



Internal Audit Report

Operational Services

Contract Review of *Port Askaig Redevelopment*

July 2009

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1 INTRODUCTION

The Port Askaig Redevelopment project has been in progress for ten years since its inception in 1999. It is now in its final stages and at a Council Executive Committee meeting on 19th March 2009 it was agreed that the project be subject to a financial audit to be considered by the Audit Committee who are then requested to report back to the Executive Committee with their findings. The gross cost is currently estimated at £13.7m compared to an original £5.5m.

2 AUDIT SCOPE AND OBJECTIVES

Our approach was to verify the facts of that report and determine the issues contributing to the overspend on the original project estimates and thereafter to prepare a financial analysis of the project and recommend actions designed to improve the financial management of future capital contracts. The analysis also considered the likely improvements to the project process the new procedures, issued in draft in June 2007 and entitled Capital Planning and Management Guide (reissued July 2008), could have had.

3 MAIN FINDINGS

- 3.1 Major projects were being included in the Council's Capital Plan without appropriate review and assessment of risk, benefit, need or priority.
- 3.2 The progress of major infrastructure projects is hampered by a lack of co-ordination, knowledge and co-operation at all levels of government involved in the process.
- 3.3 The construction tender process is regularly commenced even if the Council is not in a position to accept the preferred tender within the acceptance period defined in that tender.

4 FINANCIAL ANALYSIS

In 1999 the then Scottish Executive requested bids for Public Transport Funding monies from Scottish Local Authorities. These bids were required to address INTEGRATED TRANSPORT PROPOSALS within each Council Area. Argyll & Bute Council, aware that the linkspan and landing slip at Port Askaig were in need of attention, developed a redevelopment project addressing cycle, road vehicle and island and mainland ferry transport which met the criteria. The project cost submitted in support of the bid was a rough calculation prepared by Roads Design and amounted to £5,500,000 and covered road access and vehicle mustering; marine works and pier buildings. This was put together in a short timescale and the thinking at the time was, to at least get approval for the access and mustering scheme, an expanded bid including the marine works and buildings would be necessary. The scheme envisaged removal of cliff rock from behind the pier buildings; refurbishment or demolish and rebuild of the pier buildings and the creation of a new access road to a 40mph standard with an enhanced mustering area.

The rock removed was anticipated to be used in the remaining works or stored for later use.

In the event the scheme was approved in total and a grant of £3,750,000 offered. At that time it was conditional upon the money being spent within 2 years. The project works were divided into three phases as logistically it would be impossible to accommodate more than one contractor on site at any one time. Phase 1 was the access road and mustering area; phase 2 the marine works and phase 3 the pier buildings.

While acknowledging that phase 2 & 3 costs are not yet finalised Table 1 below sets out the approximate final cost of the overall project and where possible attributes these to specific cost events. The only cost events over which the Council had complete control were the two occasions when the tenders were issued but was not in a position to place orders.

The Gate Lodge House additional cost can be partially attributed to the project management in that the Council was in a position to limit what was acceptable in the design while acknowledging the need to keep Dunlossit Estate on side. The additional work element is not considered unreasonable when one considers the alterations which had to be accommodated in the design in all three phases.

The delay inflation for phase 2 is a huge sum but the Scottish Government acknowledged the increase in market prices both as a result of steel price increases and a saturated marine work market at the time of going to tender which had not been the case only a year earlier and Table 2 demonstrates this showing the allocation of grant.

Table 1 Project Cost Analysis

Analysis	Initial Cost	Additional Costs					Forecast Cost
		Late Tender Acceptance	Gate Lodge House	Rock Excavation & Additional work	Delay Inflation and Market Conditions	Contract Variations & Claims	
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Design and Consultants Fees	500				1700		2200
Phase 1 Construction	2900	243	245	200	212		3800
Phase 2 Construction	1700	249		480	2584	1787	6800
Phase 3 Construction	400				500		900
Project Total	5500	492	245	680	4996	1787	13700

Table 2 Costs and Grant Income Comparison. Note: where grant is not directly attributable it has been allocated on a pro rata basis to the Initial Cost

	Initial Cost	Forecast Cost	Grant Awards	Net Cost	2009/10 Capital Block Allocation
	£000's	£000's	£000's	£000's	£000's
Design and Consultants Fees	500	2200	545	1655	
Phase 1 Construction	2900	3800	3158	642	
Phase 2 Construction	1700	6800	5493	1307	(1000)
Phase 3 Construction	400	900	736	164	
Project Total	5500	13700	9932	3768	(1000)

The above tables show that the net overall cost of the project to Argyll & Bute Council was £2.77m with £1.1m attributable to the construction costs and of these perhaps the rock excavations and variations could be considered avoidable, although this is arguable given the volume of non construction issues.

There are two main areas of concern; the design and consultancy costs largely linked to time; and the high level of claims being experienced on phase 2 these being advised after the contract was practically completed. There is an issue here for Roads and Amenity Services to consider when selecting contractors to tender major projects and when deciding how these should be designed and supervised. It is impossible to separate the role of employer, designer and supervisor and therefore the success of the introduction of Project Boards consisting of appropriate personnel and their effectiveness is critical to the future benefit of all major projects.

Attached at Appendix 3 is a Stage Analysis of forecast and budgeted costs and revenue which attempts to demonstrate how the cost outcomes were being communicated at key stages of the project.

5 RECOMMENDATIONS

Four recommendations were identified as a result of the audit, three at a high level and one at the medium level of priority. The recommendations are shown in the action plan below. Internal Audit is advised that some of the requirements of the action plan are already being implemented but we are concerned that all Services recognise the level of support that may be required by the Capital Programme Planning and Management Guide. This will increasingly become apparent as the requirements of the Internal Audit Review of Asset Management issued in May 2009 are implemented.

6 AUDIT OPINION

Based on the findings we can conclude that at the time the project was conceived and for some time thereafter the Council did not have suitable formal procedures in place in respect of major projects for establishing desired outcomes; identifying funding resources; project identification; project selection; project implementation and monitoring reporting and impact assessment. There was also a distinct lack of project business cases and option appraisal.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale.

Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

7 CAPITAL PROGRAMME PLANNING AND MANAGEMENT GUIDE

There are eight findings listed in parts 1 and 3 of Appendix 1 Detailed Findings all of which would have been affected if the Guide had been in place at the outset of this project. If the Guide had been in place and implemented these eight findings should not have arisen. Of prime importance to this project would have been the requirement to prepare Initial, Outline and Final Business Cases together with the appointment of a Project Board. It is impossible to say with any certainty what time or money savings would have accrued from these initiatives.

It is reasonable to assume that an effective project board would have saved the time lost from the completion of phase 1 to the start of phase 2 approximately 1 year. The project would not have been included in the capital plan either at the time or price it was included at but would have been included at a more realistic cost and timescale. It is also conceivable that savings would have been possible in consultancy and construction costs. Conjecture on these matters can only be subjective but it is considered possible that the project would have been able to have been reported as a major project completed in five years from first being approved with an overspend on marine works due to unforeseen variations and contractor claims as a result of a 6 to 9 month delay. This at least would appear preferable to a ten year contract with a 150% cost overrun.

8 ACKNOWLEDGEMENTS

Thanks are due to the Principal Engineer, and his Roads and Amenity Services colleagues for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 1 DETAILED FINDINGS

1 Capital Project Initiation

- 1.1 The project was conceived in response to Integrated Public Transport funding being available from the Scottish Executive and not by reason of an agreed Council need or priority.
- 1.2 The need for an urgent submission proposal resulted in the project cost being a rough calculation and no detailed consideration was given to the needs and risks of the project.
- 1.3 When the project was approved for Public Transport Funding it was included in the capital plan before all other anticipated funding (ERDF and Marine Grant) had been agreed.
- 1.4 No Feasibility Study or Initial Business Case was prepared at the outset of the project. "Feasibility Briefs" issued to the consultants for phases 2 and 3 were more akin to design briefs than a request for a Feasibility Study. As a result there was no consideration given to the various planning, environmental, site ownership etc. risks in advance of the project being included in the capital plan which occurred when initial funding was secured.
- 1.5 Four years elapsed from this project being added to the capital plan until construction commenced on site during which time planning, environmental, taxation and site ownership issues were pursued. This demonstrates the need for a full understanding of the initial business case and the risks and benefits associated with a major project prior to project approval, which were not considered in this case.

2 Co-ordination of Matters Affecting or Influencing the Project

- 2.1 Despite one Government Department insisting upon grants being spent within 2 years other Government Departments and Agencies are not advised of the project and the need to act constructively.
- 2.2 Phase 2 of the project was delayed by the failure to acquire the necessary land in accordance with the project programme. Responsibility for this failure tends to be allocated to the Project Engineer but he has little power neither to instruct personnel in other Council Services nor to dictate their timescales! However he is required to co-ordinate these internal services and must rely on their ability to communicate effectively with the various parties who may be involved. Where delays occur for whatever reason it is important that the appropriate senior management is advised.

3 Project Management

- 3.1 In the absence of a full feasibility study and by establishing three separate construction phases for the project there was a tendency in the early years for issues relating to the later phases to be ignored in some facets e.g. final outcome forecasting; minor planning issues; land acquisition etc.
- 3.2 In both phases 1 and 2 the tender process was started and progressed even although we were not in a position to accept the preferred tender within the acceptance period defined (landfill tax and site ownership issues respectively), resulting in a cost increase of £250k. in both cases. This is most certainly not the only project where this finding has been reported.
- 3.3 In reviewing the project costs which show an apparent £8m. gross over spend it is arguable that only the rock excavations and variations of that over spend were unavoidable. If all administration work had been completed prior to the construction phases being tendered we would have eliminated some risks and be aware of the costs already incurred. We would then have been in a position to consider alternative tender processes with a view to transferring delay risk or linking penalties for late completion from phase to phase.

4 Council Public Perception

- 4.1 The Council suffered from a significant amount of bad publicity on this project (others also come to mind e.g. Argyll Air Services, Rothesay Harbour). This occurred even while efforts were made to communicate the position to the local community. While not promoting the adoption of Spin it is vital that the Council uses its best endeavours to communicate a proactive positive message. This may simply mean that projects are not trumpeted before a Final Business Case has been approved but when the risks and actions being taken to manage those risks are known.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	<p>1.1 The project was conceived in response to Integrated Public Transport funding being available from the Scottish Executive and not by reason of an agreed Council need or priority.</p> <p>1.2 The need for an urgent submission proposal resulted in the project cost being a guesstimate and no detailed consideration given to the needs and risks of the project.</p> <p>1.3 When the project was approved for Public Transport Funding it was included in the capital plan before all anticipated funding had been agreed.</p> <p>1.4 The Feasibility Briefs issued to the consultants for phases 2 and 3 were more akin to design briefs than a request</p>	High	The Draft Capital Programme Planning and Management Guide as issued in July 2007 and subsequently revised in July 2008 should be implemented for all Strategic Change Projects. Particular cognisance should be given to Sections 2, 3 and 4 of that document.	Head of Roads and Amenity Services.	Roads and Amenity Services have now implemented The Guide which will be followed for all new projects. It is clear however that some of the processes e.g. project appraisal need to be better understood by all concerned. It is hoped that the work being promoted by the Asset Management Strategic Board will assist in this regard but this is therefore an ongoing work in progress.

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	<p>for a Feasibility Study. As a result there was no consideration given to the various planning, environmental, site ownership etc. risks in advance of the project being included in the capital plan which occurred when initial funding was secured.</p> <p>1.5 Four years elapsed from this project being added to the capital plan until construction commenced on site. This demonstrates the need for a full understanding of the business case and the risks and benefits associated with a major project, which were not considered in this case.</p>				
2	2.1 Despite one Government Department insisting upon grants being spent within 2 years other Government Departments and Agencies	High	The Council Spokesperson for Transport and Infrastructure should be requested to promote the need for co-operation among all Scottish Government	Head of Roads and Amenity Services.	This is a constant ongoing task which will be promoted through the Project Boards with Public

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	<p>are not advised of the project and the need to act constructively.</p> <p>2.2 Phase 2 of the project was delayed by the failure to acquire the necessary land in accordance with the project programme. Responsibility for this failure tends to be allocated to the Project Engineer but he has no power to instruct personnel in other Council Services nor to dictate their timescales. However he is required to co-ordinate these internal services and must rely on their ability to communicate effectively with the various parties who may be involved.</p>		<p>Departments and Agencies as well as Services within Argyll & Bute Council which are involved in Strategic Change Infrastructure projects. This could be either direct or indirect e.g. Contact with agencies involved when a strategic change project Final Business Case is approved or Regular bulletins providing details of new projects or both.</p>		<p>Relations being included in project board meeting agendas with immediate effect and progressively as major projects business cases are approved.</p>
3	<p>3.1 In the absence of a full feasibility study and by establishing three separate construction phases for the project there was a tendency in the early years for issues</p>	High	<p>The Draft Capital Programme Planning and Management Guide as issued in July 2007 and subsequently revised in July 2008 should be implemented for all Strategic Change Projects. In</p>	<p>Head of Roads and Amenity Services.</p>	<p>Roads and Amenity Services have now implemented The Guide which will be followed for all new projects. It is clear</p>

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	<p>relating to the later phases to be ignored in some facets e.g. final outcome forecasting; minor planning issues; land acquisition etc.</p> <p>3.2 In both phases 1 and 2 the tender process was started and progressed even although we were not in a position to accept the preferred tender within the acceptance period defined, resulting in a cost increase of £250k. in both cases. This is most certainly not the only project where this finding has been reported.</p> <p>3.3 In reviewing the project costs which show an apparent £8m. gross over spend it is arguable that only £750k. of that over spend was unavoidable. If all administration work had been completed prior to the construction phases being tendered we would have eliminated some risks and be</p>		<p>particular support for the Project Manager will come from Section 2 Stage 4 which identifies the need to form Project Boards and this with the adoption of the Prince 2 project management system should ensure improvement in management and decision making.</p>		<p>however that some of the processes e.g. project appraisal need to be better understood by all concerned. It is hoped that the work being promoted by the Asset Management Strategic Board will assist in this regard but this is therefore an ongoing work in progress.</p>

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	<p>aware of the costs already incurred. We would then have been in a position to consider alternative tender processes with a view to transferring delay risk or linking penalties for late completion from phase to phase.</p>				
<p>4</p>	<p>The Council suffered from a significant amount of bad publicity on this project (others also come to mind e.g. Argyll Air Services, Rothesay Harbour). This occurred even while efforts were made to communicate the position to the local community. While not promoting the adoption of Spin it is vital that the Council uses its best endeavours to communicate a proactive positive message. This may simply mean that projects are not trumpeted before a Final Business Case has been approved but when the risks and actions being taken to manage them is known.</p>	<p>Medium</p>	<p>The Head of Roads and Amenity Services and the Council Spokesperson Transport and Infrastructure should develop a review programme that promotes the infrastructure work being undertaken from time to time by way of press releases, community bulletins, public meetings or other suitable forms of communication with all interested parties.</p>	<p>Head of Roads and Amenity Services.</p>	<p>This is a constant ongoing task which will be promoted through the Project Boards with Public Relations being included in project board meeting agendas with immediate effect and progressively as major projects business cases are approved.</p>

Appendix 3 Port Askaig Redevelopment Stage Analysis

	Aug. 1999 Proj. Cost F'cast	Budget Approval to March 2002	Sept. 2001 Project Cost Forecast	Budget Approval to March 2003	Oct. 2002 Project Cost F'cast	Budget Approval to March 2005	Dec. 2004 Project Cost Forecast	Budget Approval to March 2007	July 2006 Project Cost F'cast	Budget Approval to March 2008	Nov. 2007 Project Cost Forecast	Budget Approval to March 2009	March 2009 Project Cost F'cast
Cost	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Phase 1	3200		3640		4429		5220		5280		5280		5280
Phase 2	1850		1785		1700		2800		4780		6520		7425
Phase 3	450		776		767		672		750		995		995
Total Gross Cost	5500	1800	6201	3288	6896	4730	8691	11141	10810	11141	12795	12775	13700
Funding													
PTF	3750		3750		3750		3750		3750	3750	3750	3750	3750
ERDF					1660		2240		2240	2240	2240	2240	2240
Marine Grant	1190				900		1474		3642	3642	3642	3746	3642
Hitrans	0										300	300	300
Argyll & Bute	560				586		1227		1178		2863		3768
Total Funding	5500				6896		8691	10121	10810	9632	12795	10036	13700
See Note	1	2	3		4		5		6		7		8

Notes:

1. Represents the bid for funding submitted to the Scottish Executive in respect of Public Transport Funds being made available for qualifying integrated transport projects.

2. Amount of spend approved to date stated based on previous years actual cost plus current year budget cost. From 2007 budget is set for a three year period.
3. Revised estimated project cost following planning approval in September 2001.
 - 3.1 As costs were rising the access road design standard was reduced to achieve savings and this affect the environmental impact assessment therefore a further planning application was submitted in August 2002 and approved in December 2002.
4. Marine Grant secured, revised cost estimate prepared on basis of new planning application.
 - 4.1 Tenders for phase 1 were issued in November and returned in December 2002.
 - 4.2 Landfill Tax regulation changes cost implications delayed the acceptance of the tender while the resultant issues were investigated. Phase 1 works finally commenced in July 2003 when costs were ascertained. However further design issues would affect this.
5. Completion of phase 1 works.
 - 5.1 Delays in respect of land entry resulted in tenders for phase 2 marine work not being issued until January 2006.
6. Phase 2 tender could not be accepted until August 2006 therefore phase 1 cost known; phase 2 adjusted tender cost known but construction not yet started.
7. At this stage phase 3 has been tendered but phase 2 was not complete. The forecast cost includes contractor's claims of £1.7m of which £600k of additional work has been paid.
8. Phase 3 now nearing practical completion with the main outstanding issue the resolution of the contractor's claim.