



Scrutiny Committee – 23 September 2013

Report of the Scrutiny Pemberton Working Party Review.

The Pemberton Leisure Centre

Opening Comments by the Chairman of the Scrutiny Pemberton Working Party District Councillor Brian Northall - Chairman

After a difficult and delicate review my working party reached the conclusions in this report based on six primary questions that required answers (see page 6). This report has been compiled from facts obtained during the review and written comments from officers, members and points revealed and made during the review.

I would like to thank the Scrutiny Members and Officers of the Scrutiny Pemberton Working Party (SPWP) for their hard work and frankness in this complicated review.

Aim of the Review and Report:

The aim of this report is to present the findings of the Scrutiny Pemberton Working Party (SPWP) review of the Pemberton Centre regeneration project, which sought to understand how and when the cost estimates for this project increased and ensure that future processes for similar projects are appropriate.

It also wanted to gain an understanding of how costs changed to be able to explain to other Councillors in order that both Councillors and Officers learn from this project.

This report sets out information relating to the six primary questions agreed as the scope for the review (Page 6 of this report).

Scrutiny Pemberton Working Party – General Comment:

That this council failed to implement a standard of asset management in determining the monetary value, maintenance requirements and contribution to the councils objectives of its assets by putting in place:

“a systematic and coordinated activities and practices through which an organisation optimally and sustainably manages its assets and asset systems, their associated performance, risks and expenditures over their life cycles for the purpose of achieving its organisational strategic plan.”

It is therefore the recommendation of the Scrutiny Pemberton Working Party to the Council:

To develop and implement a management of change or configuration management process that will ensure that any future changes to the Council's assets are properly evaluated and recorded, thus allowing the Council to be **Pro-Active** and plan and invest in future alterations to existing building and/or new buildings for the future.

Contents:

| | |
|--|---|
| Scrutiny Committee..... | 1 |
| Report of the Scrutiny Pemberton Working Party Review. | 1 |
| Opening Comments by the Chairman of the..... | 1 |
| Scrutiny Pemberton Working Party..... | 1 |
| District Councillor Brian Northall - Chairman..... | 1 |
| Aim of the Review and Report: | 1 |
| This report sets out information relating to the six primary questions agreed as the scope for the review (Page 6 of this report)..... | 1 |
| Scrutiny Pemberton Working Party - Comment: | 2 |
| It is therefore the recommendation of the Scrutiny Pemberton Working Party to the Council: | 2 |
| Review Committee: | 5 |
| Members: | 5 |
| ENC Officers: | 5 |
| Acronyms: | 5 |
| Report: | 6 |
| 1. Was the £1.2m a reasonable estimate in the first place? | 6 |
| 2. How and when did the budget change from £1.2m to £1.6m?..... | 6 |
| 3. What agreement was there to the change of specification or contract in relation to the Q2, particularly the heating and asbestos issues? * | 6 |
| 4. When was it known that the heating needed upgrading? | 6 |
| 5. What changes to the initial estimates were required to indicate the level of uncertainty in relation to the amount of detail gone into at the stage the estimate was made?..... | 6 |
| 6. How will the Development Pool operate?..... | 6 |
| Review Outcome: | 7 |
| Question 1..... | 7 |
| Was the £1.2m a reasonable estimate in the first place? | 7 |
| Question 2..... | 7 |
| How and when did the budget change from £1.2m to £1.6m because there was a need to understand how the £400k increase occurred? | 7 |
| The SPWP Recommendation to Q2: | 8 |
| What agreement was there to the change of specification/contract in relation to the above? | 8 |
| Question 3..... | 8 |
| What agreement was there to the change of specification or contract in relation to the above, particularly the heating and asbestos issues? | 8 |
| Working Party Recommendation to Question 3: | 9 |
| <i>The SPWP therefore concluded that for larger projects</i> | 9 |
| Question 4..... | 9 |
| When was it known that the heating needed upgrading? | 9 |

When was the asbestos issue brought into the situation?..... 9

What changes are needed to initial estimates to indicate level of uncertainty in relation to amount of detail gone into at the stage the estimate is made?**Error! Bookmark not defined.**

Question 5..... 10

What changes to the initial estimates were required to indicate the level of uncertainty in relation to the amount of detail gone into at the stage the estimate was made? 10

Question 6..... 11

How will the Development Pool operate? 11

Summary:..... 13

Recommendations:..... 13

The SPWP recommended that there should be councillor decisions at three key stages in the development of capital projects: 14

Review Working Party:

The Scrutiny Pemberton Working Party was established by the Scrutiny Committee at the request of Conservative Councillors on 3rd April 2013.

Members:

| | | |
|-----------------|---------|----------------|
| Cllr B Northall | (Chair) | (Conservative) |
| Cllr S Peacock | | (Conservative) |
| Cllr R Gell | | (Independent) |
| Cllr P Stearn | | (Conservative) |
| Cllr C Wright | | (Conservative) |
| Cllr D Read | | (Independent) |

ENC Officers:

| | |
|--------------------|---|
| Mrs Sharn Matthews | (ENC Executive Director) |
| Mr Glenn Hammons | (ENC Chief Finance Officer – Section 151) |

Acronyms:

| | |
|------|-----------------------------------|
| SPWP | Scrutiny Pemberton Working Group |
| LCWG | Leisure Contracts Working Group |
| M&E | Mechanical & Electrical equipment |
| FSC | Finance Sub Committee |

Report:

The SPWP established that after the Full Council decision to cease work on the Manor Park Leisure Centre project due to the emerging financial restraints, officers had looked for possible opportunities to save money on Leisure, whilst still retaining ENC's discretionary services, because it is not a legal duty of the council to do so.

The SPWP discussed their remit and format of the committee and it was agreed that it be a review, not an investigation because there would be no benefit in the outcome with an investigation. The following six questions were agreed by the working party that they would form the scope of their review.

- 1. Was the £1.2m a reasonable estimate in the first place?**
- 2. How and when did the budget change from £1.2m to £1.6m?**
(there was a need to understand how the £400k increase occurred)
- 3. What agreement was there to the change of specification or contract in relation to the Q2, particularly the heating and asbestos issues? ***
- 4. When was it known that the heating needed upgrading?**
- 5. What changes to the initial estimates were required to indicate the level of uncertainty in relation to the amount of detail gone into at the stage the estimate was made?**
- 6. How will the Development Pool operate?**

**Question 3 was later expanded to consider the issue of asbestos in more detail.*

Review Outcome:

Question 1.

Was the £1.2m a reasonable estimate in the first place?

The SPWP concluded that the estimate of £1.2m was **not robust enough** to demonstrate an 'invest to save' case to have formed the basis for final Capital Programme provision. This was because it did not include sufficient consideration of the likely costs in relation to the age and construction of the Pemberton Centre.

Question 2.

How and when did the budget change from £1.2m to £1.6m because there was a need to understand how the £400k increase occurred?

The SPWP noted that the 'invest to save' study had been commissioned to explore possible opportunities to save money on leisure whilst retaining existing leisure services. The budget for the 'invest to save' study of leisure was £5,000, **which was clearly not sufficient to provide a robust estimate.**

There were five changes in cost estimates, from the initial 'invest to save' estimate of £1.2m presented to Cllrs in July 2011 to the request for additional funding presented to Council in January 2013 which brought the capital programme allocation to £1.6m.

It was noted by the SPWG that the LCWG, created to oversee the work at the Nene Centre and Pemberton Centre, had considered it important that the improvement works should start as soon as possible to realise the financial advantages of the 'invest to save' project. After receiving advice on the procurement options available from the Welland Procurement Unit, the LCWG agreed that the contractor and project manager should therefore be appointed via national procurement framework agreements in order to reduce the procurement time thereby delivering the savings as soon as possible. Kier was subsequently appointed as the contractor for the Pemberton Centre work.

The SPWP considered that some costs might have been reduced had the procurement framework not been used.

The SPWP noted that the main reason for the final cost estimate being above the original budget was the level of expenditure required on mechanical and electrical equipment (M&E).

This would normally be expected to be around 30% of the total cost for a project of this type, but constituted around 50% of the cost on this project. The high percentage was due to the need to replace significant items of plant such as the boiler and pipework and to reconfigure the building to comply with current building control and health and safety requirements, which involved moving equipment from the roof space.

It was cheaper to replace than move this equipment. The need for this work as part of the project was not identified until the detailed surveys had been done.

The SPWP Recommendation to Q2:

The SPWP recommends that a post project evaluation discussion is held with the project manager to establish if there were any further lessons to be learnt.

The SPWP concludes that, where possible for such schemes, in future the council should commission work outside of a procurement framework for design and build contracts which could reduce the risk of inadequate estimates

What agreement was there to the change of specification/contract in relation to the above?

The SPWP established that there was no overall change of specification between the original estimate of £1.2m and the first increase of £1.46m. It was noted that the change from £1.46m to £1.36m was as a result of ENC asking for changes to bring the costs within the original budget envelope. From this point onwards the SPWP agreed that the changes were due to increases in the estimates from Kier. These changes (from estimates to confirmed costs) were scrutinised by the Project Manager and Quantity Surveyor and challenged by the LCWP.

Question 3.

What agreement was there to the change of specification or contract in relation to the above, particularly the heating and asbestos issues?

Alliance Leisure/FMG (FMG) had been appointed to undertake the initial 'invest to save' study by officers because they demonstrated to them, both leisure industry experience and significant financial and business planning experience. As part of their proposals FMG produced an indicative floor plan for the Pemberton Centre and estimated a capital investment of £1.2m for the building works, based on their knowledge of standard unit costs used in similar leisure improvements projects.

This is an industry standard approach to the level of costing analysis applied at an option appraisal stage of a project, but in ENC's case, proved that the £5000 was clearly not sufficient to produce a robust enough estimate for inclusion in the Approved Capital programme.

This approach did not take into account the specific implications of changes to the Pemberton Centre, for example FMG's estimate did not take into account the additional costs associated with:

- the need to move the heating/air conditioning

Neither did it include the additional professional costs to cover a:

- Project manager
- Quantity surveyor
- Clerk of works

Working Party Recommendation to Question 3:

The SPWP recommends that in future any similar project should either be more explicit about the basis of estimate (and what might not be included) and/or an additional stage of further investment in detailed costing should be undertaken before a capital programme provision is made.

- In addition, it was noted that LCWG were convinced that use of the Procurement Framework was the only viable way to deliver the project in a timely fashion to release the savings.
- It was also noted that some Councillors had the perception that a firm commitment to the work had been made on the basis that the initial 'invest to save' estimate would be the final cost. In addition members were not clear that further work would be required before a final cost could be determined

The SPWP therefore concluded that for larger projects, an investment in the production of detailed costs is made before any firm public commitment to proceed is made and communicated by the council. This would reduce the risk of further significant cost increases once the capital budget had been agreed but won't necessarily eliminate them.

Question 4.

When was it known that the heating needed upgrading?

It was established in the first detailed design work in August 2012 that it was necessary to replace one of the boilers and that the work would involve changes to areas where it was known asbestos was present. It was noted that, if no work had been undertaken at the centre, the boiler would not have been replaced for some years and hence no capital programme provision had been made at this point. The Working Party noted that the building maintenance element of the capital programme had been removed some years previously as part of an overhaul of the capital programme, if the council had a proactive asset management plan, we could have anticipated some of these possible additional costs and built them into the original estimate. However, it should be noted that the quantity surveyor has since advised that the two boilers which will be replaced (heating and water) will cost £10,520 and £5,000 respectively.

It was also not originally anticipated that M&E items would have to be installed in a new storage unit on the side of the building for health and safety reasons associated with maintenance. It should be noted that it was cheaper to replace the system in that location rather than in the roof space.

When was the asbestos issue brought into the situation?

At the time of the production of the initial 'invest to save' estimates the documentation related to issues in the Pemberton Centre, e.g. boiler replacement or the Asbestos Management Plan, were not examined. However, the SPWP noted that an asbestos survey in relation to the planned works was carried out early in the detailed design stage. It was established that the LCWG had noted that the building was safe and that, had the improvement works not taken place, no costs would have been incurred in relation to

asbestos removal. However, the proposed structural changes and changes to the heating system meant that areas of asbestos were exposed and had to be removed. Estimates for this work were included from the detailed design stage.

The SPWP considered issues relating to the management of assets by the council, including compliance with legal requirements such as Asbestos Management Plans. It concluded that, whilst legally compliant in matters such as Asbestos Management Plans and electrical testing etc, these are not documented in one easily accessible form and the council had thus failed to implement a standard of asset management that determined the core value of its assets and put in place systematic and coordinated activities and practices through which it could optimally and sustainably manage its assets and asset systems, their associated performance, risks and expenditures over their life cycles for the purpose of achieving the Corporate Plan.

It is therefore the recommendation of the SPWP that this council should:

- a) develop and implement a management of change or configuration management process that will ensure that any future changes to the Council's assets are properly evaluated and recorded, thus allowing the Council to plan and invest in future in alterations to existing building and or new buildings for the future.*
- b) establish a prioritised and pro-active asset management plan with appropriate decisions made by council and consequent provision to be incorporated into the capital programme.*
- c) Invest some or all of the proceeds from the sale of assets into the future maintenance or enhancement of other assets*

Question 5.

What changes to the initial estimates were required to indicate the level of uncertainty in relation to the amount of detail gone into at the stage the estimate was made?

- The SPWP noted that the key issue in arriving at capital programme estimates is the balance between having enough information to decide to proceed and the risk that the estimate may not be sufficiently robust.
- The more detailed the studies before making provision, the more accurate the final figure is likely to be but also the higher the lost cost if the project does not proceed.

The initial studies were clearly not good enough to form the basis of provision in the Approved Capital Programme.

In addition, the experience in respect of the Pemberton Centre project suggests that, even if those surveys and detailed designs had been carried out earlier, the approved budget for the project would have been £1.36m but the final cost would still have been £240k above that.

These perspectives can be summarised in the following table, compiled by Mr Hammons

| Option | Pros | Cons |
|---|--|---|
| 1 – agree initial price only; appoint experts to undertake surveys, produce designs and procure packages (e.g. mechanical and electrical) | Will have a firm price before committing budget | May not want to commit significant sum of money to a project to establish a cost (in the case of Pemberton surveys, design and procurement cost over £100k) |
| | Experts working with the Council from the start | When firm price established may not want to proceed and initial price wasted |
| | Avoid trying to match work to budget | |
| | Full facts available before committing to project. | |
| 2 – undertake an initial survey with the support of a QS to form an estimate | More likely to bring a project in on budget. | Not as accurate as option 1. |
| | Will have knowledge of previous similar project costs. | Had the support of QS on Pemberton project but still not close to budget cost and final position was a surprise to everyone. |
| | | Cost of the QS would need to be agreed up front |

Question 6.

How will the Development Pool operate?

The Development Pool (a reserve of monies) can be summarised as the resource by which the council can agree to the principle of a capital scheme without making final provision in the Approved Capital Programme. It is a process which allows for the cost of further investigation to be funded before a final commitment by splitting the capital programme into two distinct areas; the Approved Capital Programme and a Development Pool.

The **Approved Capital Programme** will include schemes and projects where the costs are more certain and have been through a robust process. These will typically be projects where there is a firm cost, there is a confirmed funding source and a clear business case to undertake the capital investment.

The **Development Pool** will include all projects and schemes where costs remain uncertain and could be subject to change. These projects are typically in the early stages of their life cycle (e.g. at an initial scoping and feasibility stage), they will include an initial “desktop” assessment of costs, and funding for the scheme may not have been secured. It should be noted that, to improve the cost certainty of schemes in the Development Pool to get them into a position to move into the Approved Capital Programme, the Council will need to incur some costs to undertake this work. Such costs could amount to up to 20% of the overall scheme value. As part of this process an increasing element of cost certainty will be obtained.

The SPWP also looked at the model of expenditure over a capital project's life cycle and how communication/understanding of the likely accuracy of estimates could be improved. It was felt that the introduction of the Development Pool would assist with the development of more accurate capital programme estimates.

Note:

As part of the budget setting process Council will approve the capital funding and also which schemes are in the Approved Capital Programme and Development Pool. For a capital scheme to progress from the Development Pool into the Approved Capital Programme a decision will be required as part of the quarterly Capital Monitoring report to Finance Sub-Committee (FSC). The FSC will need to satisfy itself that the capital scheme is in a fit state, including the level of cost certainty, to be transferred into the Approved Capital Programme.

Summary:

The SPWP concluded that there were changes that could be made to the processes leading up to agreement of the capital programme allocations for major projects and the procurement and management of major building works. It proposed that these changes should be presented to Council for consideration as they will require changes to the Constitution. It should be noted that some of the recommendations (Page 14) have already been adopted by the Finance Sub-Committee.

Recommendations:

That Scrutiny Pemberton Working Party members endorse the submission of the following recommendations to Council for inclusion in the Council's Constitution as required procedures:

(Reason: to ensure that future financial risks from capital projects are reduced)

- a) in future any similar project should either be more explicit about the basis of estimate (and what might not be included) and/or an additional stage of further investment in detailed costing should be undertaken before a capital programme provision is made.
- b) for larger projects, an investment in the production of detailed costs is made before any firm public commitment to proceed is made and communicated by the council. This would reduce the risk of further significant cost increases once the capital budget had been agreed but won't necessarily eliminate them.
- c) where possible for such schemes, in future the council should commission work outside of a procurement framework for design and build contracts which could reduce the risk of inadequate estimates.
- d) the SPWP holds a post project evaluation discussion with the external Project Manager to establish if there were any further lessons to be learnt and presents the outcomes back to Scrutiny Committee.
- e) the council should develop and implement a management of change or configuration management process that will ensure that any future changes to the Council's assets are properly evaluated and recorded, thus allowing the Council to plan and invest in future in alterations to existing building and or new buildings for the future.
- f) the council should establish a prioritised and pro-active asset management plan with appropriate decisions made by council and consequent provision to be incorporated into the capital programme.
- g) the council should invest some or all of the proceeds from the sale of assets into the future maintenance or enhancement of other assets

The SPWP recommended that there should be councillor decisions at three key stages in the development of capital projects:

- a) *In setting the annual budget, a small feasibility study pot should be agreed for desk-top studies.*
- b) *At possible entry into the development pool this is the point where a limit for additional work to be done to expand certainty on costing would also be agreed. Also a Member working party should be created for larger projects.*
- c) *When a capital project is potentially being moved from development pool to capital programme that is the point at which the council is committed to the decision to proceed.*

This approach has subsequently been recommended to Finance Sub-Committee and approved.