

**PUBLIC QUESTIONS AND ANSWERS TO AUDIT AND GOVERNANCE COMMITTEE
28 November 2018**

Question 1

Ms D Toynbee, Hereford

During the recent public inquiry into the Southern Link Road it was clear that Herefordshire Council has already incurred a significant overspend on this capital project, on professional fees alone. Please explain who has the authority to approve payment of an overspend of over £3 million, against a budget of £780,924 + uplift, on professional fees?

Response

The council's constitution and financial procedure rules do not authorise anyone to approve payments without an approved budget being in place; if expenditure is likely to exceed an approved budget further approval should be secured in advance.

I have sought clarification from the Chief Finance Officer regarding the figures quoted in the question who has confirmed that there is no overspend against the approved budget of £35m for the South Wye Transport Package, and advises that the £780,924 number quoted in this question appears to have been extracted from the Hereford Relief Road Study of Options 2010 report (4.14). This was an estimated cost at that time for preparation and supervision of the southern link road based on a percentage of the estimated construction cost of the road at that time. It should be noted that these costs were based on an indicative road corridor in advance of detailed design of the scheme and to reflect this significant allowances for optimism bias and risk are allowed for in the scheme budget giving an overall estimate for the SLR of £29,729,000 within a budget of £35m for the SWTP as set out in the Strategic Outline Business Case for the scheme. The budget breakdown will be updated and set out in the full final business in due course when submitted to the Department for Transport.

Question 2

Mrs E Morawiecka, Breinton

At the recent public inquiry into the Southern Link Road CPOs/SROs questions were raised about the costs incurred on this capital project. The inquiry was told that of the £4,977,931.67 spent to 31st March 2018, £4,786,544.24 had been spent on professional fees. The budget that is apparently being used by the management team is a 2010 base budget for a capital cost of £19,843,810 from the original Amey Multi modal study for the Hereford Relief Road, uplifted for inflation.

This 2010 budget allowed for £780,924 + uplift for professional fees. Would the Council please explain why the SWAP "Blueschool House" recommendations for capital projects do not appear to have been applied to the Southern Link Road project, particularly those around tracking spend against a robust budget?

Response

The detail of the question is not within the remit of the committee and therefore the S151 officer has been asked to provide a written response to the issue; however the committee has requested further assurance on the implementation of the internal audit recommendations relating to capital project management which will be reported to a future meeting.

Written response

There is a robust approved budget for the SWTP of £35m which has been developed based on the 2014 Strategic Outline Business Case (SOBC) for the scheme. The SOBC sets out an estimated cost of £35m for the SWTP with a budget of £29,729,000 for the SLR.

The SOBC costs for the Southern Link Road are based on costs developed for the road set out in the Hereford Relief Road Study of Options 2010 report (Table 4.14) with an uplift of just under 50% (49.8%) to £29,729,000. This budget for the SLR was based on 2010 costs with an optimism basis added of £5,857,743 and an uplift of £9,885,190 totalling £15,742,933. It is not practicable to compare current design fee to the original £780,924 base value from the 2010 report as the scheme budget set out in the SOBC recognises that this was based on the high level estimated construction costs at the time which would be further developed as the detailed design of the scheme progressed. The combined uplift and optimism basis of £15,742,933 added to the 2010 figures reflected this and was the basis on which the budget of £35m for the SWTP was approved and against which costs are monitored.

Spend and forecast monitoring of projects is regularly undertaken and is set out in project decision reports. This most recent decision report for the SWTP contained a summary of this information and set out the latest forecast to end 2018/2019 and how this will be funded as well as spend to the end of 2017/2018.

Further detail of spend to date and forecast spend will be set out in future project decision reports and in the full final business case which will be submitted to the Department for Transport in 2019.

Supplementary question

The first recommendation of SWAP's final report into Blueschool House is the council should ensure there is a clear audit trail to show how budget figure is derived and what the budget is based on. The twelfth recommendation is that there should be robust budget monitoring and clear changes to a project as it progress so that there is a clear audit trail to support the financial commitment. The report highlighted that not to do so represented a major risk. The 2010 budget with a 42% uplift is the only budget available for the Southern Link Road and was presented as such to the planning inquiry and planning inspector and is the budget against which officers are authorising millions of pounds of public money. At 31 March 2018 professional fees were £3m ahead of budget or based on 613% uplift. If this level of uplift is applied to the full Southern Link transport project cost, the final cost will be £212.75m. At what point does the council review its risk register for individual capital projects have that no budget control and appear to risk the financial viability of Herefordshire Council as a whole. I wonder you have enough time between now and the next meeting before you go bust.

Supplementary Response

A written response will be provided

Written response

Project risk is reviewed regularly during the delivery of individual projects. Spend and forecast monitoring of projects is regularly undertaken and set out in project decision reports to ensure the resource implication of any project decision is clear and auditable. Monitoring of the capital

programme also takes place which demonstrates spend to date and forecast spend against approved capital budgets for the whole programme of capital projects.

A detailed response was provided at the recent Southern Link Road (SLR) public inquiry regarding scheme costs and spend to date. This can be viewed by following the link below:

<http://bailey.persona-pi.com/Public-Inquiries/A4194-Herefordshire/e-aa-during-pi/hc-20.pdf>

This most recent decision report for the SWTP contained a summary of this information and set out the latest forecast to end 2018/2019 and how this will be funded as well as spend to the end of 2017/2018

This report can be viewed by following the link below:

<http://councillors.herefordshire.gov.uk/documents/s50061477/Report%20South%20Wye%20Transport%20Package%20-%20southern%20link%20road%20land%20acquisitions.pdf>

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