivery of any project is the quality of pre-planning and the assessment on which it is based. This requires an accurate budget estimate, programme, risk analysis and expenditure profile to be completed in the form of a feasibility study, prior to inclusion in the Capital Investment Programme. In the past this was funded from the Capital Investment Programme but is no longer possible under the revised capital accounting rules. Such work must, therefore, be funded from revenue budgets which, in the current financial climate, causes difficulties.

Programme management and improvement

8 While this report is largely work in progress, I am proposing a number of measures for implementation now.

(a) *Programme Management*

A dedicated programming and management resource is required to support the Corporate Asset Management Group. This is most appropriately provided by a programme manager in City Development, and will enable the programme to be monitored and reported to the Corporate Asset Management Group on a two-monthly cycle. Further consideration is needed on whether funding for the programme manager can be met from the Capital Investment Programme but this will be addressed as part of the budget process 2007-2010. There is also a need for early identification of expenditure slippage to enable other projects to be advanced to maximise in-year use of capital resources. This will also allow earlier corporate intervention in slipping or bringing forward individual projects.

(b) *Capital Receipts*

Capital receipts of any significance are invariably subject to conditions relative to planning consent and the close of any legal documentation around this. Invariably, this involves elements of risk and delay. In the past, pressures on budgets have led on occasion to unrealistic timescales being incorporated. In future, it is proposed to link all receipts in excess of £0.25 million to time lines and monitor these through the Corporate Asset Management Group.

(c) *Over-programming*

Budgets are not being fully taken up over the Capital Investment Programme as a whole and this problem has existed for some years. There is understandable pressure on project managers for early delivery of projects, which can lead to an over-optimistic assessment of risk. There is also the problem of resourcing for feasibility studies mentioned earlier, which can lead to projects being insufficiently developed at the point of their appearance in the programme and, finally, there is the issue of ring-fenced Scottish Executive funding, either for transport projects or from the Cities Growth Fund, where project bidding takes place against tight funding opportunities and inevitably causes an optimistic assessment of delivery timescales against insufficiently developed projects. While improved programme management is a key requirement, it is also proposed to introduce an element of over-programming in the capital planning process. This will vary according to the type of projects but it is intended to develop this approach for incorporation into the 2007-10 Capital Investment Programme.

(d) *Feasibility Studies*

Revenue funding of circa 0.6% of the annual capital expenditure requires to be provided to enable feasibility studies to be undertaken on behalf of service departments. Based on the current three year programme, this would ideally require funding of up to £300,000 per annum, depending on the nature of the projects. Work is required on property and transport projects, both for mainstream funding and against potential funding opportunities to ensure that projects can be developed sufficiently to be included in a programme with appropriate confidence in cost and delivery timescale.

(e) *Procurement*

Through competitive tendering processes, based on quality and cost, the Director of City Development, in consultation with the Director of Finance, should form framework agreements with contractors for appropriate categories of work in order to reduce contract procurement timescales and improve budget control.

(f) *Business Cases*

All projects involving new buildings and those based on Prudential Borrowing are to be subject to preparation of robust business cases prior to their inclusion in the Capital Investment Programme.

(g) *Responsibilities*

The front-line responsibility for managing the overall capital programme will rest with the recently formed Corporate Asset Management Group. This group will report to the Council Management Team on a bi-monthly basis and will scrutinise and challenge all departmental programming, spend and financial commitment. Responsibility and accountability for individual projects must, however, remain for the present with the responsible service director through the approved Investment Steering Group model.

Financial Implications

9 There are revenue implications arising from the proposal relating to the funding of feasibility studies (paragraph 8 (d)). I would recommend that this be addressed as part of the budget process 2007-2010.

Recommendations

10 The Executive is asked to:

(i) approve the proposals set out in paragraph 8 and to note that the Director of City Development will report to in January 2007 on the working of the new arrangements;

(ii) note that a progress report on the Cities Growth Fund projects will be submitted at the same time;

(iii) consider the revenue implications as part of the revenue budget process 2007-2010;

(iv) note that the Capital Investment Programme will be considered further when the Council approves the budget for 2007-2010; and

(v) refer this report to the Resource Management and Audit Scrutiny Panel.

Tom Aitchison
Chief Executive
5/12/06.

Appendices	None
Contact/tel	Andrew Holmes, Director of City Development 0131 529 3524 Bill Ness, Head of Corporate Property and Emergency Planning on 0131 529 4915
Wards affected	All
Background Papers	Capital Monitoring 2006-2007 – Half Year Position – Report by Director of Finance to Executive of 14 November 2006