

**STRATEGY AND POLICY REVIEW COMMITTEE**  
**4 AUGUST 2008** **GOVERNANCE AND COMPLIANCE**

A11 CAPITAL WORKS END OF FINANCIAL  
YEAR POSITION

LOCATION/ADDRESS:

RESPONSIBLE EXECUTIVE DIRECTOR: DAVID YEOUART, EXECUTIVE  
DIRECTOR COMMUNITY ASSETS AND  
SERVICES

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SERVICES

FILE NO.:

ATTACHMENTS: ATTACHMENT #1 – CAPITAL WORKS  
CARRYOVER PROJECTS  
ATTACHMENT #2 - CAPITAL WORKS  
CANCELLED PROJECTS

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**1. EXECUTIVE SUMMARY**

- 1.1. The purpose of this report is to advise Council on the 2007/2008 capital works end of financial year position.
- 1.2. Council had a total capital works program budget of \$38.5million for the 2007/2008 financial year which included \$19million in rollovers from previous years.
- 1.3. A total capital works rollover figure at June 30 2008 of \$7,149,000 is recommended which represents a rollover percentage of 18.5%
- 1.4. A total of 28 individual projects are recommended to be rolled over from the 2007/2008 capital program for completion as part of the 2008/2009 capital works program.
- 1.5. Council has a capital works rollover target of no greater than 10% by June 30 2009 which is achievable if improvements continue to be made to project delivery.

**2. BACKGROUND AND CONTEXT**

2.1. In June 2007, Council approved a Capital Works program budget of \$19.5M for 2007/2008. In addition, a total of \$19M in project funding was carried over from 2006/2007 giving a total program budget for 2007/2008 of \$38.5M.

2.2. A total of 270 individual projects were scheduled for delivery in 2007/2008 with the responsibility for delivering those projects spread across 6 key Port Phillip departments. The responsibility rested as follows

- Infrastructure Services 176 Projects
  - Buildings and Green Services 51 Projects
  - Asset Services 32 Projects
  - Others (Culture and Recreation, Environment and Renewal, City Development) 11 projects
- TOTAL 270 projects

A total of 242 individual capital projects were completed during the 2007/2008 financial year which represents 10.3% of all projects.

2.3. At the end of June 2008, the capital works financial position is as follows;

\*\* Total Program Budget \$38.5Million

	<b>YTD Actual Expenditure</b>	<b>Carryover</b>	<b>Reserves</b>	<b>Variation (savings or over expenditure)</b>
<b>Financial</b>	\$31,693,812	\$7,149,000	\$1,093,146	\$1,363,779 (over expenditure - \$651,779 adjusted)
<b>Percentage</b>	82.1%	18.5%	2.8%	-3.5%

2.4. The above table shows 82.1% of the total program budget was expended in 2007/2008, 18.5% of the total program budget is recommended to be rolled over, 2.8% of the total program budget was transferred into reserves, and 3.5% of the total program budget was over expended during the year.

2.5. The over expenditure of \$1,363,779 is primarily represented by increased costs associated with the delivery of the St. Kilda Town Hall project, the increased costs associated with delivery of the Building Condition Audit project and \$712,000 of over-expenditure to expedite the completion of the final stage of St. Kilda Promenade and Pier Entry Project (This project is planned for completion in August 2008). This budget was brought forward from the 2008/2009 capital works program. As the \$712,000 required is contained within the 2008/2009 capital program, the adjusted over expenditure is \$615,779. It is proposed this shortfall will be funded from the end of year operational surpluses.

- 2.6. However, in July 2008 the Final Report – St. Kilda Town Hall Redevelopment (A18) to the Strategy and Policy Committee recommended that the over expenditure for the St. Kilda Town Hall project be funded from capital works savings. At the time that report was presented to Council, the final capital works position had not been reconciled. As illustrated above, while there has been some individual project savings, it has not been sufficient to cover the total expenditure over-run of the St Kilda Town Hall, in particular.

Consequently, one of the recommendations of this report is that, the previous resolution of Council on 28 July 2008 that, the over expenditure be funded through capital works savings be rescinded. Council can rescind a resolution, as long as it has not been acted upon. This recommendation has not yet been acted upon.

- 2.7. The Reserves figure of \$1,093,146 is made up of 3 projects – St. Kilda Family and Children’s Centre \$700k, Gasworks Park Remediation \$163k and Cleve Plaza Project \$230k. The decision to transfer this budget into reserves was taken by Council during the 2007/2008 mid year budget review. Decisions on transferring budget into reserves occurs when the project budget includes a tied external grant or where a future project has been identified which requires significant budget which is to be funded from multiple years (eg. Gasworks Park)
- 2.8. The above carryover position of 18.5% at June 30, 2008 represents an improved result over previous years as the table below demonstrates.

Capital Works Rollover Position – Annual View

<b>Year</b>	<b>Budget \$'000</b>	<b>Actual \$'000</b>	<b>Percentage</b>	<b>Carryover \$'000</b>	<b>Percentage</b>
1995/96	11,028	9,698	87.9	1,330	12.0%
1996/97	10,309	8,276	80.2	2,033	19.7%
1997/98	8,009	6,536	81.6	1,473	18.3%
1998/99	9,680	8,036	83.0	1,644	16.9%
1999/00	11,877	9,830	83.7	2,047	17.2%
2000/01	13,917	10,558	75.8	3,359	24.1%
2001/02	18,417	13,487	73.2	4,930	26.7%
2002/03	19,903	12,647	63.5	7,256	36.4%
2003/04	22,435	16,223	72.3	6,212	27.6%
2004/05	17,650	7,291	41.3	10,359	58.6%
2005/06	32,780	13,750	41.9	19,030	58.0%

2006/07	47,000	28,000	59.5	19,000	40.4%
2007/08	38,500	31,600	82.1	7,100	18.5%



2.9. The capital works year end position of 18.5% is Council's best carryover position since 1999/2000 with significant increases in the size and complexity of the capital program in that time.

2.10. The improved result is due to;

- Tighter capital works planning,
- Implementation of the Capital Works Implementation Plan,
- A flexible capital works staffing model,
- Greater commitment and accountability from client managers and project managers to delivering projects,
- Some larger capital projects being completed in 2007/08, and
- Improved tracking and reporting systems for capital projects (KPIs and metrics)

2.11. A total of 28 projects scheduled for delivery in 2007/2008 were unable to be completed by year's end. Attachment #1 – Capital Works Carryover Projects is a summary of projects that are to be carried over and a time line of when they are expected to be completed.

- 2.12. A total of 6 projects are recommended to be cancelled or deferred as part of the year end assessment. As a consequence these projects and the funding should not be carried over. These projects are outlined in Attachment #2 – Capital Works Cancelled Projects. Of the six projects that were cancelled, four related to drainage and the asset planners recommend that the drainage, flooding and storm water studies that are currently underway will provide much better intelligence, from which future decisions can be made on drainage projects. The other 2 projects related to a traffic improvement project which received no community support and a parks and open space project which needs to be fully re-scoped.
- 2.13. Council has a target of reducing capital works rollovers to no greater than 10% by June 30, 2009. This target is achievable if the current improvement continues and when further improvement measures are initiated.
- 2.14. In 2008/2009 the size of the capital works program will be \$32.8Million which will be made up of \$25.7M in new funding and \$7.1M in rollover funding.

**3. RECOMMENDED OPTION**

- 3.1. That the Council resolve that a total of \$7,149,000 of capital works project funding from 2007/2008 be carried over for delivery into 2008/2009.
- 3.2. Council is asked to endorse the capital works rollover figure of \$7,149,000 and authorise the inclusion of the 28 projects listed in Attachment #1 – Capital Works Carryover Projects into the 2008/2009 capital works program.
- 3.3. Council rescind the resolution of Final Report – St.Kilda Town Hall Redevelopment (A18) made by Council on 28 July 2008 which states in recommendation 6.3 *“Delegates the Executive Director Community Assets and Services to transfer savings made, within the current capital program, from other capital projects to cover the final shortfall, expected to be in the order of \$744,222”*.
- 3.4. The above resolution to be replaced by Council resolving to fund the final adjusted over expenditure of \$615,779 for the 2007/2008 capital works program from operational surpluses.
- 3.5. Council notes the progress and improvements in the delivery of the capital works program and in particular the success related to tighter capital works planning, the implementation of the Capital Works Improvement Plan and the introduction of a flexible staffing approach to capital project delivery.

3.6. Sustainability assessment

***SOCIAL EQUITY***

Social Pillar	In 2007/2008 the Capital Works Program acknowledged projects that had a significantly positive impact on the social nature of the city. These included projects such as the Sport and Recreation Improvement Program, Adventure Playground Update Program and Foreshore Assets and Beach Improvement Program.
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***ECONOMIC VIABILITY***

Economic Pillar	The capital works program in 2007/2008 totaled \$38.5Million which included \$19million in rollovers from previous years. The 18.5% rollover figure as at 30 June 2008 is the best rollover result since 1999/2000 when the rollover figure was 17.2% of a total capital works program budget of \$11.8million.
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***ENVIRONMENTAL RESPONSIBILITY***

Environmental Pillar	In 2007/2008 many projects responded to increasing demands to be environmentally sustainable. The number of projects with a 'green' element totaled 24. These included projects such as Greening Port Phillip, Town Hall Strategy and the St. Kilda Road Tree Planting project. Council took the decision to fund projects with an environmental profile as a way to demonstrate to the community that environmental sustainability was a significant capital works commitment.
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***CULTURAL VITALITY***

Cultural Pillar	Many projects supported through the 2007/2008 capital program had a strong focus on the cultural vitality of our city. These included projects like the Urban Studies Centre, South Port Life Saving Club and the Betty Day Centre. These projects had an element of inclusiveness and demonstrated a capacity to support community groups.
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3.7. **Policy and legislative implications**

In November 2007, Council's auditors WHK Day Nielson requested Council receives an end of financial year report to consider the carryover figure and carryover projects. This report satisfies that requirement.

3.8. **Risk implications**

There are risks associated with rolling over too much capital works funding from one year to the next. Rollover too much and the size of future years' program grows and becomes more difficult to deliver within timeframes and resources.

To mitigate these risks, extensive consultation occurred between all project managers, client managers and departmental managers to ensure the appropriate levels of budget was rolled over to cover future planned expenditure.

3.9. **Resource implications**

The physical resource is believed to be adequate to deliver this program. In addition it is proposed that a new capital works project board is to be established to help monitor and supervise the capital works program delivery and to ensure greater accountability. The membership of the project board will include;

- The Executive Director Community Assets and Services,
- Manager Asset Services
- Manager Corporate Planning and Performance
- Manager Economic Development
- Co-ordinator Asset Planning

It is anticipated that the capital works project board will assist the organisation to achieve the rollover target of no greater than 10% by June 30, 2009.

4. **ALTERNATIVE OPTIONS**

Council may choose to rollover some or all of the projects currently listed in **Attachment #2 – Capital Works Cancelled Projects**. However, Council is advised that extensive analysis has occurred in relation to these projects in order to come to the decision to discontinue them.

The decision to cancel was based on whether there were clear benefits to the community to continue at this time or whether Council would be better placed to reconsider redesigned and/or re-scoped projects in future capital works budgets. It is the recommendation of this report to reconsider projects of this type in future capital programs.

**5. PARTICIPATION AND ENGAGEMENT**

**5.1. Internal**

5.1.1. The people who have been engaged with in relation to this issue are:

- Manager Finance and Investments
- Co-ordinator Financial management
- Senior Management Accountant
- Managers of Buildings and Green Services, Infrastructure Services, Culture and Recreation, Environment and Renewal.
- Project managers and client managers from across the organisation
- All project managers and client managers are satisfied with the projects that have been rolled over and/or cancelled.
- The Manager Finance and Investments is satisfied with the recommendations including the roll over figure, the reserves figures, the over expenditure figure and proposed financing.

**6. IMPLEMENTATION**

6.1. The 2008/2009 capital works program was launched in late July.

6.2. At that time project managers, client managers, department managers, and other staff with an interest in seeing the capital works program delivered were reminded of some of the key deliverables, milestones and responsibilities for the coming year. They included;

- The role of client managers and project managers
- The role of the new capital works project board
- The target of reducing capital works rollovers to no more than 10%

6.3. The new internal capital works project board will begin supervising the delivery of the capital works program in late August 2008.

**7. RECOMMENDATION**

- 7.1. That the Strategy and Policy Review Committee recommend that Council resolve:
- 7.1.1. That the Council resolve that a total of \$7,149,000 of capital works project funding from 2007/2008 be carried over for delivery into 2008/2009.
  - 7.1.2. Council is asked to endorse the capital works rollover figure of \$7,149,000 and authorise the inclusion of the 28 projects listed in Attachment #1 – Capital Works Carryover Projects into the 2008/2009 capital works program.
  - 7.1.3. Council rescind the resolution of Final Report – St.Kilda Town Hall Redevelopment (A18) made by Council on 28 July 2008 which states in recommendation 6.3 *“Delegates the Executive Director Community Assets and Services to transfer savings made, within the current capital program, from other capital projects to cover the final shortfall, expected to be in the order of \$744,222”*.
  - 7.1.4. The above resolution to be replaced by Council resolving to fund the final adjusted over expenditure of \$615,779 for the 2007/2008 capital works program from operational surpluses.
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