

STRATEGY AND POLICY REVIEW COMMITTEE
7 APRIL 2008 **GOVERNANCE AND COMPLIANCE**

A10	CAPITAL WORKS STAGED PROJECTS UPDATE
LOCATION/ADDRESS:	
RESPONSIBLE EXECUTIVE DIRECTOR:	DAVID YEOUART, EXECUTIVE DIRECTOR COMMUNITY ASSETS AND SERVICES
AUTHOR:	SAM HEWETT, MANAGER ASSET SERVICES
FILE NO.:	
ATTACHMENTS:	ATTACHMENT #1 – CAPITAL WORKS PROJECTS WITH A FUNDED STAGE IN THE 2007/08 CAPITAL WORKS PROGRAM ATTACHMENT #2 – CAPITAL WORKS PROJECTS WITHOUT A FUNDED STAGE IN THE 2007/08 CAPITAL WORKS PROGRAM ATTACHMENT #3 – CAPITAL WORKS IMPROVEMENT PLAN

1. EXECUTIVE SUMMARY

- 1.1. This report considers the progress of Capital Works projects that have a component for completion in 2007/2008 (including rollovers) and have been staged over a number of years. The staging of these projects has been part of a strategy to deliver large capital works projects as well as managing Council's cash flow, reducing rollovers and improving capital works planning.
- 1.2. This report is an update on the progress of selected capital works projects over the past 4 years.
- 1.3. Asset Services has set itself a capital works roll over target of no greater than 10% by June 2009 which means that staging projects over multiple years will become an increasingly important method of delivering projects.

**STRATEGY AND POLICY REVIEW COMMITTEE
GOVERNANCE AND COMPLIANCE
7 APRIL 2008**

2. BACKGROUND AND CONTEXT

- 2.1. In June 2007 a report was adopted by Council which said “The focus of the Capital Works Program in 2007/2008 was to ensure the timely completion of projects that have been promised to the community and to achieve a significant reduction in the size of the capital works rollovers”
- 2.2. At that time, Council made a decision to allocate \$19.5M for capital works for 2007/2008 down from \$27.96M in 2006/2007. This decision was made in part to ensure projects proposed were delivered in the year they were promised and also on the back of better planning for projects that had a life cycle of more than one year.
- 2.3. In the past 4 years the following budget has been allocated to the provision of Capital Works.

Financial Year	Budget Allocated
2004/2005	\$17,630,000
2005/2006	\$21,615,000
2006/2007	\$27,960,000
2007/2008	\$19,500,000
2008/2009	Proposed \$25,450,000

- 2.4. In September 2007 the Asset Services Department developed a 3-step process for the delivery of Capital Works. The Capital Works Improvement Plan (Attachment #3) was the articulation of a strategy for the delivery of large and/or complex capital projects which would benefit from more comprehensive project planning.
- 2.5. The Capital Improvement Plan is a plan to support the delivery of the capital works program. The 3 steps are
- The Development Program (concept design, feasibility study, scope development)
 - The Design Program (detailed design, consultation, planning approval)
 - The Implementation Program (construction, capitalisation, handover)

STRATEGY AND POLICY REVIEW COMMITTEE
GOVERNANCE AND COMPLIANCE
7 APRIL 2008

- 2.6. Project sponsors are now asked to prepare their business case submissions consistent with these three steps. It is possible some projects can complete 2 steps (or in some cases all 3 steps) in the one year but where there is some doubt over project delivery in the one year, the capital works evaluation panel will recommend funding only part of that project in the coming year. Examples of this include South Port Life Saving Club, Betty Day Redevelopment and the Elwood Park Sports Pavilion.
- 2.7. As part of Council's reporting on Capital Works progress, the internal auditor has asked for some evidence of how capital works rollovers will be reduced. Transparent reporting has been promised which will include highlighting actions from the Capital Works Improvement Plan. These actions include better planning for capital, regular and more comprehensive reporting to the Executive and to Council, business case review and appropriate staff resource allocation.
- 2.8. The annual capital works planning process involves a number of steps to identify projects which are proposed for the coming financial year. This process typically involves calling for business cases from project sponsors who bid for funding.
- 2.9. In 2007/2008 a total of 50 projects and programs were budgeted for, of which, 22 were projects that had a staged approach for delivery.
- 2.10. Attachment #1 identifies those capital works projects with a funded stage in the 2007/2008 Capital Works Program. Attachment #2 identifies those capital works projects without a funded stage in the 2007/2008 Capital Works Program but which were rolled over from a previous year.
- 2.11. By staging large and/or complex capital projects over multiple years, and by clearly identifying (and funding) the three steps in all capital works projects, there is a greater chance of successfully achieving our internal goal of better managing our finances and also reducing capital works rollovers.

Recommended OPTION

- 2.12. Council is asked to note the progress of staged projects over the past 4 years and endorse the ongoing staging of projects into future capital works programs.
- 2.13. The staging of Capital Works projects into 3 stages – the Development Program, The Design Program and the Implementation Program as outlined in the Capital Works Improvement Plan - is the recommended way forward for planning and delivering all capital works projects and to achieve the goal of reducing capital works rollovers to no greater than 10%.

**STRATEGY AND POLICY REVIEW COMMITTEE
GOVERNANCE AND COMPLIANCE
7 APRIL 2008**

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.
---------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

ECONOMIC VIABILITY

Economic Pillar	<p>The capital works program in 2007/2008 was a smaller program than in previous years due to the difficulty in delivering projects in the year they were proposed. This had previously caused large rollovers in number and funding of projects.</p> <p>The intent of a staged approach to project delivery was to deliver large projects over multiple years thus reducing roll overs. Under this model many more projects may be considered for delivery each year each carrying economic benefits to residents, businesses and visitors alike. Staged projects allow for a budget review period at the end of each year which is a responsible way to finance individual projects. It also allows for parts of a project to be delivered by acknowledging the financial strengths of parts of the project while deciding that other parts of planned projects may not have the equal value at the cost proposed.</p>
-----------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

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. Of these 18 projects were part of a staged delivery model. 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 those projects with an environmental profile as a way to demonstrate to the community that environmental sustainability was a serious commitment.
----------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

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.
-----------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

STRATEGY AND POLICY REVIEW COMMITTEE
GOVERNANCE AND COMPLIANCE
7 APRIL 2008

2.14. Policy and legislative implications

Council has a four year Strategic Resource Plan which determines the amount of funding that will be allocated to capital works projects each year. In 2007/2008 a total of \$19,500,000 was allocated to capital works.

Council is also committed to renewing and replacing assets at the rate of their depreciation

2.15. Risk implications

The risk to Council in relation to capital works rollovers relates to the way Council raises income through rates and then reporting through to the audit committee on the expenditure of those rates. Recently, the internal auditor has asked the Asset Services Department to report ways that capital works rollovers will be reduced. The actions arising from the Capital Works Improvement Plan were identified as a satisfactory way of achieving our goals of reduced rollovers.

2.16. Resource implications

The resources needed to deliver capital projects may alter from year to year but a core number of project managers are required to deliver any capital budget. A flexible staff resource is recommended each year to deliver the capital works program based on numbers, complexity and value of projects proposed.

To deliver staged projects it is preferable to have some continuity in project management given that projects will be delivered over multiple years. To this end, the projects that suffer some delayed delivery might be a result of a lack of staff continuity or where a lack of staff resources were identified for the project at the very beginning. A flexible resource plan will be developed each year to increase likelihood of projects being adequately resourced.

It might also be prudent to 'outsource' some part of the project planning or delivery. This includes the specialist advice or skill needed to plan, design or deliver a project. Recently, these resources have included architectural services, streetscape design services through to full project management of some larger capital works projects like the St. Kilda Town Hall. Continuity is guaranteed when project management is sought from external specialists.

The further value of a staged approach to project delivery is that at each stage of a project, the costs associated with project delivery may be reviewed with options for seeking additional (or fewer as the case may be) resources for the project.

**STRATEGY AND POLICY REVIEW COMMITTEE
GOVERNANCE AND COMPLIANCE
7 APRIL 2008**

3. ALTERNATIVE OPTIONS

3.1. Alternative 1

Council may prefer that all projects are planned, designed and delivered in the one year and allocate budgets accordingly regardless of size or scope.

3.1.1. Sustainability assessment

Social Equity Pillar	This option would promise benefits to residents, businesses and visitors but would invariable fail to deliver projects that would benefit the social equity of the municipality due to size and scale of some projects.
Economic Viability Pillar	This would ultimately reduce the total numbers of projects started in each year. It would almost certainly increase the rollovers of projects and their funding and would ultimately cost a great deal more in staff resources in order to get projects back on track.
Environmental Responsibility Pillar	Residents would rightly demand that sustainable projects be delivered as part of the capital works program but would be frustrated by the lack of delivery each year. Residents instead would expect to see regular and steady progress through a staged approach (eg. Greening Port Phillip). This approach allows Council to direct resources towards the most pressing environmental projects as they arise.
Cultural Vitality Pillar	Projects which acknowledge our cultural vitality like the Betty Day Centre would not be proposed or planned until other projects completed. Most residents would accept that some movement on projects is better than no obvious progression.

3.1.2. Policy and legislative implications

No change

3.1.3. Risk implications

No change

3.1.4. Resource implications

No change

4. PARTICIPATION AND ENGAGEMENT

4.1. Internal

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

Executive Director Community Assets and Services

Asset Planning Unit

Capital Works Evaluation Panel

STRATEGY AND POLICY REVIEW COMMITTEE
GOVERNANCE AND COMPLIANCE
7 APRIL 2008

Senior Managers across the organization including managers from:-

- Finance and Investments,
- Environment and Renewal, Culture and Recreation, Buildings and Green Services,
- Infrastructure Services,
- Economic Development,
- Community Development, Community Services.

Executive Team through briefing

Councillors through briefing and report

4.1.2. Consultation begins for each capital works program around October/November each year. At that time project sponsors are reminded of the need to deliver on capital works promises and plan their project around deliverables.

A series of internal consultations are then completed over the next few months when the proposed program is reworked to ensure significant organisational priorities are recognised and planned for. Organisational priorities will help to develop the final capital works program.

4.2. External

4.2.1. The external people and/or organisations who have been engaged with in relation to this issue are:

The community is invited to respond to the Draft Budget submissions and where possible, their requests acknowledged.

The Community Summit was the other vehicle in the past year where residents were consulted about topics they wanted Council to respond to. At that time, residents wanted (amongst others) better bike paths, pedestrian priority, environmental designs, managed water use and re-use and plantings in open space which have been included in the capital program.

Other levels of government are consulted particularly when Council is seeking a financial contribution from them. In the past year Council received funding support for the Gateway Signage Project and as part of the Roads to Recovery program.

5. IMPLEMENTATION

N/A

6. COMMUNICATION

- 6.1. The 3 step capital works improvement plan will be more widely communicated leading up to the planning for capital works projects for 2009/2010. Staff resources will be allocated to business units and project sponsors to assist them to plan for the delivery of their project in stages (where necessary) and to demonstrate their confidence in the delivery of their project in the year(s) they are seeking funding.
- 6.2. Project sponsors will also be reminded about the 5 year capital works program in order to consider the short and medium term impact of their project. Those projects currently in a concept stage will need a business case developed in order that their project understands what funding will be required in order for it to be delivered.

7. RECOMMENDATION

That the Strategy and Policy Review Committee recommend that Council resolve:

- 7.1. That the staging of capital works projects continues as a useful strategic tool to achieve capital works project delivery and that this strategy is a key to achieving a roll over target of no greater than 10% by June 30 2009.
- 7.2. That the staging of capital works projects in 3 stages, being the Development Program, the Design program and the Implementation Program be endorsed as an effective way to deliver capital works projects each year to increase the chance of a project being delivered in the year it was proposed.