

# Blueschool House Refurbishment – Special Investigation 2017/18 Final Report



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Working in Partnership to Deliver Audit Excellence

## Executive Summary

-  This section provides an overview for senior management to understand the main conclusions of this special investigation, including the conclusion, and significant findings.

## Findings

-  This section contains the more detailed findings identified during this review for consideration by managers.

## Appendices:

-  Support and Distribution
-  Statement of Responsibility

# Executive Summary

## Background

The scheme to develop a joint customers services hub at a refurbished Blueschool House is part of the approved corporate property strategy 2016-2020. By working with the Department of Work and Pensions (DWP) the joint customer service hub project will offer improved service and convenience to customers and a better return from the council's investment. The intention is that Blueschool House will become a facility that will draw people to an area that is currently under used. This could potentially encourage further development in the neighbouring area.

The establishment of a joint customer services hub at a refurbished Blueschool House with a total capital cost of £950k was agreed as a key decision on 2 June 2016.

The investigation has reviewed the Blueschool House refurbishment project from the key decision in June 2016 to current date to determine if the substantive increase in costs from £950K to the current cost of £1.92M was appropriately approved. A timeline of events has been documented to review whether the key parties involved informed and escalated issues as required during the project.

The investigation was requested by Andrew Lovegrove – Chief Finance Officer.

The scope has included the background to the key decision, the Procurement of the contract, changes to the original scope of refurbishment work, an understanding of the escalation of costs and how changes to the contract and refurbishment were authorised.

Officers still in post were interviewed as part of the investigation and for officers no longer in post I requested the email correspondence in relation to Blueschool House for each officer for the period 01 May 2016 to 31 March 2017. There were approximately 445 e-mails and each email was reviewed to establish the involvement of these officers in the Blueschool House refurbishment.

The information held on the Asset Management and Property Services system (AMPS) used by Property services to record project information was also reviewed for Blueschool House. Approximately 909 files relevant to Blueschool House were reviewed.

## Capital Programme Background

The Capital Programme plays a key role in delivering the Council's broader ambitions to drive economic growth in the county and the delivery of more jobs and homes. It builds on the foundations provided by the recently adopted core strategy and is aligned with both the Marches strategic economic plan and the Council's corporate plan.

Capital proposals are invited and ranked by the capital strategy group; a senior officer group chaired by the Director of Resources. Expressions of interest were submitted in August 2015 and if the request aligned with corporate priorities business cases were completed and reviewed in October 2015.

The Capital Programme was approved on 18 December 2015 and a budget of £1.1m was allowed for 2016/17 for Corporate Accommodation with a further budget of £600K for 2017/18. The scheme was summarised in the following way: *"to purchase, adapt & refurbish new premises & enable the sale of existing premises."*

The following figures were taken from Appendix 2 'Capital Proposals' that accompanied the 'Proposed Capital Programme' report that went to Council in December 2015.

2016/17	£1,100,000
2017/18	£600,000
<b>Total Cost</b>	<b>£1,700,000</b>
<b>Total Funding</b>	<b>-£300,000</b>
<b>Net Cost</b>	<b>£1,400,000</b>

On the 11 February 2016, the 'Corporate Property Strategy 2016-2020' was taken to Cabinet for approval - taken from the Corporate Property Programme this report stated that *"The capital costs of refurbishment & exiting surplus premises of £1.3m are included in the £1.7m capital expenditure for the corporate accommodation programme approved as part of the 2016/17 capital programme."*

Neither the report taken to Cabinet or the Corporate Property Strategy was clear on the breakdown of the how the £1.7 million budget would be spent or included any specific information in relation to the refurbishment of Blueschool House.

The proposal for a customer services hub in Hereford was developed in partnership with senior officers of the Department for Work and Pensions (DWP) regional team. A detailed scheme was developed that will accommodate both the Council's front facing services and the DWP Job Centre Plus operation, currently located at St Nicholas House in Hereford.

Blueschool House is located within the Edgar Street Grid (ESG) area, The Council owns the freehold to the property; however, the Homes and Communities Agency (HCA) have a retained interest as they provided the money for its purchase in 2007. Since then the Council has paid rent to the HCA for using the building. This rent has been held on the HCAs behalf for reinvestment to support the ESG delivery plan and now totals £300k. HCA investment in Blueschool House is included in the ESG delivery plan and is designed to act as a catalyst to prompt the further regeneration of that part of Blueschool Street leading from the Old Market to Franklin House.

The financial model included in the 'Joint Customer Services Hub' business case (13 May 2016) outlines the following funding available for the project with an identified remaining net capital requirement:

	<b>£000</b>
Gross Capital Expenditure	£950
DWP capital contribution	-£400
HCA Capital contribution	-£300
<b>Net capital requirement</b>	<b>£250</b>

## Objective

To identify a timeline of events of the Blueschool House Refurbishment and to determine if the key parties involved, informed and escalated issues as required.

## Conclusion

The business case for the Joint Customer Services Hub (Blueschool House) was signed as approved by the Director of Resources on 13 May 2016 and the key decision taken on 2 June 2016 was approved by the Cabinet Member Contracts and Assets. The decision stated that *'the director of resources be authorised to take all operational decisions necessary to implement the project **within the agreed financial envelope**'*.

Overall the council's normal governance processes have not been followed by key officers involved in the Blueschool House refurbishment. The key decision did follow the correct governance process however the business case to support the key decision lacked clarity over what works would be included in the £950K agreed financial envelope. It would appear that key staff including senior officers at Director level were aware of the council processes and procedures but these have not been applied during this project and there is evidence that officers have knowingly disregarded council process and procedure.

The contracts procedure rules in place at the time are clear that any material variation in cost/timescale for a capital project must be reported to Cabinet. Project costs escalating and spend going beyond the approved budget was identified as a major risk in the Business Case. The mitigation for this was to obtain a fixed price quote from the framework provider at the earliest opportunity. Although there were early indications from the framework provider that the project could not be delivered within the financial envelope even with value engineering, key officers including Officer J and Officer F failed to report this to Cabinet.

The rationale for the selection of the contractor cannot be demonstrated as there are no records to support this. The property services team has responded to client requests without providing robust challenge, and has not followed the council procedure rules in relation to procurement.

The relationship between the property services team and contractors appears to be informal for a capital project of this value and throughout the project there is little evidence that value for money can be demonstrated.

In line with the capital guidance, major projects should be overseen by a project board. The Accommodation Programme Board had oversight of the overall accommodation strategy until November 2016 however, there was no project board for the Blueschool House refurbishment project.

The timescale of the project was identified as a major risk in the Business Case as the project was subject to a time constraint pressure due to the DWP serving notice on their current property. This was a key factor in ensuring the project was progressed and has contributed to the overall poor governance.

This investigation provides management with the detail to support where failings in the process have been identified and those officers who were involved with the process failures. It is for management to consider and determine whether any further action such as disciplinary action, should be taken against individual officers as it is clear there has been disregard for processes and procedures which has resulted in a significant overspend on the project.

The key findings are recorded below and all detailed findings and evidence to support the key findings have been provided to the Chief Finance Officer to support him in making his decision on the best way forward for the Council.

## Key Findings

### Key decision and budget

The budget included in the business case and the key decision was £950K however, the report provided limited information on what would be included within that figure.

The basis for part of the budget is from the funding agreed by the DWP (£400K) and the HCA (£300K) and it would seem that the remaining £250K would be a capital contribution as part of the wider accommodation strategy. At the point, the key decision was made the only costing that had been completed was an elemental estimate based on square foot cost, by Officer B in January 2016 which was revisited in February 2016 with both costings slightly in excess of £950K. At this point Officer B confirmed to the DWP, Officer H and Officer J that the £950K can be achieved with value engineering.

Prior to the key decision Hub Professional Services were procured in April 2016 to develop the design for Blueschool House and submit for Planning and Building Control. Hub provided a cost of £1,060,000 on 14 June 2016 to exclude a new roof; this was however after the key decision had been taken. As Hub were engaged as early as April 2016 to provide a more detailed estimate of the costs of the works it is difficult to understand why the key decision was not delayed until the costing had been provided. The Council paid £102,747 to Hub Professional Services to develop the design and provide a costing for the project.

### Procurement of the Design stage

Officer B confirmed that the Council's normal approach to similar projects would be to use the same company for both the design and build stage. For Blueschool House, Hub was used for the design stage only. In his opinion, this was out of the ordinary, to use two separate companies i.e. Hub for design stages (via integral) and Kier for the build stages. Officer B also confirmed that Hub had not been used before for a project of this size.

The instruction to use Hub was from Officer H. There is no evidence to support the rationale for using Hub however, the company is a property and design consultant and a member of the British Institute of Architects so the expectation would be that the Council was using a professional service. There is also no evidence to support that Contracts Procedure Rules were followed for the procurement of Hub, or that a contract was in place with Hub, and therefore value for money cannot be demonstrated.

### Procurement of Build Stage

A 'Contractor Selection Options' document was put together in July 2016 by Officer B and Officer J. The purpose of the document was to list the pros and cons of different procurement routes. When this was presented to the accommodation programme board, the Minutes record that 'Officer M expressed concern that the note was not a procurement strategy as requested and did not include a recommendation supported by appropriate evidence to ensure value for money. In the opinion of Officer M, the low level of contingency within the estimates for the work also indicated that there was a significant risk that the proposals cannot be delivered within the approved budget.'

A revised procurement strategy was requested setting out the impact on value for money and timescales together with a recommendation for approval. The notes from this meeting included an action for Officer J to produce a revised procurement strategy with input from legal and procurement, for approval by the Board, prior to the works being commissioned.

Even at this stage, after the key decision and prior to the procurement of the build stage, concern was raised over the demonstration of value for money and the risk was identified that with the low level of contingency within the estimates the project cannot be delivered within the approved budget.

However, there is no evidence to support that this was completed. The next meeting, which was scheduled for 1<sup>st</sup> September 2016, should have received a revised procurement strategy but this meeting did not take place and the notes on the following meeting (20<sup>th</sup> October 2016) do not make any reference to a revised procurement strategy. There is no evidence that Officer J produced a revised procurement strategy or that the Accommodation Programme Board challenged that a revised document had not been produced as requested. Officer M confirmed in an email on 2<sup>nd</sup> August 2017 that 'as far as I can recall the board was not presented with an update; I don't believe a revised document was provided to the board'.

#### Selection of Kier

Both Kier, via the Scape framework, and Balfour Beatty Living Places (BBLP) were able to meet the timescale of the project when initially asked by Officer B in September 2016. However, there appears to be no clear evidence to support how the decision to select Kier was made. There is email evidence to suggest that as early as May 2016 there was an intention to use Kier for Blueschool House; this was prior to the key decision and prior to any Contractor Selection Options. This email was from Officer J.

The instruction to use Kier was issued in an email by Officer J on 21<sup>st</sup> September 2016 following a meeting with legal services the previous day. I have not been able to find any record of a meeting with legal services and Officer E has informed me there are no case notes and there are no diary entries in anyone's calendar to identify that this meeting did indeed take place on 20<sup>th</sup> September 2016.

It is a fact that on the 20<sup>th</sup> September 2016 (evidenced in an email) BBLP were still expecting to be asked to tender for Blueschool House.

I cannot conclude that for certainty Officer J made this decision without appropriate consultation with senior officers however, the lack of evidence to support that this decision was taken in consultation with others would point to this.

Officer H having been informed of the decision instantly felt there may be some comeback from BBLP – which could indicate that an appropriate selection process was not followed. This is evidenced in an email sent by Officer H on 21 September 2016.

#### Use of the Scape Framework -Kier

Kier were used under the Scape Framework. For minor works (works <= £4million) Kier is the single supplier on the framework. It is an expectation that where Kier subcontract 'trades' as part of the tender; value for money is demonstrated by obtaining three quotes. For three key elements of the contract:

- Mechanical, Electrical and Plumbing - Melcon
- External Works and Structural - SC Joseph

- General Works – Bourne Decorators

Officer B allowed Kier to only provide one quote and from a provider that Kier had suggested. This is evidenced by emails between Officer B and Kier. The Council cannot, in accordance with its procedures, demonstrate value for money has been achieved. Although the time constraints seem to have been a driving factor in agreeing to this, it is difficult to understand that if the specification for each of these three elements was available to the providers used by Kier, why the specification could have not have been provided at the same time to other providers to enable the Council and Kier to demonstrate that value for money had been considered and can be demonstrated during the tender process.

This would not seem to be isolated to the original tender submission as later, during the contract provision, both Officer D and Officer B agreed to accept one quote again from a provider suggested by Kier for works to 'roof ALWRITA single ply roof with insulation to meet current Building Regulations'.

Officer B said at interview that Kier had not yet provided the quotes to demonstrate value for money when in fact he had already agreed with Kier to accept only one quote for three key elements.

The contracts procedure rules in place at the time stated that the number of approved contractors on a Framework can vary but the minimum number should be three. There was a lack of awareness of this requirement as the framework for minor works (works <= £4million) was a single supplier framework. The contracts procedure rules have since been updated to state that single supplier frameworks can no longer be used. This however will not resolve the issue of officers agreeing to accept one quote from a provider suggested by the contractor.

#### Kier Tender

Hub provided two costings for the refurbishment of Blueschool House £1,060,000 on the 14 June 2016 and a revised figure after value engineering of £896,000 on 16 June 2016.

The original tender valuation from Kier on 02 November 2016 was £1,426,883.38 significantly higher than the Hub costing and the budget for the works. At this point Kier stated that although the project was costed higher this was based on a lower specification than Hub had estimated for.

Kier had highlighted on receipt of the tender documents in September 2016 that the works would not be achievable within the Hub costing; this was confirmed by Officer B when interviewed in May 2017. He explained that as soon as Kier saw the tender documents they immediately identified that it would not be achievable in the Hub estimated costs. Kier also raised concerns that clarification was needed on the preliminary documents and alerting Officer B early to a number of issues Kier had relating to the documents provided by the Hub and their alignment with the Scape Framework through which this project was being procured. The tender documentation was also sent out by Officer B as received from the Hub without it being checked as confirmed in an email on 29 September 2016

As a result of the Kier tender and in their opinion that the Hub costing was unrealistic, Officer B informed me that the Council rejected the Hub costing and decided not to use them to project manage any further; at this point the responsibility for managing the project was brought back in house. I have been unable to find any evidence to support who made this decision but would assume it was discussed between Officer J and Officer B.

Hub had been appointed for the design phase of the project and paid £102,747. As the Council had already committed in excess of £100,000 to Hub for their professional services, I would expect to find clear documentation as to why this decision was made, who made the decision and on what basis the decision was made.

On the 2nd December 2016, Hub provided a tender evaluation summary recommendation on the tender submitted by Kier to Officer B. In summary, "the recommendation was that the bid as proposed by Kier Construction does not represent value for money based on the criterion as set out in the tender and order of cost documents provided by ourselves, bearing in mind that we were not engaged during the tender process and therefore did not have access to any information or discussions held between yourselves and Kier during this period and therefore have based our summation purely on the figures provided".

Hub stated that: "Although some areas were identified as offering potential cost savings, given the large disparity between the budget cost and the submitted tender, these savings are unlikely to bring the bid within the prescribed budget. Our conclusion and recommendation therefore is that the bid be rejected as not representing value for money."

There is no evidence to demonstrate that the tender evaluation summary from Hub was discussed or shared with other officers despite Hub clearly concluding that the bid from Kier should be rejected. There is no evidence that the Kier tender was reviewed in the light of this information or that the Hub tender evaluation summary of the Kier bid was properly considered; it would seem to have been completely disregarded.

Officers have failed to demonstrate good governance as both the Hub tender evaluation summary and the Kier bid should have at this stage been subject to review and scrutiny before progressing any further with the project.

#### Authorisation of project overspend.

Kier provided five costings for their tender submission with the final submission on 19 December 2016 of £1,383,128.77. It was obvious at this stage and even when Kier submitted their first tender on 02 November 2016 that the project could not be achieved within the financial envelope of £950K.

There are numerous emails between officers within the Council about the increase in costs and how this could be funded. These included emails from Officer F, Officer J, Officer A, Officer C and Officer B. Briefing papers that supported emails and even the content of some emails was not always shared openly. Officer C sent an email on 6 December 2016 to Officer F requesting that a briefing paper was reviewed before being shared with Officer A as Officer C was not sure if the position of Blueschool House should be shared. Officer A has confirmed that he did have sight of this document which was sent on 7th December 2016. Officer A explained that his impression of this report was that yes, it has come back more expensive, but value engineering would be done to ensure the cost was reduced.

There does seem to be some confusion over the approved financial envelope for the Blueschool House Refurbishment and the overall accommodation project budget by some officers. However, Officer F in an email on 1 December 2016 clearly identified that the accepted tender price was outside of the approved financial envelope budget and therefore the project could not proceed.

However, on the 13th December, Officer B informed Officer F and Officer J that a revised figure for Blueschool House had been obtained. This costing plan identified costs at £1,497,480.90 (this was a cost of £1,422,480.90 plus £75,000 risk for roof and LED lighting). Officer B highlights there is only £1,530,000 in funding and an overall project cost of £1,761,980. Officer F responded: "Good result Officer B, we just need to confirm the overall funding package remains within the total accommodation strategy envelope but I think we can instruct to start by tomorrow.....Officer F

- Ps unless a showstopper arises!"

This is the only evidence of approval to go forward with the scheme and accept the overall project costs of £1,761,980. This was clearly a decision by Officer F who was acting outside of his delegated authority of the key decision – which states *'the director of resources be authorised to take all operational decisions necessary to implement the project within the agreed financial envelope'- the financial envelope being £950K*

Once it was known the project cost was outside the agreed financial envelope a report should have gone back to Cabinet for review and decision on how to proceed. This was a failing on the part of Officer F who had delegated responsibility for this key decision and Officer B who in his email on 13<sup>th</sup> December implied that the overall project cost was approx. £200,000 above the £1,530,000 funding. At this point it would appear both officers were in fact working within the overall accommodation project budget which was incorrect. This does not make the approval of this capital spend acceptable as it does not comply with the council's contracts procedure rules which all officers and directors are expected to follow.

On 9<sup>th</sup> February 2017, Officer G identified there was no budget in Agresso for the Blueschool House refurbishment and asked Officer B whether he had heard anything and also asked Officer J if there was written confirmation of the decision. She also requested confirmation from Officer F where the refurbishment was being funded from. Officer F confirmed that the Accountant has all the details and a journal is needed to move revenue support income to the budget to keep it in line.

In an email on the 14th February, from Officer J it would appear there was a general feeling that the correct process had not been followed. The email states that there was no clear written approval although it could be the paper that was taken to Councillor Bramer and that the Cabinet Member briefing notes may be enough, he concludes that he can see governance getting hold of this and requiring a cabinet member report to be done retrospectively once you (Officer F) leaves.

#### Signing of the Contract

The start date for Kier on site has been evidenced as 16 January 2016; this is prior to the contract being signed. There is no evidence to confirm that Legal Services were involved in the contract stages of this project. Officer A stated that he signed the contract based on verbal assurance from Officer F that the appropriate governance and budget was in place and that it was within the approved financial envelope. At this stage, there is a possibility that Officer F was referring to the overall Accommodation Strategy budget and not the individual cost of the Blueschool House refurbishment.

On the 3rd March 2017, Officer B emailed the Legal Support Officer informing her that he had two copies of the contract with Kier for the refurbishment works on Blueschool House, signed by Officer A but a second signature from Legal was required. On the 17th March, Officer K forwarded the email trail to the Officer L to highlight that another high value contract was in place that the legal department had no knowledge of. Under Contracts Procedure Rules the Commercial Services Team and the Solicitor to the Council must be consulted on all Framework contract procurements.

### Compensation event approval

There is no evidence that any form of appropriate approval was sought for the compensation events. All compensation events have been authorised by Officer B who has no delegated authority to do so; he has signed off compensation events currently to a value of £319,112.58.

Compensation events, can be approved by the individual responsible for the contract in this case this would have been Officer F as it states in the 'Joint Customer Services Report' "the director of resources be authorised to take all operational decision necessary to implement the project within the agreed financial envelope". However, he only had authority to do this if it was within the agreed budget; in this case the £950K. As the project was outside of the financial envelope as soon as the Kier tender was accepted then all compensation events were also outside of the financial envelope.

### Budgets/costings

The budget and costings for the project right from the elemental estimates in February 2016 have been subject to numerous changes with attempts to value engineer the project to bring the costing down on both Hub and Kier costings.

There was a lack of good record keeping and recording of decisions on additional costs and there is some uncertainty whether certain elements were included in the Kier tender or not.

There would appear to be a disconnect between the team responsible for budget monitoring and the property services team. This resulted in a number of briefing papers where figures were not always consistent from one briefing to the next, leading to poor budget management throughout this project. Even when the approval had been given by Officer F; Officer G was questioning where the funding was coming from.

### Accommodation Programme Board

An Accommodation Programme Board was in place from April 2016 until November 2016. During this time, there was some oversight of Blueschool House however it is clear that when the request for further information to be brought back to the Board was made, these requests were not always actioned and the Board did not ensure this was followed through. A key point in the Blueschool House project is covered in design of the build stage above where a revised procurement strategy was not provided.

In line with the capital guidance, major projects should be overseen by a project board, generally chaired by the project sponsor at director or assistant director level. Such project boards should involve representatives from legal, finance, and procurement teams as well as relevant service professionals, and should have access to a governance advisor. The Accommodation Programme Board was attended by 10 officers including one director, one interim director and two assistant directors, however there was no representation from legal or procurement.

The Accommodation Programme Board had oversight of the overall accommodation strategy until November 2016 however there was no project board for the Blueschool House refurbishment after the Accommodation Programme Board ceased.

## Recommendations

- 1) The Council should ensure there is a clear audit trail to show how budget figures have been derived and what the budget is based on.
- 2) Key decision reports and supporting business cases should contain all relevant information for an informed decision to be made including on what basis the budget was determined and what the budget includes.
- 3) The gross cost of a capital project should be costed prior to a proposal being submitted to the Capital Strategy Group.
- 4) When an external consultant is appointed to provide costing for a project this costing should be reviewed prior to the agreement of funding for a project.
- 5) Officers must ensure that Contracts Procedure Rules are followed for all procurement
- 6) The rationale for decision to use two separate companies for the design and build stages or to use one company for both should be clearly documented at the outset of the project.
- 7) Actions from project/programme boards should be completed by the relevant officer and the board should ensure that there is adequate governance oversight that actions are completed prior to any further decision being made on a project.
- 8) The decision of Contractor selection to invite to tender must be clearly documented and consultation with key officers must be followed in line with Contracts Procedures Rules.
- 9) Officers must ensure that that value for money can be demonstrated as part of a tender submission and for any additional works during the project.
- 10) If a tender submission is significantly different to the costing provided at the design stage or outside of the budget agreed as part of the key decision; the tender should be subject to scrutiny and challenge prior to proceeding with the project and the relevant officer should take the decision back to Cabinet.
- 11) Compensation events should only be authorised by an officer with the relevant delegated authority.
- 12) There should be robust budget monitoring and clear documentation of changes to a project as it progresses so there is a clear audit trail to support financial commitment.
- 13) Project Boards must be presented with full and accurate information to ensure informed decisions can be made and actions recommended must be completed with a clear audit trail to show the action has been completed.

# Support and Distribution

## Report Authors

This report was produced and issued by:

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## Support

We would like to record our thanks to all the officers who supported and helped us in the delivery of this special investigation.

## Distribution List

This report has been distributed to the following individual:

Andrew Lovegrove, Chief Finance Officer

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# Statement of Responsibility

## Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

## SWAP Responsibility

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.