

Surrey Heath Borough Council
Performance and Finance Scrutiny Committee
25 January 2023

**Task and Finish Group report on the Overspend on the works for
the Public Realm Camberley Town Centre Project**

Strategic Director: Bob Watson, Strategic Director Finance and Customer Services

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Date Signed off by Chairman of Working Group: 16 January 2023

Key Decision: No

Wards Affected: N/A

Summary and purpose

At the Performance and Finance Scrutiny Committee (P&FSC) meeting held on 8th September 21, the Committee commissioned a Task and Finish (T&F) group to instruct the Chief Accountant to undertake a review of the circumstances leading to the increased costs of the Public Realm project in Camberley Town Centre.

Further to the reports by both the Head of Legal and Democratic Services (Monitoring Officer) and the Chief Accountant (Deputy Section 151 Officer) the Committee then instructed the Council's Strategic Director finance and Customer Services (Chief Finance Officer and Section 151 Officer) to conduct a further review with a series of additional questions to be addressed.

This report presents the findings of the Strategic Director Finance and Customer Services and makes some recommendations to the for future best practice.

Recommendations

The Performance and Finance Scrutiny Committee is advised to RESOLVE that:

- (i) the findings and recommendations of the Strategic Director Finance and Customer Services (Chief Finance Officer) are noted.
- (ii) the recommendations set out at section 3 of this report are commended to the Council's Executive for adoption by officers when managing significant contracts.

1. Background and Supporting Information

Project Background

- 1.1 In 2017, the Council submitted a bid to the Enterprise M3 Local Economic Partnership (EM3LEP) for £3.5M as a contribution towards the improvement of the public realm in High Street, Knoll Walk and Princess Way in Camberley Town Centre. The following the successful bid, the Executive approved a recommendation to

contribute £0.9 million from developers' contributions and income from the Community Infrastructure Levy (CIL) to meet the total expected cost of the works.

- 1.2 At the Council meeting in February 2018, the Council resolved to increase the capital programme to include funding of £4.4 million for the Public Realm works.
- 1.3 In May 2021, the Executive was asked to recommend to Council that an additional £754,600 be added to the Capital Programme, to be funded from the Council's reserves, in order to meet additional costs resulting from Covid 19 and the discovery of unknown underground utility services. The additional works required a significant redesign of the scheme to accommodate and protect these services. It is not uncommon for the overall cost of a project to increase as a result of additional works that could only be discovered by intrusive inspection.

Key Issues

- 1.4 Previously both the Monitoring Officer and the Chief Accountant have reviewed the relevant decisions which gave effect to the administration and management of the public realm works.
- 1.5 Subsequently these have now been further reviewed by the Strategic Director Finance and Customer Service with regard to the terms of reference set out by the Task and Finish Group and the key findings are as follows:

a. Decision making and authority

At the Executive Committee meeting held in December 2017 the Executive resolved that:

- (i) up to £900k from current and future CIL and section 106 contributions be used on the High Street Public Realm Improvements; and
- (ii) authority be delegated to the Executive Head of Regulatory in consultation with the Leader, to take forward the delivery of the High Street Public Realm Improvement Project.
- (iii) RECOMMENDED to Council that a Capital scheme be approved for £4.4m for the High Street public realm.

- 1.6 It is clear from the above recommendations that the Executive Head of Regulatory was delegated authority to manage the project; this that the delegation for project management included budget management within the budget set.

b. Tendering Process

- 1.7 The competitive tender process took place during Spring/Summer of 2019 and five companies submitted tenders. Having reviewed the tender process there are no concerns about how this was conducted, and the Council's procurement regulations were followed at all times.
- 1.8 The extension to the original tender deadline of one week was due to clarification on points within the issued document and all tenders were received by the new deadline date.

- 1.9 The Assessment panel included Council officers (including the project manager) supported by external professionals with the relevant knowledge and experience in this type of construction and quantity surveying.

The is no evidence that all the five companies who submitted tenders were not treated equally throughout process.

c. Funding of the Project and increasing the budget

- 1.10 As shown above, the initial funding was agreed in accordance with the Council's budget process and financial regulations. The extent of the cost overrun became apparent in early spring of 2021 and subsequently a report was submitted to the Executive in May 2021 requesting a supplementary estimate to increase the Budget.
- 1.11 Although the initial estimates of supplementary funding required was £0.755 million, the final position was significantly lower at £0.400 million. The additional budget was agreed and approved by the Executive and then Council and added to the Project in the Capital Programme in May 2021. The process followed was in line with the Council's budgetary procedures.
- 1.12 The Executive report in May 2021 set out the reasons for the overspend as a result of increased costs due to the impact of from Covid-19 on the supply of materials and labour markets and also the discovery of underground utility services not identified by the utility companies through the feasibility study. Nationally, construction projects undertaken during the Covid-19 pandemic lockdown were all exposed to the increase in material and labour costs and the cost of delays to construction projects arising from elements of the national lock down and although these represent legitimate financial risks, the depth and sudden impact would have been impossible to predict in 2019 before the Covid-19 pandemic occurred.
- 1.13 The Council did engage the services of WH Stephens as quantity surveyors from an early stage in the project. The use of a specialist cost consultant represents industry best-practice as a means of ensuring cost control during the life of a capital project.
- 1.14 The utilities issue arose as a result of the information provided by the utility companies to the Council being incorrect. Although Camberley still relatively young as a town, it can be the case that the records of underground utility infrastructure, vary from their actual location. However, the project team would have worked to the best information provided and it is only when intrusive groundworks during the constructure phase, uncovered the discrepancy in the plans that the extent of the extra cost became known.
- 1.15 It is considered that the Executive Head of Regulatory acted within the delegations authorised by the Executive and authorised expenditure, but it is further believed that the potential overspend should have been reported earlier to assist with the risk management and authority for approval of a supplementary estimate could have been sought sooner. Members will already be aware that if reporting had been undertaken earlier, it would still not have been possible at that stage to provide an accurate assessment of the additional costs, and any delay in progressing the works, would in itself have resulted in further additional costs to the Council.

2 Subsequent Questions from the Task and Finish Group

- 2.1 Having reviewed both the Monitoring Officer's and the Chief Accountant's reports was further agreed that the review of the public realm works and the associated

budget overspend by the Strategic Director should focus not only on identifying where processes were either not followed or where appropriate checks and balances were not sufficiently robust but also on how processes could be improved so that the situation did not recur. In doing this it was also agreed that the following questions would also need to be answered:

What exploratory works were done before the project specification was drawn up and were the outcomes of this work appropriately reported to the Council?

Findings: The process of requesting the plans of utilities locations was followed. It was only when the groundworks were being instigated during the construction phase, did it become apparent that the plans held by the utility companies were not as accurate as they should have been. It is considered that at the preliminary stage of the project, using utility plans was the correct process and sufficient prior to any intrusive groundworks.

What did the Quantity Surveyor's report on the proposed project say and who in the Council received their report?

Findings: It is not possible to access the mailbox of officers who have left the Council, and therefore it has not been possible to find a copy of this report. See below on Project reporting however.

Were the original costings a true reflection of the work that had been identified as being needed?

Findings: It is considered that the original costings were the best estimate at a high level. It is standard procedure that the original cost estimates are refined as the project progresses, but care should always be taken to initially provide realistic estimates without over-estimating costs for the sake of contingency.

However, it is considered that in this instance those initial costings were created by someone with limited highways engineering experience and with limited experience in construction delivery projects. This is not unusual in Borough and District Councils where such projects are not part of the routine work of the Council. As the project progressed it became apparent that some of the cost estimates were too low. Lessons were learnt from this and for the public realm works on Ashwood House, the project team engaged a Quantity Surveyor (QS) from the start of the project.

What processes, if any, were in place to review the progress of the project and ensure that any problems or concerns were raised and addressed at the earliest opportunity?

Were any Change Control Notices issued? If so, who received them?

What mechanisms were in place to provide the Council with updates on the project's progress? Who received reports and was there any member involvement in these?

Findings: The Contract was carried out under NEC 3 Option A Construction Contract being a priced contract with an activity schedule, which relates to a programme where each activity is allocated a price and interim (staged) payments are made against the completion of each activity. The contractor largely bears the risk of carrying out the work at the agreed prices.

In terms of Project reporting, the project team and the engaged Agent (WH Stephens) held:

- monthly site progress meetings with the Contractor & Client
- monthly liaison meetings with town centre stakeholders, specifically the Square shopping Centre

These meetings were minuted and the Strategic Director Finance and Customer Services has seen examples of these and considers them complete and fit for purpose.

The agent also issued regular dashboard reports complete with Financial Statement and Risk Register. Again the Strategic Director Finance and Customer Services has seen examples of these and considers them complete and fit for purpose.

In terms of the budgetary issues, the contract instructions related to issues below the ground, particularly in relation to utility services (later proved not to be accurate).

Change Management followed the processes set out in that contract in terms of:

- Early warnings
- Instructing the change
- Seeking quotation for the change
- Acceptance of the quotation
- Review and acceptance of the project programme

There were some 120 Project Management Instructions (PMIs) issued to the Contractor across the course of the project. The contractor (WH Stephens) holds on file all of the PMIs, Project Management Notifications (PMNs) and Project Management Amendments (PMAs) which were issued as part of the project.

All the PMIs, PMNs, PMAs and Change Control Notices were issued to the Project Board which included the Executive Head of Regulatory and the Council's Project manager.

The Strategic Director Finance and Customer Services has seen examples of these and considers them appropriate and in accordance with correct project management principles.

What oversight, if any, did the Council's Internal Audit Function have over the project?

The Senior Internal Auditor cannot recall having to review the public realm works in any detail during the project as it did not form part of the annual audit programme approved by Members.

It was raised as part of the capital audit last year (albeit only as a small part of the overall audit) when Internal Audit reviewed the capital budget monitoring processes. Although the works were looked at with the finance team, it was difficult to find many details as the Executive Head of Regulatory, the project manager and the project accountant no longer work for the Council.

3 Summary of findings and recommendations for improvement

- 3.1 The Task and Finish Group is advised to note the findings of the Strategic Director Finance and Customer Services and consider the following recommendations. These

are not just specific to the Public Realm works but represent best practice for all major projects.

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| 1. | <p>The decision making between each project phase could be strengthened.</p> <p>Recommendation: Initial and inter-project gateways should be set up as part of the business case for any major project to assess progress and readiness to commence with the next phase in the project.</p> |
| 2. | <p>There is a need to strengthen skills and knowledge within project teams.</p> <p>Recommendation: Skills audits of the project team should be part of the project set-up. Where gaps are identified these are either filled by training the existing staff or recruiting on an ad-hoc basis to fill the gaps; if the latter option is taken, arrangements should be made to ensure knowledge transfer to permanent member of the team.</p> <p>Added to addressing skills, there often is the assumption that officers can take on the extra duties of running a major project as part of their regular operational workload. All major projects should be adequately resourced with the appropriate number of officers with the required level of knowledge and experience.</p> |
| 3. | <p>The initial project costings should be refined as the project progresses. External cost consultants and/or Quantity Surveyors should be used to assist with this.</p> <p>Recommendation: Initial estimates for capital projects at the planning stage should consider building in a level of contingency depending on the likely risk involved in the project. A higher contingency may be required for unique construction projects especially projects that rely on works underground in an urban area, as these works carry significantly more risk of additional costs as demonstrated by the additional utility infrastructure which could not be discovered by initial site inspection.</p> <p>The Treasury Green Book provides guidance on option appraisals and in particular the supplementary guidance on 'optimism bias' should be noted and observed by all project managers and included in all project appraisals and evaluations.</p> |
| 4. | <p>Adequate contingency should be provided for in capital projects</p> <p>Recommendation: it is recommended that rather than allocates a general contingency amount to each projects (which often is seen as extra budget for the project) a central capital contingency is held within the capital programme based on an assessment of the likely contingency amounts in all the projects, but adjusted for the lower probability of all being needed. It is further recommended that this central contingency is held by the Strategic Director for Finance and Customer Services and can only be drawn down with the authority of the Strategic Director Finance and Customer Services in consultation with the Portfolio Holder for Finance and Customer Services.</p> |
| 5. | <p>The professional agents were engaged after the project had been through the budgetary approval process.</p> <p>Recommendation: Initial Estimates for complex construction capital projects should be undertaken in consultation with a relevant professional Engineer or Surveyor, and any option appraisal should be made in consultation with a finance professional.</p> |

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| | <p>A system of initial gateway should be developed to provide the budget and resource to investigate the project and produce the main gateway case for final budget approval – best practice suggests an initial 5% budget estimate for such preliminary works.</p> |
| 6. | <p>There would be benefit in vesting oversight on major projects to a project board, rather than a single senior officer.</p> <p>Recommendation: The Council should consider if large and/or significant capital projects should be managed by a specific project board; any such board should contain (as a minimum) a project sponsor (senior responsible officer), a project manager, finance and legal support and relevant experts (e.g.: engineer/QS) as required. Each officer on the board should be aware of their responsibilities to the project and to the Council as a whole.</p> |
| 7. | <p>Risk management. Whilst there is no evidence that there was not proper risk identification, mitigation and management in this project (and certainly there was proper control from the agent), it is recommended that all major projects follow a proper process of risk management. This will include identification, scoring, mitigation treatment and revised scoring and quantification (cost/impact). Risk should be managed out of the project where possible and it is further recommended that any officers involved in the sponsorship and management of major projects should be appropriately trained in risk control and management.</p> |
| 8. | <p>There was a delay in reporting the potential overspend to the appropriate committee.</p> <p>Recommendation: The Council's Strategic Director of Finance and Customer Service should remind project managers of the importance of early reporting of potential overspends to the appropriate committee as part of the Council's financial regulations. The Council's Director of Finance and Customer Service should also provide quarterly monitoring reports on capital projects to the Executive and the Performance and Finance Scrutiny Committee.</p> |
| 9. | <p>Internal Audit were not made aware of any issues until very late on in the process</p> <p>Recommendation: As soon as a project or programme is predicting an overspend against the original budget, the Chief Finance Officer and the Monitoring Officer should be informed to consider the use of the Internal Audit Team to investigate and make recommendations. This should apply not just to the overall project budget, but to individual parts of the project as defined by a gateway process.</p> |
| 10. | <p>Loss of corporate knowledge. The investigation carried out by the Strategic Director Finance and Customer Services was made more difficult by not being able to interview the relevant officers who have since left Surrey Heath Borough Council; this was further exacerbated by difficulty in finding original correspondence and records.</p> <p>Recommendation: The Council is now using the BOX filing system which allows it to retain and keep correspondence and files. All project officers are to use this system and not keep project documentation on their own folders. If necessary, the Council should consider refresher training on BOX (<i>already in progress</i>).</p> |

4 Conclusion

- 4.1 This review has demonstrated that the increased costs incurred on this project were due to the discovery of underground utilities during construction, which were not present on the original plans submitted by the utility companies. The only way that this risk could have been mitigated would have been to undertake additional intrusive surveys during the feasibility stage. However, this would have led to increased costs at that stage, and additional disruption to visitors and businesses. There is also no guarantee that these additional intrusive surveys would have discovered the anomaly in the plans.
- 4.2 Many of the issues identified are not unique to this project or this Council, but represent a common challenge for Local Authorities around resourcing such major and complex programmes – often in a desire to keep costs to a minimum.
- 4.3 Use of business case, option appraisal and gateway reviews is considered best practice and should be introduced across all significant capital projects, proportionate to their size and risk.
- 4.4 Officers have now established internal operational monitoring arrangements that review spend on capital projects on a monthly basis to ensure that they are on time, on budget and meeting the standards set out in the specification. These are reported to the Performance & Finance Scrutiny Committee and Executive on a quarterly basis under a stand-alone report covering the capital programme in full.
- 4.5 As part of the Council's financial regulations, officers have been reminded that any significant overspends in major projects should be reported at the earliest opportunity to the relevant Committee.
- 4.6 Use of the Internal Audit team to investigate cost and time overruns is recommended where considered appropriate by either the Chief Finance Officer or the Monitoring Officer.
- 4.7 Retention of relevant documents when staff leave should be a priority, including complete handover notes on any project they are working on.
- 4.8 Adequate contingency for any project should be identified and reported to the Strategic Director Finance and Customer Services. The Director will then make a judgement call on the overall level of central contingency to be held within the capital programme.
- 4.9 Given the length of this review, and its clear findings, it is now considered that any further investigation is unlikely to discover new information or establish any different facts, and it is recommended that Performance and Finance Scrutiny Committee consider that this Task and Finish Group is complete.

5 Reasons for Recommendation

- 5.1 To strengthen the Council's management and oversight of key projects.

6 Proposal and Alternative Options

- 6.1 None applicable

7 Contribution to the Council's Five-Year Strategy

7.1 As set out in the body of the report

8 Resource Implications

8.1 As set out in the body of the report.

9 Section 151 Officer Comments:

9.1 As set out in the body of the report

10 Legal and Governance Issues

10.1 As set out in the body of the report

11 Monitoring Officer Comments:

11.1 As set out in the body of the report.

12 Other Considerations and Impacts

Annexes

None

Background Papers

None