

Surrey Heath Borough Council

Executive

14 February 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

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

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.

The report presented the findings of the Strategic Director Finance and Customer Services and made recommendations for future best practice.

At its meeting on 25 January 2023, the Performance and Finance Scrutiny Committee resolved that:

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

Recommendations

The Committee therefore advises the Executive to RESOLVE that:

- (i) the findings and recommendations of the Task and Finish Group presented to the Performance and Finance Scrutiny Committee on 25 January 2023 be noted; and

- (ii) the recommendations set out at section 2 of this report be approved for adoption by officers when managing significant contracts and projects.

1. Background and Supporting Information

- 1.1 In 2017, the Council submitted a bid to the Enterprise M3 Local Economic Partnership (EM3LEP) for £3.5 million as a contribution towards the improvement of the public realm in High Street, Knoll Walk and Princess Way in Camberley Town Centre. Following the successful bid, the Executive approved a recommendation to contribute £0.9 million from developers' contributions (s.106) and income from the Community Infrastructure Levy (CIL) to meet the total expected cost of the works.
- 1.2 As a result the Council, at its meeting in February 2018, resolved to increase the capital programme to include expenditure of £4.4 million for this large Public Realm works capital scheme which was to be funded by the EM3LEP grant and the CIL/s.106 monies.
- 1.3 In May 2021, and in order to meet the increased construction costs resulting from the Covid-19 pandemic and following the discovery of previously undetected underground utility services, the Executive was asked to recommend to Council that an additional £0.755 million be added to the Capital Programme; this was to be funded from the Council's reserves. The additional works required a significant redesign of the scheme in order to accommodate and protect the utility services.
- 1.4 Whereas active risk management was in place for this large project, 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.
- 1.5 Although an additional extra £0.755 million was requested, the eventual draw on this was only £0.400 million.
- 1.6 Full details of the background around the project and the key issues are contained in the Task and Finish Group report to Performance and Finance Scrutiny Committee, which was presented on 25 January this year.
- 1.7 Prior to commissioning the report from the Strategic Director Finance and Customer Services, the Group had previously received reports from both the Monitoring Officer and the Chief Accountant.

2. Recommendations for improvement from the Task and Finish Group

- 2.1 Having reviewed both the reports compiled by the Monitoring Officer and the Chief Accountant, the Group 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 a number of questions would also need

to be answered; these questions and the findings are also detailed in the report of the Task and Finish Group to the Performance and Finance Scrutiny Committee.

2.2 The Task and Finish Group considered the following recommendations. These are not just specific to the Public Realm works but represent best practice for all major projects.

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. 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),</p> <p>Recommendation: All major projects should follow a proper process of risk management. This should include identification, scoring, mitigation treatment and revised scoring and quantification (cost/impact). Risk should be managed out of the project where possible. 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 a central 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 the central system (<i>already in progress</i>).</p>

3 Conclusion

- 3.1 Both the Committee and the Task and Finish Group agreed that once the recommendations had been considered by the Executive, the process should be concluded. Comment was made on the amount of time taken to conclude this process.
- 3.2 Many of the issues identified were not unique to the project that the Group reviewed, nor indeed to 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.
- 3.3 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.
- 3.4 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.
- 3.5 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.
- 3.6 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.
- 3.7 Retention of relevant documents when staff leave should be a priority, including complete handover notes on any project they are working on.
- 3.8 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 Reasons for Recommendation

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

5 Proposal and Alternative Options

- 5.1 The Executive can decide to direct that officers implement all, some or none of the recommendations of the Task and Finish Group and endorsed by the Performance and Finance Scrutiny Committee at its meeting on 25 January 2023.

6 Contribution to the Council's Five-Year Strategy

6.1 As set out in the body of the report

7 Resource Implications

7.1 As set out in the body of the report.

8 Section 151 Officer Comments:

8.1 As set out in the body of the report

9 Legal and Governance Issues

9.1 As set out in the body of the report

10 Monitoring Officer Comments:

10.1 As set out in the body of the report.

Annexes

None

Background Papers

Task and Finish Group report to Performance and Finance Scrutiny Committee on 25 January 2023 (attached).