



Hereford City Centre Transport Package – Internal Investigation

Summary Report

1. Purpose and focus of the review

The purpose of the Hereford City Centre Transport Package (HCCTP) is published on the council [website](#) – in summary it is a series of works to improve the way residents and businesses travel around Hereford to reduce journey times, cut pollution and create a safer environment for all road users; the programme has also released land for development. There are two key elements – the City Link Road which was opened in December 2017 and the Transport Hub yet to be completed; along with some public realm elements.

Concerns have been raised regarding the governance and financial aspects of the package, with the level of spend on the city link road potentially not leaving enough funds for the final element of the transport hub.

Therefore the Monitoring Officer and Section 151 Officer of the council have commissioned an internal investigation to examine the following points:

1. Clarify what decision making was in place to enable officers to commence the HCCTP, with what budget and deliverables.
2. Clarify what decision making was in place to award a works contract and purchase compulsory purchase order (CPO) land.
3. Clarify what decisions officers took via record of officer or non-key decisions.
4. Clarify the process used for approval and payment of compensation events on the works contract and CPO land payments.
5. Conclude what process has been followed to date, if there are any deviances from the governance arrangements at the time and what reasons there may be for this.
6. Confirm if there has been an overspend in the budget for the construction works and CPO land purchases.
7. Confirm if the original budget is still able to deliver the nine deliverables of the HCCTP.

In the course of conducting the investigation the following key lines of enquiry were established and will form the basis of the report:

Part 1: Governance of the package and where there has been a change in the programme examine the governance route.

Part 2: Understand the decision making process for compensation events and spend.

Part 3: Spend review, including activity against plan, land purchases and ability to complete the programme.

2. Summary Conclusions

The Hereford City Centre Transport Package has spanned ten years with a budget of £40,650k. The business case for the programme was comprehensively set out in a series of documents published on the council [website](#) dated 25 November 2015, which provided the information for Full Council agreeing a capital allocation on [5 February 2016](#) as part of the Medium Term Financial HCCTP – Internal Investigation

Strategy. An update on the package was via cabinet member report on [23 November 2017](#). A further update report is due.

Based on the 23 November 2017 cabinet member report a total spend to that point was £34,160k with £6,490k remaining to spend on public realm works at Commercial Road, Blueschool and Newmarket streets, plus the transport hub.

Since the 2017 report there has been additional costs relating to land acquisitions. Based on information provided for this report there remains **£4,326k** to spend on the transport hub and public realm. The original business case had these elements costing £5,456k, and more recently BBLP costed designs for the transport hub and public realm at c£9m – however this was rejected by the project team due to estimates being beyond budget. The update report due will no doubt address this issue.

Though the business case split costs between construction and land acquisition (along with professional fees and risk) the budget was used as a combined resource. If based on the business case the road construction underspent and the land acquisitions overspent.

Through the tracking of the governance there does not seem to be a breach of decision making considering the permissions granted and contract terms agreed. Record of officer decision is used to greater effect since the new constitution of May 2017 which provided increased clarity - therefore historic spend, or rather overspend on contracts, are not visible through record of officer decisions. Also, without financial amounts in report recommendations combined with the use of delegated authority giving powers to officers within an envelope of spend and planned activity, it is difficult to match actual spend against decisions.

Of concern are the number of compensation events, with costs beyond contracted amounts outlined in original governance.

The contract and relationship with BBLP (Balfour Beatty Living Places) meant they were the key delivery agent – this included their associate partner shaping the scheme in the business case which included recommending BBLP be directly awarded elements of site works and management of the construction company, along with leading the procurement of the contractor. All allowable within the previously agreed terms of the contract with BBLP.

The delivery of works by BBLP brings advantages in being a known partner with an existing relationship with the council, local knowledge and ability to mobilise quickly. However, this puts a great deal of trust in BBLP without the value for money being tested beyond the original contract. There are layers of funds in which BBLP were able to financially benefit from the scheme whether fees included on compensation events and subcontractors, potential for “gain” on gain share, project and programme costs or overheads on salaries – these are explored within the report.

Also of concern is the cost of land acquisition beyond the business case estimate – by more than £5m. CPOs follow complicated legal processes and once started there will be a set entitlements based on land valuation and disturbance payments (sometimes only fully realised years later). Though compensation to businesses would be difficult to predict at the start of the process this suggests that the costs may not have been fully valued at the time.

Recommendations:

1. Further financial appraisal on BBLP spending, especially focusing:
 - Payment for quantity surveying, project leads and programme management, spot checked against time sheets.

- Gain share benefit relating to this project and where “pain” in gain share would have been more appropriate than compensation events.
 - BBLP’s value for money test when commissioning third parties, reviewing procurement reports and / or evidence of quotes.
2. Lessons learnt on award of contracts being mindful of percentage fees (including fees on fees); gain: pain mechanisms, and shared risk formula.
 3. When an organisation (including associate partners) is commissioned to establish a business case they are excluded from bidding for consequential contracts due to impartiality, or at least very close review of what is being recommended followed by a transparent procurement process.
 4. On governance:
 - For all decisions that have a financial element to be included in the recommendations not just in the body of the reports.
 - Record of officer decision process to be via modern.gov to ensure record of consultation, process for sign off beyond email exchange, and ensure publication.
 - Consider process of contract change recorded through record of officer decision that is not over burdensome e.g. quarterly changes rather than every change.
 - Ensure practice of exempting part of a report rather than whole report when contain commercially confidential elements.
 - Payments to contractor and businesses are published through the decision making process as default, and only exempt with a demonstrable legal requirement, with confidentiality clauses only used when legally obliged.
 5. To review if additional financial and cost tests should be part of the Service Manager Review of the BBLP Annual Plan.
 6. Further examination of land acquisitions next to the original requirements outlined in the business case.