

Management of Capital Projects - Heart of Slough

Summary of findings

Slough Borough Council

Audit 2010/11

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Introduction	2
Conclusions	3
Main findings.....	4
Business case.....	4
Financial appraisal and reassessment	4
Source of funds.....	4
Partnership working	5
Tendering and awarding of contract and Project Management	5
Risk management.....	6
Contract management	6
Asset management.....	6
Reporting and accountability	7

Introduction

1 The Heart of Slough programme led by the Council in partnership with other private and public sector organisations aims to redevelop the centre of the town, improve the town for residents and visitors, as well as encouraging businesses to move to the town. This involves five key projects.

- Provision of a new bus station.
- Provision of a new Learning & Cultural Centre.
- New Housing on the current Thames Valley University site.
- New office developments.
- Redesign of the A4 to improve access for pedestrians and cyclists.

2 This is a large and complex programme for the Council to manage. The Heart of Slough programme, with a budget of £45.2 million, represents a significant part of the budgeted capital programme, which for 2010/11 – 2013/14 is £152.1 million.

3 Our risk based audit work aimed to assess the Council's arrangements for managing its capital programme and because of its significance; this work has focused on the Council's commitments to the Heart of Slough programme.

4 The results of the work will provide evidence for the Value for Money (VFM) conclusion criteria on arrangements for securing financial resilience, and for how the Council challenges the way they secure economy, efficiency and effectiveness.

5 The audit work involved reviewing key documents and discussions with key officers at the Council. The programme was assessed under the following key themes.

- Business Case.
- Financial appraisal and reassessment.
- Source of funds.
- Partnership working.
- Tendering and awarding of contract Project Management.
- Risk Management.
- Contract Management.
- Asset management.
- Reporting and accountability.

6 This report provides a summary of our findings under each of these themes.

Conclusions

7 The Heart of Slough Programme is a complicated regeneration project, which involves partners from both the public and private sectors, to deliver the programme.

8 From our review we have concluded that the Council has robust arrangements in place to manage the programme. Although the Council's reliance on a 'letter of intent' for the initiation of the infrastructure part of the programme was unusual we are satisfied that this interim measure afforded adequate safeguards and was appropriate given the circumstances.

9 The reliance on CPO action to acquire all the required land for the programme is a measure of last resort. However, we are satisfied that the Council has exhausted all other means and it now needs to manage the CPO process effectively to minimise the delay and the risk of escalating cost if the case goes to appeal and public enquiry.

10 The results of the review have provided evidence in support of the VFM conclusion criteria on arrangements for securing financial resilience, and for how the Council challenges the way they secure economy, efficiency and effectiveness.

Main findings

Business case

11 The Heart of Slough scheme has changed over many years. However the key elements of improving transport links, developing a cultural hub and reducing the dividing impact of the A4, have remained in all the business cases.

12 The Cabinet has been fully involved in approving the business case for the programme, and the subsequent amendments.

13 The Council has sought the views of residents on what they would want from the programme, and this informed the plans for the learning and cultural centre.

Financial appraisal and reassessment

14 The affordability of the scheme has been carefully considered throughout the development of the programme as have the costs and the benefits the programme would bring to the locality.

15 There has been a strong recognition by Cabinet that in the current economic conditions, managing the costs of large capital programmes is important. This is evidenced by Cabinet's decision in July 2010 not to approve a proposed increase in the budget for the programme.

16 The decision by Cabinet has made officers more aware of the budgetary constraints within which they must operate to deliver the programme and reinforced financial rigour across the board.

17 An example in point is the infra-structure element of the programme. Each of the tenders received for these works were above the available budget, and because further budget funding was not forthcoming the project was redesigned to bring down the overall cost. This was achieved whilst preserving the quality required for the scheme.

Source of funds

18 The Council has funded the programme from external sources, including grant funding and contributions from other development partners.

19 Most of the Council funding requirement has been met using the Council's own resources and prudential borrowing. This is included as part of the Council's overall capital budget, and is within prudential limits.

20 There is some uncertainty about when some of the contributions will be received from the development partners. This is because of delays in developing some parts of the programme.

21 The Council recognises that funding flows may be delayed and is managing this risk within its overall treasury management programme.

Partnership working

22 The Heart of Slough programme is led by Slough Borough Council; however there are several key partners who are engaged with the programme.

23 Development Securities are involved with redeveloping the Brunel Bus Station, the Homes and Communities Agency are financially supporting the infrastructure improvements and Thames Valley University is responsible for redeveloping their site for housing.

24 To manage working with these partners the Council has set up a Project Board, which meets monthly. This includes representatives from the partner organisations, as well as key officers from the Council.

25 Establishing the Board and the close participation of partners has ensured that all parties are kept aware of progress of the programme and can respond collaboratively to any issues as they arise.

Tendering and awarding of contract and Project Management

26 A review of the tendering process for the infrastructure contract found that it was compliant with Official Journal of the European Union (OJEU) requirements, which local authorities must comply with for the tendering of contracts.

27 Evaluation of the bidders was well managed, with a good balance between consideration of the financial and non-financial aspects of the bids presented.

28 The evaluation included site visits to previous projects, for the two final bidders, to assess first-hand the quality of the finish of these projects.

29 The Council has worked with the preferred bidder to reduce the cost of the contract, while upholding the quality of programme. This ensured the costs of the infrastructure works were contained within the original budgetary provision, as described earlier. However, it also had the effect of delaying the signing the contract and potentially delaying the start of the works. If this were to happen the Council risked failing to meet the externally agreed deadline of the end of 2011 for completion of the infrastructure phase of the programme.

30 To avoid this risk the Council decided that work could be commenced in advance of the formal signing of the contract under the auspices of a 'letter of intent' so as not to delay progress. This imposes respective rights and obligations for a short defined period until such time as contract formalities can be completed.

31 The Council acknowledges that a "letter of intent" is not a substitute for formal contract documentation. However, there was concern that failure to meet the stringent completion deadline would have put at risk the funding for the project. The Council was satisfied that the interim measures afforded acceptable safeguards in the event of default or dispute on the part of the contractor.

32 We are satisfied that given the circumstances with which the Council was faced (risk of losing funding for the project through its inability to meet external deadlines), its course of action was a pragmatic and reasonable one, with sufficient safeguards put in place to protect its interests in the short term.

Risk management

33 The project manager is responsible for maintaining a risk register and ensuring the relevant individuals are aware of the identified risks.

34 There are regular updates, shared with the project board. This has meant that all parties involved are aware of the potential risks to the programme and how these could be mitigated.

35 While Slough Borough Council is responsible for a significant part of the whole programme, the key partners involved in the scheme are responsible for some aspects. This has helped to share the risks of the programme across the partners.

Contract management

36 The contracts used for each part of the programme have been considered carefully and chosen to suit the project and to reflect on lessons from earlier parts of the programme.

37 There have been some contractual issues with McLaren, the main contractor for the bus station. The claims are for compensation because of the delays to the project.

38 To mitigate the impact of such claims the Council have collateral warranties in place. This provides cover for the Council if the delays to the project were because of the initial design or problems with subcontractors.

39 Having collateral warranties has ensured the Council will only be liable for compensation where they are directly liable for the delays faced by McLaren.

Asset management

40 The Council owned most of the land required for the programme; however more land was needed for the programme and the Council have used different methods to gain this land.

41 For the bus station site acquisition of the land was through a land swap agreement with Development Securities, who received a long lease of the current Brunel Bus Station site.

42 Extra land is required for the learning and cultural centre, and the Council has sought to buy this land through negotiating with current landowners.

43 This has proved challenging and Cabinet on 14 January 2011 approved the use compulsory purchase orders (CPOs) to acquire the land needed.

44 The use of CPOs can be time-consuming if this results in a public enquiry, which would delay the timetable for the project substantially. The Council is aware of these risks and its preference is to reach a negotiated settlement to buy the land from the current owners where possible.

45 The prospect of a CPO has helped in the negotiations and it is anticipated that the use of the power to gain some additional access rights will be minimal.

46 However, this is not exclusively the case and at the date of our report, the Council is proceeding with the enforcement of a CPO for the acquisition land required in relation the library and cultural centre. Any delay caused as a result of the CPO would add more costs to the programme.

Reporting and accountability

47 The Cabinet have overall responsibility for the programme and have been involved in the approval of the plans for the programme.

48 The senior management team of the Council is regularly involved, providing an additional scrutiny for the programme.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

August 2011