FINAL INTERNAL AUDIT REPORT

RENEWAL & RECREATION

REVIEW OF NORTH BLOCK CAPITAL PROJECT 2012/13

Issued to: **Marc Hume, Director of Renewal & Recreation**

Copy to: **Doug Patterson, Chief Executive**

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INTRODUCTION

1. On the 26 June 2012, the Head of Audit received a written request from the Director of Renewal and Recreation for a high-level Post-Project Review to be undertaken on the North Block Capital Project. It was understood at this time that the Head of Asset Management and Strategic Projects was in the process of reporting to the July Executive Committee that the project was expected to exceed the original estimated and approved cost of £2mn by circa £380k. However, in order to be in a position of determining more accurate project financials, it was subsequently decided to provide an initial report to the Executive & Resources PDS Committee on 6 September 2012.

2. Since October 2011, the project has seen a number of key personnel changes take place, with three individuals having departed the Authority. All three held responsibilities within the project for making decisions on expenditure and managing the progress of the project and their departure at a key stage in the project lifecycle would seem to have had a clear impact in its implementation. This in no way indicates a failure on behalf of those individuals subsequently tasked with assuming these responsibilities but is merely due recognition that their combined loss of knowledge of the project was always going to be difficult to replace.

3. The high level review by Internal Audit was undertaken at a time when some aspects of the project remained incomplete, and some elements of financial data were still to be finalised, including the decision on re-allocating funds from other budgets for some of the committed expenditure. Equally, there remained some minor ‘snagging’ works to be completed following the main refurbishment exercise and a number of invoices for works undertaken remain to be presented for payment.

METHODOLOGY

4. In view of the concerns raised following senior management's recognition of the extent of the project overspend, Internal Audit were specifically asked to review the following areas:

    (i) Key project expenditure since its commencement in January 2011 to-date.
    (ii) The approach adopted in managing the project.
    (iii) To identify and report any key 'lessons to learn'.

5. In order to achieve the above, the Auditor was required to obtain and interrogate a plethora of documentation and financial data, as well as undertake a number of staff interviews, including the remaining key personnel involved in the award and management of the key contractors appointed to the project and those taking the project through to completion.

BRIEF PROJECT HISTORY

6. The North Block Capital Project arose from the original Office Accommodation Strategy adopted by the Council to identify potential options for improving the utilisation and efficiency of the Council's office accommodation. Although more longer term opportunities were for consideration involving new purpose built civic offices as part of the implementation of the Area Action Plan (AAP), in the short-term it was proposed that some essential external/internal works to certain buildings within the Civic Centre would facilitate the increased occupation levels planned.

7. On 8 December 2010, a report was presented to the Executive requesting approval for an increase in the previously approved £1.4m provision set aside in the Capital Programme for the conversion of the Sports Hall (Adventure Kingdom), Civic Centre for office use – to £2m. The new proposals included the relocation of staff from the Old Town Hall (providing vacant possession for sale), and the decommissioning of both Ann Springman and Joseph Lancaster buildings. At the time of the report to the Executive, there was an estimated maintenance requirement backlog to the latter two buildings of circa £480k.

8. Although it was the North Block that was presented for the main investment of resources, additional works were identified in other buildings (St Blaise, Palace and Stockwell Building) which would support the overall initiative and provide opportunities of bringing together key teams to improve co-location arrangements. Additionally, the proposed works would improve the overall operating efficiency of the buildings, including reduction of energy consumption and carbon production.

9. The initial schedule of works identified the key changes to future departmental locations with the hope of minimising disruptions to staff, but more importantly no disruption to services. The accompanying costing of works provided a basic approximation of the key costs, which in a number of areas proved to be greatly underestimated, and are considered to be a major factor in the current financial position of the project (see Paragraph 18).

10. Approval was duly provided by the Executive but subject to full consultation with the Leader and Resources Portfolio Holder prior to making orders for the various works set out in the schedule. This is further covered in Paragraph 21 of the 'Review Findings'.

11. Following approval, senior management involved in the project had made the decision to seek individual and independent contractors for the main constituents of the proposed works, rather than choose one contractor for the whole works. Although no documentation was provided to the Auditor to evidence this decision, it was assumed that this decision was based on the opportunity of gaining greater value for money by taking this course of action. However, as detailed below under Paragraph 16 of the 'Review Findings', this may not necessarily have been the best option.

12. Arrangements were then instigated in January 2011 for tenders to be received for the five key work areas within the project – namely, Refurbishments, Electricals, Heating, Roofing and Windows/Doors. The IT requirements were able to be met from the current contractual arrangements with Capita. The resulting tenders were assessed and duly awarded in March 2011 with a proposed start-date of May 2011. However, initial feedback following the tender process for the five contracts clearly indicated that the budget set was unlikely to be sufficient. This is expanded upon in Paragraph 19 together with the table provided.
    In view of the complexity of the project and the nature of the works involved, Contractor X were nominated as the 'main contractor' who held the responsibility of managing' the completion of works to the agreed schedule. However, because of the company not having contractual arrangements with the other LBB appointed contractors, this would be difficult to achieve

other than by making sure they were all aware of the overall planned schedule. This aspect is further covered under Paragraph 16 of the 'Review Findings'.

REVIEW FINDINGS

Administration and management of the project

13. From the start of this review it became evident that there were a number of key project disciplines that had not been fully adopted including:

    (1) Failure to appoint a formal Project Board
    (2) Failure to document project meetings and key decisions
    (3) Failure to issue a comprehensive project brief
    (4) Inadequate project management

    Note: It should be noted that there is no evidence of fraud e.g. charging for services not delivered.

    The project itself was always seen as being a challenging proposition from the outset, and it was considered by the Auditor that the level of expediency in initiating the project at the start had greatly impacted on the final outcome of this initiative. The failure to provide a comprehensive project brief to the individuals seeking tenders for the key constituents of the works involved had ultimately led to a failure in fully comprehending the requirements of the project and therefore severely impacted on estimations reported for the work required. This was also reflected early into the commencement of the project when additional works were identified by the contractors resulting in the raising of variation orders – and increasing project costs.

14. Although every effort had been made to identify the many areas of expenditure required to achieve the project's requirements, the Authority was at the same time going through extensive business change and the accommodation needs of the impacted departments were changing on a regular basis. Every effort was made to accommodate these regularly changing demands, but this in turn impacted on the works schedule put in place and at certain times the resultant demands

on the contractors meant there were the inevitable extension to timescales for completion. This became even more evident as the project progressed.

15. For a project of this nature to succeed, a formal Project Board is considered to be a pre-requisite, and minutes of meetings should have been comprehensively documented and retained. Unfortunately, this was not implemented and very little evidence of any formal meetings was provided to the Auditor. The only evidence of reporting progress of the project was found in the Approved Capital Programme reports and Property Services Capital Budget Monitoring Reports presented to DMT and the Property Board. Minimal information accompanied these reports on each occasion. However, the Auditor was advised that regular discussions were known to have taken place by the relevant officers, but these were not documented.

16. One of the key decisions made by management was the splitting of the project works into independent contracts with separate suppliers. Although the Auditor was unable to locate documentary evidence to support this decision, comments from interviewees indicated a reluctance by management to award the whole contract to one supplier, and that the use of multiple contracting arrangements was considered to offer greater opportunities for value for money. However, although there is no evidence to suggest value for money has not been achieved, associated difficulties in managing multiple contractors have been evident and clearly documented by Contractor X, the main contractor.

17. In view of the above, the appointment of an experienced Project Manager was fundamental and would have provided the backbone to keeping the project on track. The decision to utilise Officer A in this extended role following the departure of the then Chief Property Officer may not have been appropriate for the demands being made at that time. Although it was considered that this appointment provided continuity to the project, the individual was found to have had deficiencies in managing certain financial aspects of his role. Unfortunately, it was identified that the officer had been focussing on financial actuals (charged) rather than considering overall commitments. This was why the true over-budget position had failed to be identified earlier than it was, and was only identified after his departure.

Reporting requirements & financials

18. Although the initial report to the Executive on 8 December 2010 included a breakdown of the financial implications of the project including approximate cost of works, a more in-depth interrogation of the figures presented at that time identified a number of key errors/omissions. These included:

Budget Area/Heading	**Approx Cost (as per Exec report dated 8 Dec 2010) £**	**Estimated Out-turn costs £**	**Budgetary position - £ (+ = overspend) (- = underspend)**	**Comments**
Electrical distribution & alterations to Fire Alarm System (North Block)	155,000*	360,000	+ 205 ,000	Original electrical distribution costs estimated at £130k & alterations to fire alarm system estimated at £25k ***Tender submitted for £334,018*** Increased costs due to additional works outside the original tender specification.
Refurbishments (fit-out)	480,000	745,000	+ 265,000	**** Tender submitted for £565,530* –** contract subsequently increased to £589,280 to cover fees not included in tender. Increased costs due to additional works outside the original tender specification.
Replacement windows/doors	580,000	340,000	- 240,000	***Tender submitted for £340,615*** Over-estimation of costs
Heating/mechanical	Not included	95,000	+ 95,000	Heating costs were not included in original costings ***Tender submitted for £27,784***
IT installations	240,000	263,000	+ 23,000	Additional minor works identified
Roofing	87,000	149,430	+ 62,430	Contract awarded:£150,360
Furniture	227,000	260,000	+ 33,000	
Archiving	Not included	95,000	+ 95,000	Not included in original costings.To be re-allocated in full from capital receipt upon sale of Old Town Hall.
Furniture disposal	Not included	21,635	+ 21,635	Not included in original costings
Removals	50,000	100,000	+ 50,000	Additional costs due to increased staff moves

19. Taking the full estimated out-turn positions for the key areas of project costs, the estimated overspend would be expected in the region of £610k. However, the Auditor has been advised by the Head of Asset Management and Strategic Projects that a sum of £161k has now been identified for re-allocation to other budget codes, and this would reduce the overspend to circa £449k. However, following final calculations and re-allocation of some project costs, the request for supplementary capital allocation amounted to £400k, which was presented to the Executive on the 12 September 2012, and duly approved.

20. It should also be noted that the original project costings submitted to the Executive included a contingency allowance of £50k, which in view of the project complexity was not considered by the Auditor as being a realistic estimation.

21. As previously indicated in Paragraph 10 above, the original Executive approval on 8 December 2010 was provided subject to full consultation with the Leader and Resources Portfolio Holder prior to making orders for the various works set out in the schedule. Although the Auditor was informed that consultation took place between the previous Chief Property Officer and the Leader in regard to the windows/doors contract, no further evidence has been provided to confirm that subsequent consultations took place. In view of the resultant tenders received for electrical and heating works being in excess of original estimations, these consultations were a necessity prior to progressing the works involved.

CONCLUSION

22. The project is now nearing completion with an expected full occupancy of North Block/St Blaise in mid-November 2012. Early indications from discussions with management and staff would seem to show that the final product meets the original objectives, and although the Authority is looking at a budget overrun in the region of 22%, the expected payback period has only increased to 5 years (previously 4.2 years – as reported to Executive on 8 December 2010).

23. When considering the complexity of the proposals originally submitted under this project, together with the impact of the business restructuring taking place at the same time, it was considered by the Auditor that it was always going to be difficult for the full project costs to be realistically assessed. However, it was clear from the original cost estimations presented to the Executive that a number of key cost areas had either been under-evaluated or fully omitted for consideration, which would indicate that insufficient analysis/planning of the project had taken place initially. As already indicated in Paragraph 13, the lack of a comprehensive project brief added to the early problems of assessing the true project cost, and the resultant tender

returns should have clearly indicated that some areas were inadequately covered within the original estimations. Undue expediency during the initiation of the project was considered to have been a major factor in this.

24. Throughout the life-cycle of this project, there have been a large number of additional demands placed on those attempting to manage the project, in particular the changing demands of the various departments involved in the many office moves involved. In some cases these were inevitable, due to their changing levels of resource needs, but there were also situations which would indicate a reluctance to accept the moves being offered. At times, these disputes were considered disruptive to an already challenging schedule. However, some late changes were necessary in order to effect more efficient working arrangements, and these inevitably resulted in additional costs.

25. A key decision made by management at the outset was to appoint a number of contractors to undertake the main works – rather than a single contractor. Although it is accepted that this option often offers greater flexibility, particularly in pricing, there are added demands on the management of these parties. Although a 'main contractor' was appointed to manage the schedule, without contractual arrangements with the other parties the main contractor had limited powers, and at times this impacted on work-flows and delays. It is difficult to conclude that this decision had impacted on the overall cost of the project and whether true value for money had been achieved.

26. As a key project discipline, the lack of a formal Project Board was considered by the Auditor to have been an error of judgement, especially in view of the number of business areas impacted by the project. The loss of three senior management within Property Division, who were heavily involved in the project, made it difficult for continuity to be maintained, and the lack of meeting minutes where key decisions would have been made, made it difficult for the Auditor to assess the quality of the overall project management at that time.

27. However, although the decision to utilise the then Officer A in an extended 'Project Manager' role following the departure of the Chief Property Officer, was to provide continuity for the project, it was considered by the Auditor that this individual was not adequately skilled in this area. Deficiencies were identified and this may have contributed to the delayed awareness of the true extent of the budget overspend position.

28. Although the necessary actions were taken by Senior Management to put in place appropriate project management/budget monitoring arrangements following the departure of Officer A early in 2012, the extent of the projected overspend was not

fully clear until April/May 2012. Without having previously been raised to the Executive, arrangements are now in place for the position to be presented to the E &R PDS Committee early in September for their consideration, and ultimate reporting the Executive. This report was subsequently presented to the Executive on 12 September 2012 and requested a supplementary capital allocation of £400k. This was duly approved.

LESSONS TO BE LEARNED

29. Although it is anticipated that the project will achieve most, if not all, of its original objectives, there have been a number of areas where deficiencies have been identified, in particular relating to the overall management of the project. The following are considered to be the main areas where lessons must be learned:

(1) ***Project Initiation*** – irrespective of the project, sufficient time must be given by the 'project team' to understand the underlying needs of the business and the impact on all business areas affected.

(2) ***Project Brief/Estimation of costs*** – a comprehensive project brief is fundamental to the success of any project. Wherever possible, every opportunity should be taken to identify the key requirements of the project in order to allow for the appropriate costs to be identified/tendered for. Failure to meet this key discipline often results in budget overspends or ultimate project failure.

(3) ***Project Board/Recording of meeting minutes*** – in all such cases, the appointment of a Project Board is considered a pre-requisite. The appropriate business representation should be formally appointed and all meetings and key decisions should be adequately documented and retained. Communication is key to the success of any project and the Project Board plays a fundamental role in this area.

(4) ***Effective Project Management*** – it is fundamental to the success of any project that the appointed Project Manager has the necessary skills to undertake this role. This position is required to maintain and provide key and up-to-date information to Senior Management in order for ongoing decisions to be made. There is a need to be fully aware of project commitments in order to maintain control of costs.

(5) ***Reporting requirements*** – the Project Team should always be aware of the requirements stated within previous Committee approvals and ensure that the full terms of approval are met. Where financial implications/concerns arise during the course of the project, any necessary reporting back to the appropriate Committee should be undertaken at the earliest opportunity.

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