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A REVIEW FOR THE LONDON BOROUGH OF HARROW

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REPORT FOR LONDON BOROUGH OF HARROW

Executive summary

Background and Context

1. As part of the routine annual audit in 2010, capital miscodings were identified. In resolving these, Finance identified budget issues in respect of two flagship school projects; the Whitmore project and thereafter the Post 16 project. These issues have led to a significant overspend being projected in the 2010/11 Children's Services ('CS') Capital Programme. On the instructions of the Leader and Chief Executive, a management investigation was undertaken.
2. The findings and conclusions that follow are drawn from reviewing the circumstances surrounding the two CS capital projects which took place over recent years and considering as part of this, the overall management of the Capital Programme. The Capital Programme is a smaller part of the Council's budget and is in the control of a small percentage of staff within a few sections of the Council. External audit arrangements had for 2007/08 and 2008/09 concluded that in all significant respects, the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
3. The Council has made it clear that it is committed to ensure corrective measures are put in place and that recommendations are taken on board and implemented.

Summary findings and conclusions

1. A few individuals within CS were responsible for managing two significant corporate projects. However they exercised inadequate project management, risk management and budget management in commissioning the projects, resulting in significant unexpected cost to the Authority. As the projects progressed, these individuals increased the budget using other school capital funding to match the costs, and as the scope for both projects was reviewed, there was little attempt to reduce these to within the original funding envelopes. The individuals did not advise Cabinet or Corporate Strategic Board ('CSB') that

there were issues with the scope, budget or risks of the projects. Some related information provided to Cabinet was misleading.

2. Project budgets were increased by using other funding without any member or CSB involvement, due diligence or process. Neither members nor CSB were involved in the changing scope of the projects.
3. Expenditure was systematically miscoded by individuals in CS on the basis of where available funds existed partly to expedite the delivery of these projects. Finance have advised that systematic miscodings in other areas of the Council were not identified when additional checks were carried out.
4. Some individuals within Community and Environment ('C&E') lacked corporate responsibility in not escalating concerns about the management of the CS capital programme.
5. There was limited reporting on these projects by C&E to CS however, it was not systematic or regular.
6. There appears to have been a general belief by those involved within CS and C&E that these were flagship projects that were to provide iconic buildings and that these had to be delivered within a certain timescale. There was, however, no attempt to confirm this belief with either members or CSB.
7. The projects reviewed, commenced before all safeguards were in place and whilst a level of pragmatism and practicality is necessary, the time taken for these to be in place was too long, and there is inadequate evidence that the risks in doing so were properly considered or managed.
8. Some staff in Finance were aware of the use of other funds and had not challenged the activity nor recognised the need to undertake virements as set out in the Financial Regulations or at least ensured that the project costs were in one place within the corporate accounting system. The lack of virements meant that the situation was not highlighted sooner.

9. Capital has not received as much attention as revenue which is a far more significant budget and has been fundamental to obtaining financial stability. Specific roles and responsibilities for the capital programme were not documented across the Council although these did exist for CS and C&E for the projects themselves.
10. The capital monitoring systems are based on one year and not linked to deliverables. There is a lack of overall project and cross year reporting and monitoring in the current arrangements which do not assist in clarity and transparency.
11. The corporate capital monitoring information being used will never show an overspend because the capital system does not allow an overspend to happen. Whilst this is a positive control, it does not mean an overspend does not exist.
12. The value of the information provided to Cabinet is very limited. Members' involvement in how capital was being expended was limited as was their ability to challenge both this and the monitoring information, given the information provided and the lack of commentary.
13. PwC as well as reviewing the project management aspects assisted Finance staff in a review of transactions to assess the degree of miscoding within the CS capital programme in 2008/09 and 2009/10. There was no evidence of fraud suggested as a result of this review of transactions.
14. The Council should satisfy itself as to the value for money in these projects.
15. Some work has been commissioned without purchase orders and effective corrective action of this has not been taking place.
16. The culture exhibited by those interviewed in these areas was one of passiveness and not of proactivity.
17. Performance and structured line management and proper appraisal were lacking in the CS and C&E sections.

1 INTRODUCTION

- 1.1 The London Borough of Harrow requested assistance with regard to an overspend identified in respect of its Childrens Services (CS) capital programme.

2. BACKGROUND AND CONTEXT

- 2.1 As part of the routine annual audit in 2010, capital miscodings were identified. In resolving these, Finance staff identified budget issues in respect of the Whitmore project and thereafter the Post 16 project which led to a significant overspend being projected in the 2010/11 CS Capital Programme. On the instructions of the Leader and Chief Executive, a management investigation was undertaken, and this report, along with that from PwC sets out the outcome of that investigation.
- 2.2 As soon as the problem was identified, the Corporate Director of Finance introduced additional controls to mitigate any further overspend and minimise the overall overspend.
- 2.3 The Council has made it clear that it is committed to ensure corrective measures are put in place and that recommendations are taken on board and implemented.
- 2.4 In the annual audit letter for 2008/09 presented by the external auditors:
- An unqualified opinion on the 2008/09 accounts was issued with no key issues arising that are relevant to this review. There were no material weaknesses identified in the financial control environment of the Council.
 - An unqualified conclusion on the Councils arrangements for securing value for money during 2008/09 was issued which meant that the external auditors were satisfied that the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources during the year.
 - The Council was assessed as performing adequately in its use of resources achieving a score of 3 from a possible 4 on "managing finances" which was a theme within the use of resources assessment.

For 2009/10, an unqualified opinion on the accounts was issued however the value for money conclusion was qualified in respect of "managing risks and maintaining a sound system of internal control" as a result of the weaknesses in the projects that form part of this review.

2.5 The Council has a traditional governance structure and control environment which includes:

- Constitution;
- Role profiles;
- Financial regulations and a scheme of delegation;
- Project management guidelines;
- Internal audit;
- Cabinet and Council approval for the revenue budget, HRA and capital programme each year.

2.6 Internal Audit reviews the adequacy of internal controls and has reported that the adequacy and effectiveness of the organisation's control environment for the:

- 2009/10 financial year was assessed as "good";
- 2008/09 financial year was assessed as "adequate-good";
- 2007/08 financial year was assessed as "adequate-good".

2.7 The Council's capital programme for 2010-11 was approved by Council in February this year. The capital programme is a relatively small part of the Council's budget – in 2010-11 the revenue budget is £540m and the original capital programme covered:

- Technology and business transformation;
- Highways, lighting and other infrastructure schemes;
- Children's services (mainly schools);
- Adult services;
- Housing – a small general fund programme and the decent homes programme;
- Place Shaping.

- 2.8 There is a small percentage of staff and very few sections directly involved in the management of capital projects.

3. SCOPE OF THE REVIEW

- 3.1 The scope of this work has involved:

- Advising on the approach to resolve the statement of account issues.
- Ascertaining the circumstances surrounding the financial management in both projects and overall on the CS capital programme.
- Independently assessing if the existing system should have identified the issues.
- Independently assessing how the existing arrangements should be improved.

- 3.2 This report has been prepared for and only for the Council and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or who receives it. We ourselves will keep this report confidential. In using this report, it will be for the Council to decide how and to whom this is distributed giving due consideration to the implications of doing this in view of the contents and exhibits as set out.

- 3.3 The remainder of this report is set out in the following sections:

- Approach
- Findings
 - The sequence of events – Whitmore
 - The issues identified in respect of the Whitmore project
 - The sequence of events – Post 16
 - The issues identified in respect of the Post 16 project
 - Other relevant information and issues
- The Capital Programme Overall
- Conclusions
- Recommendations.

3.4 This review has concentrated on the management of two Childrens Services capital projects.

4. APPROACH

4.1 Discussions were held with the Chief Executive, Leader and Deputy Leader.

4.2 Various discussions have taken place with the Lead Investigating Officer, [REDACTED],
Director of Legal and Governance.

4.3 Meetings took place with [REDACTED], Corporate Director - Finance and [REDACTED]
[REDACTED] Corporate Director – Childrens Services.

4.4 Reviews have taken place of:

- Initial interview notes and supporting papers;
- Numerous project files held for Whitmore and Post 16 both within CS and Community & Environment (C&E);
- Capital Forum papers and minutes;
- Various project group and meeting notes and minutes;
- Cabinet papers.

4.5 Further interviews were held with two individuals from CS, four individuals from C&E and three individuals from Finance. Two members of staff in Finance were unable to be interviewed, having left the Council.

4.6 Additional information was sought and reviewed and some interviewees provided further information after interview.

4.7 Various conversations have taken place with Finance staff in ascertaining the overall financial position and arrangements.

- 4.8 Whilst this review concentrated on financial management and PwC reviewed project management along with assisting Finance staff in the review of transactions, relevant information from this other work has been used in this report.
- 4.9 The procurement arrangements have not been reviewed.
- 4.10 The sequence of events that follows for each project reviewed has been compiled using the information obtained and provided. In identifying the issues specifically, many existed for both projects and hence by necessity are repeated for each project.
- 4.11 The conclusions have been drawn from considering the circumstances and issues identified and the recommendations made to prevent a re-occurrence.

5. FINDINGS

5.1 THE SEQUENCE OF EVENTS – WHITMORE

- 5.1.1 In July 2006, Harrow accepted an invitation to take up Building Schools for the Future (BSF) funding (Exhibit A). This was reported to and confirmed by the Cabinet in December 2006. The funding at this point was confirmed by DfES as £31,494k in line with BSF costings.
- 5.1.2 The Cabinet budget report of February 2007 included the project at a cost of £31,494k phased across the three years of the published capital programme. As a result of a DfES uplift, this later became £32,244k.
- 5.1.3 Within project meeting notes later in the year, there are references to and concerns about the costs exceeding the budget available partly due to the floor area being greater than the guidelines. Concerns about the cost in comparison to budget were also raised by Kier. Whilst there was reference to reducing the scope, at this point, the budget had started to be

increased by individuals in CS, despite members having been informed that the funding envelope for the project would be determined by the DfES cost calculator and the rebuild would be provided by the Government's BSF programme.

5.1.4 In an email to various parties about the costs being in excess of the budget, an individual in CS (Exhibit B) refers to the DfES being approached to increase pupil numbers from 1500 to 1800 which would provide a further £6m. This was not successful.

5.1.5 In November 2007, Cabinet agreed an "in principle" Council contribution of £3m although £1,250k was the sum eventually agreed by members. The School, at this time, was expressing serious concerns about whether sufficient allowance had been made for all aspects of the temporary accommodation (Exhibit C).

5.1.6 In February 2008, when the Gateway 1 form was signed, CS (Exhibit D) confirmed the budget as follows:

	£000s
Grant	32,244
Adult services contribution to support community facilities	700
Council contribution for community facilities services	1,250
School contributions	250
Learning and Skills Council post 16	800
Education Modernisation	2,256
Total	37,500

Whilst this amounted to £37.5m, in a meeting in March 2008 CS confirmed the total budget as £38.15m (Exhibit E). This was not reported to Cabinet or CSB, nor is it clear how approval was sought given that the total was exceeding the BSF formula funding and £2.256m of the Education Modernisation Grant was now allocated to this project. At this time, the floor area was increasing for the mezzanine floor and as a result of design development.

5.1.7 In May 2008, works started on the temporary school. Various documents e.g. Gateway 1 show the temporary school having a budget allocation of £2m from the £38.15m. The decision to start on site appears to have been agreed at meetings involving some individuals from CS and C&E and there is a note setting out how this risk was being mitigated including having a firm quote. However it is clear that by September the costs had escalated significantly and by November, valuations were in excess of £5m. There was a special meeting involving Kier, CS and C&E representatives (Exhibit F) as well as letters exchanged between Kier and CS officers. The paperwork suggests that the Council was not aware of the cost escalation however Kier maintained that the Council was advised in June 2008. C&E officers, at interview, also stated that a temporary school could never have been built for the original allocation. Cabinet and CSB were not advised of this significant cost over-run, nor were steps taken in the light of it to introduce effective budget, risk or project management.

5.1.8 Whilst minutes show that the Project Partnership Agreement (legal agreement - Exhibit G) was agreed, it was in fact not signed until 1st July 2008 which was after work had started. Furthermore pre possession agreements (PPA) which authorise expenditure limits with Kier, were not signed until October 2008 (Exhibit H) and 3 March 2009 (Exhibit I), which was after costs had been incurred as demonstrated by the valuations of work undertaken. This is shown in the following table.

	PPA Oct 08 £000s	PPA March 09 £000s
Main build	2,228	14,394
Temporary costs	3,983	4,173
Consultant fees	2,047	2,407
Total	8,258	20,974
Valuations	£5.6m (Oct)	£9m (Feb)

A payments schedule from C&E and SAP information shows payments being made to Kier prior to October 2008.

5.1.9 By October 2008, the total projected costs were still over budget and meetings were continuing. It appears at one of these meetings the decision was made about which items to factor into the Agreed Maximum Price (AMP) document and which would be part of the provisions outside of the AMP or be discounted. The AMP sets out what Harrow is instructing Kier to deliver, and should be signed before work commences. By allowing work to commence before the AMP was signed, an important mechanism for controlling costs was lost – interviewees repeatedly stated, when asked about escalating costs, ‘what could we do, Kier were already on site’.

5.1.10 The AMP was continuing to be discussed through to March 2009 when it was eventually agreed some 10 months after work had commenced on site. In fact by this point, the valuations of work completed as submitted by Kier had reached nearly £9m.

5.1.11 When the AMP was agreed in March along with the Gateway 2, the papers state the budget had become £40,019k comprising:

- Budget £40,000k;
- Additional funding of £844k provided for Hub Kitchen, fitness suite, IT network cabling and furniture and equipment consultant;
- Budget of £825k transferred back to Education for fixed equipment.

It has not been possible to identify the intended funding streams of this budget at that time.

The Gateway 2 set out the financial position as follows:

	Gateway	AMP	Provisional sums
Works	36,957,826	35,712,826	1,245,000
Kier fees	2,764,326	2,764,326	
Harrow fees	512,000		
	40,234,152	38,477,152	
Harrow fees	-512,000		
	39,722,152		

Notes to the table:

i. The provisional sums of £1,245k comprised:

	£000s
• Room data	55
• Additional Attenuation	325
• EDF	180
• IT cabling	280
• Hub kitchen	265
• Fitness mezzanine	120
• Electric supply	20

ii. The following items were excluded: IT Novatia; Lab equipment; Hub Kitchen equipment, D and T equip; other specialist equip; Fixed FF & E, Loose FF & E.

iii. Costs of over £5m for the temporary school are included.

5.1.12 Prior to arriving at an agreement, the papers reviewed suggest that the projected costs had been higher but had been brought down to the £215k over "budget" by such things as reductions in the Kier fee and the provisional sums. This level of projected overspend is minuted in various project meetings although other papers suggested a lower sum.

Cabinet and CSB were not advised of the change in project costs that had arisen since the December 2006 report or subsequent budget reports, nor is it clear how decisions were made to allocate the above sums to Whitmore from the various funding pots.

- 5.1.13 There was clearly engagement with individuals in CS on the content of the AMP and approval to proceed with the AMP is set out in an email from an officer in CS. This email (Exhibit K), provided confirmation to proceed on the basis set out alongside wanting an assurance that savings would continue to be sought for Harrow costs and the room data specification.
- 5.1.14 An energy grant of £700k was applied for and it was reported that the authority was successful in this grant bid in May 2009.
- 5.1.15 Over the course of the project, the Capital Forum recorded concerns about the budget and the need to check that budgets are adequate on two occasions. These were not picked up or escalated.
- 5.1.16 The Capital Forum also notes more general issues with codes in the CS capital programme. Finance reviewed the virements and confirmed at the Capital Forum that the virements were correct and the audit trail clear. At the start of 2010/11, there was once again reference in the Capital Forum minutes to running through virements and checking that funding was in the correct place within the CS capital programme. Finance confirmed the funding was in the correct place although it was being used up quickly. They also advised to reduce the AMP however the project was obviously near completion by this point. The budget concerns continued at which point the investigation took over. An opportunity to identify miscodings and hence the hidden budget issues was lost.
- 5.1.17 The final projected spend on Whitmore is £45m. This is reflected within the Capital Monitor being reported to Cabinet.
- 5.1.18 During the course of the project:
- There were various rephasings within the Capital Monitor.
 - Various cost plans were prepared. These all showed the school would be well in excess of the original budget with the earliest in December 2007 stating £37.4m excluding furniture and fittings and the kitchen fit out and one in September 2008 (Exhibit J) stating £34.7m excluding the temporary school, furniture and fittings and the kitchen fit out.

- There appears to have been a consistent belief that value engineering would assist in keeping costs down.
- At least one early warning was issued to Kier under the partnership agreement although the client representative advised several had been issued.
- The design was being evolved during the project.
- It is clear that funds were being taken from other projects or unallocated funds used to increase the budget.

5.2 THE ISSUES IDENTIFIED IN RESPECT OF THE WHITMORE PROJECT

5.2.1 Scheme identified, scoped and costed

- i. The scope and design of the scheme was being developed as the scheme progressed through to the AMP and building phase rather than being clear prior to commencement of the build. Whilst not unusual, there was no clear governance for the decisions taken.
- ii. Within CS, the cost was effectively becoming the budget. It was clear from the interviews that there was a lack of understanding by the individuals within CS of the difference between the budget, funding and the cost of the project. This meant the budget was being increased from other funds to match costs rather than the scope of the project being designed within an approved envelope. This is evidenced by the budget moving from £31.5m to £37.5m and then onto £40m. It is also clear that CS were not clear about and took no steps to ascertain or work out, what the overall project budget including for example ICT and furniture/fittings was as compared to the construction budget element.
- iii. There was confusion over the design, content and costs of the temporary school with the scope increasing. A quote was received from Kier in June 2008 of £2.8m (attachment to Exhibit N). Meetings in July and August were held at which the temporary school was discussed along with various issues but there were no cost concerns minuted. By early November, the costs have clearly exceeded £5m (exhibit L) against a provision of £2m, yet there was no consideration of reviewing the feasibility of the whole project just an

assumption and acceptance that this would mean less was available for the remainder of the project. The final costs were accepted at just over £5m and both CS officers say they were given no choice in the matter. As the Department responsible for delivering the project, more leadership would be expected.

- iv. When the costs of the whole project were increasing, there seemed a belief that costs could be reduced by value engineering or being put below the line. The fact that the latter would still be costs on the eventual project seemed to just be put to one side.

- v. The final project costs are expected to amount to £45m. There is no overall project budget with which to compare given the budget just kept being increased to meet the cost. The best that could be assumed is that the budget was set at £40,844k of which £825k was for the elements being carried out by CS, however in reality there is no evidence of an overall project budget being set out by CS. This lack of budget awareness and management meant that overspending was almost inevitable. There is no evidence that Cabinet or CSB was made aware of this increase in cost or gave approval to this level of expenditure for this project.

- vii. The bid to increase the size of the school to 1800 pupils clearly caused a diversion and abortive costs. There is no evidence that Cabinet or CSB were aware or sanctioned this bid.

5.2.2 DfES grant and cost assumptions – review, risk, acceptance

- i. The Cabinet report to members was brief and did not advise members of any grant conditions nor of the risks to the Council of exceeding the grant envelope or how this would be managed. In fact members were advised that the cost calculator would be used to determine the funding envelope for the project.

- ii. There is little evidence of an assessment of the financial risks in agreeing to undertake the scheme.
- iii. From an early stage, the costs were in excess of DfES funding and this is a common theme in the various papers reviewed. It was as early as October 2007 that the DfES funding started to be enhanced from other sources and this obviously continued. This was contrary to the approach as advised to members which puts into question CS officers' authority for this strategy.
- iv. The floor area was in excess of the benchmark. The increase in floor area of the school along with the addition of the mezzanine floor are recorded, however there is little evidence of any strategic consideration of the financial implications of this change. The cost plan which supports the AMP does provide value for money benchmarks however given the floor area changes, it is recommended that this be revisited and confirmed as accurate.

5.2.3 Scheme being approved as part of the overall capital programme

- i. The scheme became part of the approved capital programme via the first report and subsequent budget setting, however the additional funds being used to support the scheme were not identified to the scheme at any point. Members and CSB were, therefore, not made aware through the capital programme of the increased costs of the project nor did they approve the source of the funding, the opportunity cost or the projects necessarily postponed due to the use of their funding.

There is a lack of governance for the grant funds available, it being stated that 'it was the schools' money', and hence nothing to do with Harrow, but then decisions were made by CS about those funds in some cases without any reference to schools.

- ii. The only other information the Cabinet was receiving, was via the Capital Monitor. For a scheme of this size and importance, it is surprising that a full report on the project was not

made back to the Cabinet or CSB at some point particularly when the budget began to be expanded and costs were over-running.

- iii. The rephasings within the Capital Monitor were significant and should have raised concern as to the accuracy of the project profiling given the Kier arrangements would provide a monthly cash flow forecast.

5.2.4 Governance and accountability including roles and responsibilities

- i. The roles of client agent or representative (in this case C&E) and service client (in this case CS) are common in local authorities. However, the roles do appear to have been more complicated by virtue of the fall out from the restructure in 2007, how the Capital Programme was previously managed and the involvement of other teams within C&E. Whilst there are no corporate documented roles and responsibilities for the capital programme, a document setting out the roles for the CS capital schemes did exist. This was found on several files and makes the roles clear between the two departments and other external parties (Exhibit M).
- ii. Various groups were set up for the project including a core team, steering group and technical group. This does appear unduly complicated with a danger of those involved not being aware of all that is going on. It is also unclear how the hierarchy of these groups operated. There does not seem to have been one team with overall visibility of the whole project, which is surprising given its size, and importance in the future of Harrow's then plans for Building Schools for the Future.
- iii. Decisions to start on site were taken and these appear to have resulted from discussions at meetings, having regard to the critical path of the project. C&E officers all stated that with no formal documentation, this would have been at Kiers risk, however, it is unlikely this could have stood up to challenge given the notes of meetings with Kier which show that the Council was clearly involved in these decisions and had agreed to commence. Substantial

sums were paid to Kier in advance of documentation being completed; suggesting that little risk was in fact transferred.

- iv. Apart from one formal C&E file note (Exhibit N) about the decision to start the temporary school, there is a complete lack of formal decision making at a senior level to support and authorise starting on site which given the risks being taken, demonstrates poor governance. The aforementioned file note dated 1 July whilst providing a level of recordkeeping:
- Appears incomplete;
 - Does not have any senior sign off;
 - Has a lack of financial assessment within it;
 - Has to be questioned in terms of reliability of content given there is a statement that a firm quote exists for the school when it is known that subsequent to this the costs escalated;
 - Is dated a month after works commenced.
- v. In response to the risk of starting on site before AMPs had been agreed, individuals have stated that the Gateway 1 process enabled and authorised this. In challenging this, the focus of authority became the pre possession agreements however the first of these was signed well after expenditure had been incurred and in fact paid.
- vi. The Gateway 1 and 2 forms (exhibit O) are signed by a variety of people through the management chain within C&E however it appears to be treated as the completion of a process rather than a control and check. One senior officer simply checked that junior officers had signed, signing it off without reading it. The client service i.e. CS did not sign the forms but clearly agreed to proceed with the AMPs. The core documents that actually commit the Council such as the pre possession agreement have actually already been signed by relatively junior officers or interims e.g.
- First Prepossession agreement by an interim consultant,
 - Second Prepossession agreement by project client representative and an interim consultant.

- vii. When having regard to the Councils approach to delegations as set out in the financial regulations, the “delegations by role” within C&E committing the Council to substantial financial sums with Kier do not seem appropriate as these clearly do not reconcile with the expectations on authority levels within the financial regulations. The authority to sign the AMPs also needs to be reconsidered.
- viii. In a similar vein, officers within CS have financial limits within the Financial Regulations; however they were issuing briefs, instructions and eventually budget codes for sums in excess of these levels. This should be reconsidered.

5.2.5 Overall project management of the scheme

- i. CS was the only department to have full overview of the complete project as it would have consisted of different elements:
 - Construction through C&E;
 - Furniture and fittings;
 - ICT;
 - Other costs such as capitalised salaries;
 - Client contingency.
- ii. There was no overall formal management of the project within CS from a financial, risk, line management or project management perspective. Progress on the project was discussed through dialogue at meetings.
- iii. No formal internal monitoring reports were presented at the various project meetings, setting out progress, risk, budget, timelines etc, although Kier did produce reports on their activities.

5.2.6 Project management of the construction element

- i. Whilst it has to be appreciated that the scheme was over several years and hence would necessitate the need for numerous project files, in reviewing these, the standard and consistency of record keeping was not satisfactory especially for business continuity purposes. Inconsistencies were found in key documents including the prepossession agreements which state that the date of completion for the supply and installation of the temporary school was 31st December (first) and then 31st March (second) when the temporary school had started to be occupied in the preceding October.
- ii. Various cash flows and spreadsheets existed. There was clear evidence that the CS officers were being provided with information particularly later in the project, sometimes proactively and sometimes on request however there was a lack of evidence of regular monthly project reporting both within C&E and to CS. There was evidence of project information sheets but these had clearly not been updated e.g. project information sheet within C&E in October still suggested the temporary school was to cost £2.7m. There was also evidence that the lack of regular progress reports to CS was an issue.
- iii. At interview, there was discussion with officers from C&E as to how a strategic oversight was maintained of all projects along with ensuring key aspects of each project were compliant with expectations. No evidence of standard documented procedures or systematic project reviews was forthcoming. Team meetings were relied on to consider progress on all projects for which exceptions would be reported to the Contract Management Group on a monthly basis. There was also reliance placed on copying individuals into emails to advise them of issues. This does appear to coincide with the findings found in a report by Bob Philips (Exhibit P).
- iv. There was a lack of formal reports being presented at meetings and no regular client meetings solely between C&E and CS.

- v. Risk workshops were being postponed and there was no evidence of regular and systematic risk reviews through the project governance hierarchy.

5.2.7 Variations and changes

- i. The Temporary school was clearly well over the original budget and it appears there was a lack of control over the costs of this by C&E officers given that the final costs were accepted as £5.15m within the AMP breakdown.
- ii. Change control arrangements did exist. However, changes were not being made in a systematic manner and different parties were agreeing changes. The arrangements were strengthened with schedules although these do not appear to have been as robust as they could be from either a process perspective or a project perspective. Clearly, there will be times when matters are done retrospectively but this should be more the exception than the norm to avoid problems in agreeing the final account.

5.2.8 Budget agrees to the corporate accounting system, is being managed and monitored

- i. CS was clearly the budget holder, not only providing codes, information for the Capital Monitoring report and to the Capital Forum, but also agreeing the scheme. There are clear statements made that the Harrow Transforming Learning Team (HTLT) instruct and set the budgets.
- ii. The CS officers have advised that the schemes/projects within each funding stream of the CS capital programme are developed using available information such as the Asset Management Plan. Discussions and consultations also take place with the schools and in some cases allocations are agreed with the Head Teachers. Schedules will then be developed of the proposed schemes within the Programme. The proposed schemes will then be initiated as and when they can. There is no referral to the Schools Forum or approval sought from Cabinet or the Portfolio Holder under executive decision making. This is seen as Harrow Schools money.

- iii. The CS capital programme within SAP is based on funding streams rather than projects, hence the scheme budget for Whitmore within the corporate accounting system relates to the DfES funding only, although it was added to from Council resources in later years.
- iv. The project was being managed by assessing what the projected costs for the year were against the main funding and then making up the remainder using other budget allocations that had been created from other funding streams. This is illustrated in exhibit Q. The logic for this was that the other funding streams could be used for Whitmore and hence virements were not required as there was not a change in policy. The service finance staff did not disagree with nor prevent this approach, in fact assisting in its use. However, this meant:
- SAP would never show the costs of the Whitmore project in one place.
 - Costs were being earmarked and placed against other funding streams and were not necessarily identified as the Whitmore School project.
 - The project costs were contrary to what had been advised to members in agreeing the scheme.
- Those Finance staff should have checked that the appropriate approvals were in place, before allowing the grants to be used.
- v. The use of these other funding streams was justified within CS officers by virtue of it being relevant to the schemes e.g. a hub kitchen was being installed and hence Catering in Schools funding could be used. The decision on which funding to use was discussed verbally either at HTLT meetings or through informal discussions. There was no paperwork produced within CS to assess what was being proposed nor were any approvals sought to divert this funding. There has been a complete lack of due process and consideration in making these decisions. The fact that these other funding streams could have provided much needed investment in others areas and hence there was an opportunity cost of this action does not appear to have registered with the two CS officers interviewed.
- vi. The method of budget management meant that several SAP codes would need to be reviewed to understand the overall position and despite this, there was no overall financial

monitor being used within CS to manage the budget. Budget management and decisions were made by referring to a variety of information such as the SAP information and Capital Forum spreadsheet sent by Finance as well as furniture and fittings expenditure spreadsheets and the overall budget allocation spreadsheets held within CS.

- vii. Such budget management as did take place has taken place at the overall bottom line with incomplete information and a lack of capability. In discussing this with officers, it appears that this approach meant budgets identified had in some cases already been allocated for other projects and hence were not actually available. This consequentially meant changes to the funding of the shortfall depending on what was perceived by CS as being available at the time. If the Finance staff involved had ensured virements had taken place or that the project was monitored in one place on SAP, the situation of rising costs and other funding being used would have come to light sooner although the commitment would already have been made through the AMP.
- viii. CS allocated funding earmarked for a primary school to the Whitmore project on the basis that the Marlborough Primary School project could not commence. The use of this funding was against grant conditions. CS officers have suggested this was a mistake and that a virement should have taken place. However, an officer in Finance has since established that this was in fact replacing funds previously used for primary schools. The fact that neither CS individuals recalled this when asked nor Finance individuals had recorded this on the minutes (Exhibit Q) is illustrative of the lack of robust financial management of the CS capital programme.
- ix. Officers in Finance had identified that the budget was insufficient by some £4m and had emailed CS requesting information on how this was going to be addressed (Exhibit R). However this was not escalated or alerted to the Director of Finance or her deputy.
- x. The fees for C&E have exceeded the sum within the Gateway 2 papers without it seems any agreement of CS officers or justification as to the increase.

- xi. This is extremely poor budget management and monitoring and it is not surprising that the current situation has arisen. The lack of clarity around the budget is evidenced by emails in March 2009 between Kier, CS and C&E when confirmation was being sought on how elements such as furniture and fittings were being funded.

5.2.9 Ordering and Payments

- i. Various codes (Exhibit S) were being used from the aforementioned different funding streams.
- ii. An officer from CS did raise at one meeting that Whitmore had unexpected things coded to it. However, as that officer was giving various codes out, often not appropriately for the whole of the CS Capital programme, the active resolution of this was in the hands of CS.
- iii. In a scheme that goes across years, logic would suggest that SAP should have within it an order for the value of work expected in that year as per the AMP and then as valuations are agreed, these are receipted against that order. The variety of different codes being used meant that several orders could exist in a year. It has been seen that at the start of the scheme, orders were in fact being raised to process payments that were required or being raised to match the budget funds available rather than the expected spend. The payments schedule (exhibit S) illustrates this.

5.2.10 Other Matters

- i. The business case for the Council contribution had to be resubmitted in order to enable a carry forward of the allocated budget. The business case (Exhibit T) makes no reference to the overall costs or additional funding being used and anyone reading it would still assume that the school was being delivered within the original envelope. CS officers advised that they did not consider the need to do this but it was an opportunity to update other officers and members.
- ii. The following which has been deduced from a review of the Core meeting notes, confirms many of the issues being raised above:

- CS officers increased the budget and were clearly playing a lead role on deciding matters.
- The school was making requests and raising issues in relation to the building specification.
- Early meetings show there was a cost issue.
- The meetings concentrated on detailed design discussions.
- There is little evidence of detailed budget reviews.
- It was clear that the group were looking for supply/value engineering to manage an overspend or keep within budget.

In addition, the minutes were sometimes not of good quality and incomplete.

- iii. Within C&E, the officers interviewed showed a lack of corporate responsibility in not escalating concerns as illustrated by the attitude of “we are not the budget holder and if the client has provided a code then it is not for us to question the use of it”.
- iv. Overall during the investigation, there has been generally an attitude of “it’s not my problem” rather than “what could or should I have done?” There was no overriding concern to promote the best interests of the Council.
- v. In understanding the final position with regard to expenditure and funding on this project, further significant miscodings have been identified by Finance staff as being charged to this project. These amounted to £2.4m. The projected outturn does not include these costs. In reviewing details of £1.3m of this sum, this has consisted of expenditure at a depot and the civic centre as well as other schools. This illustrates:
 - Systematic behavior of this sort over an extended period of time.
 - More generally Capital Monitoring of schemes is lacking - how could the expenditure from the other projects have not gone unnoticed unless these were also being poorly managed?
 - Finance needs to be more challenging given that the Capital Monitor included a request for Whitmore funding of £1.6m to be brought forward for expenditure in 2007/08, much of which has now been established as not being for the Whitmore project.

5.3 THE SEQUENCE OF EVENTS – POST 16

5.3.1 In August 2007, the Learning and Skills Council (LSC) wrote (Exhibit U) to confirm a bid for funding had been successful. The letter set out that, whilst the total costs were £24,786k, only £24,649k would be funded as the two church schools would need to contribute £137k. The breakdown is set out in the table below. The letter also set out various conditions for the Council to comply with including any change in costs.

	£000s	£000s	£000s
<i>Bentley Wood</i>	1,632		1,632
<i>Canons High School</i>	3,133		3,133
<i>Harrow High School</i>	1,510		1,510
<i>Hatch End High School</i>	4,159		4,159
<i>Nower Hill High School</i>	3,011		3,011
<i>Park High School</i>	3,053		3,053
<i>Rooks Heath High School</i>	2,062		2,062
<i>Whitmore High School</i>	2,487		2,487
<i>Salvatorian & Sacred Heart High School</i>	1,367	-137	1,230
<i>IT (Across All Schools)</i>	1,320		1,320
<i>Temp accom</i>	1,052		1,052
	24,786	-137	24,649

5.3.2 Planning meetings had commenced at this point including setting out roles and processes. These clearly show that CS was the instructing department.

5.3.3 The Cabinet agreed the scheme being included within the Capital Programme via the Capital Monitoring report (Exhibit V) with the total amount being included within that financial year. It subsequently was then rephased later in that financial year.

5.3.4 Design continued although by March 2008:

- Project Partnering Agreements and Pre Possession Agreements were 6 months overdue and all work on post 16 was being undertaken by Kier in good faith.
- Major changes and additions had occurred following consultation with the schools. Furthermore the design includes kitchen and social areas which CS advised were excluded from the initial bid to the LSC at the request of the LSC.

5.3.5 Bentley Wood commenced in May 2008 as a pilot with the AMP already in excess of the budget.

5.3.6 In July 2008, there was a meeting between CS and C&E officers about the increased costs and the need to reduce the scope of the project. At this point the costs were £4.5m over budget. The possibility of accessing additional LSC funds was recorded at this point along with issues about the increased costs being submitted by Kier. Cost reductions were being explored through value engineering however CS officers were adamant that work on site should not stop in the interim. At the same meeting, there is also reference to needing effective cost control processes in place. Records within C&E show that value engineering had taken place on seven of the schemes (excluding Whitmore and Salvatorian) which identified £1.6m of savings of which £663k was agreed. The costs over budget are shown as £4.175m excluding loose fixtures and fittings; BREAM; Client contingencies; EDF costs and phase B of the Rooks school.

5.3.7 The costs being in excess of the budget was noted at various meetings including the Capital Forum. A rephasing took place at Cabinet. However, after this rephasing of £10m into 2009/10; the Cabinet was then asked to return £7.5m to 2008/09.

5.3.8 Seven of the AMPS (Whitmore and Salvatorian did not have AMPs presented as part of this) were agreed by a CS officer in December 2008 (Exhibit X). These are set out in the following table which also provides a comparison to the bid sum.

	AMP	Other	Prov'nal	Total	Bid	Var
Bentley Wood	1,998	2	238	2,238	1,632	606
Canons High School	3,769	12	201	3,982	3,133	849
Harrow High School	2,039	6	140	2,185	1,510	675
Hatch End High School	4,805	29	177	5,011	4,159	852
Nower Hill High School	3,719	16	170	3,905	3,011	894
Park High School	3,535	19	203	3,757	3,053	704
Rooks Heath High School	2,302	7	175	2,484	2,062	422
	22,167	91	1,304	23,562	18,560	5,002

The costs were £5m over LSC funding and it was clear that these sums excluded numerous things including: storm water drainage; power upgrades; fixed and loose furniture and fittings; laboratory/kitchen furniture and equipment; data cabling and security alarms. At this point staff from both C&E and CS were aware that there were items of expenditure below the line (i.e. outside of the AMP) which would need to be paid for and some of which, managed through the change order process.

In agreeing these AMPs with CS; C&E provided a spreadsheet showing that after providing for some of these things and including Whitmore and Salvatorian/Scared Heart, the costs are £6m over the bid. However, this appears to include an overstated bid sum and hence in reality the total cost projections as compared to the bid appear to be in excess of £7m.

5.3.9 Works did commence prior to the AMPs being agreed, on some of the sites apparently using the prepossession schedules, with the actual agreements being signed after expenditure had been incurred.

5.3.10 Budget concerns continued to exist and in May 2009, CS were suggesting Targeted Capital would be used. At this point, CS sent a letter to LSC (Exhibit W) asking if they were in a

position to confirm if any additional funding (9.5% inflation uplift) would be forthcoming. The letter confirmed that Harrow raised it in the previous October but was advised that it could not be considered until the national position was resolved. The letter set out that Harrow was £4.5m short and requested £2.5m. It went on to say that if the whole sum could be provided, it would be of great assistance. The letter also stated that Harrow was prepared to invest itself. There is no evidence of Cabinet or CSB authority for that proposition, or how the risk of the LSC funding not being forthcoming was to be managed.

- 5.3.11 The Capital Forum (in June 2009) was advised that different project funding was being used by CS in order to process urgent payments and that the budget sufficiency was being discussed. There were several concerns raised about the adequacy of the budget provision for Post 16. The other relevant matters are already set out in the Whitmore events and not repeated here.
- 5.3.12 In August 2009, the CS representative confirmed to the Capital Forum that £2m was expected from LSC to balance out the predicted overspend. They confirmed that if this did not occur, other funding would be found, though its source and the authority for its use was not confirmed.
- 5.3.13 A complete projected outturn was developed by the C&E client representative to assist in understanding the position and this set out that the projected spend was £33.79m, an overspend of £7.84m. The point was made that this was a worse case scenario and negotiations would take place in agreeing the final accounts. It is also clear that this includes furniture and fittings which CS had agreed to fund from elsewhere despite it being part of the original bid to LSC (Exhibit Y). The supporting schedule has errors and inconsistencies within it although this does not change the underlying significant overspend being around £7m.
- 5.3.14 This information is used in correspondence with the LSC and there are several exchanges with the LSC about additional funding. This culminates with an LSC letter (Exhibit Z) stating:

- No revised application was received for additional funding albeit there were discussions.
- Any applications for revised grant should have been submitted before any works started.
- There was no approval for additional monies and no funding would be granted retrospectively.

5.3.15 It is not clear why a revised application was not made, or why works were allowed to start/continue when it was clear there was a funding shortfall. Cabinet and CSB should have been advised of the circumstances, and immediate consideration given to steps being taken to contain expenditure within available funding.

5.3.16 In early 2010, there were tensions over getting the final information to the LSC however, this was eventually completed and in March 2010, LSC confirmed that they had all the paperwork and would be making the final payment. The summary claim was:

	Approved	Actual
New build	20,352	24,819
Refurbishment	2,062	2,730
External works	1,052	
F and E	1,320	2,621
Fees		2,372
Total	24,786	32,542

5.3.17 From the capital programme funding, it would seem that the shortfall was met from other grants such as:

- Catering in schools
- Targeted Capital
- Practical Cookery
- Post 16 Kitchen Area

The Capital Budget Monitoring report (Exhibit AA) stated that the targeted capital was being used to:

- Put in place diploma provision for 14-19 years olds
- Improve poor conditions for children with special educational needs and disabilities.

The use of this funding for post 16 should therefore have required a virement. There is no clear governance around the use of the above grant funding.

5.3.18 As part of closing the accounts, CS advised Finance in response to a query that a £137k shortfall should be met from the Modernisation Grant 2010/11.

5.4 THE ISSUES IDENTIFIED IN RESPECT OF THE POST 16 PROJECT

5.4.1 Scheme identified, scoped and costed

- i. The scope and design of the schemes were developed for the bid by officers within CS and other consultants. The Kier Partnership was then asked to take the work over. A change such as this clearly has risks but it is not obvious if they were considered or managed.
- ii. The introduction of the social areas into the scope lacks transparency as does the associated funding for this. These aspects subsequently form part of the additional costs.
- iii. Rather than the scope of the project being designed within the approved budget envelope, CS officers were looking to value engineer cost reductions with Kier as well as increase the budget envelope.
- iv. The CS individuals were not clear about what the overall project budget was compared to the construction element and in fact removed the furniture and fittings elements from the scope, deciding to fund this elsewhere. Whilst the C&E client representative has provided some overall project spreadsheets, these do not reconcile and show inconsistencies.

- v. Within CS, the cost was effectively becoming the budget. It was clear from the interviews that within CS, there was a lack of understanding of the difference between the budget, funding and the cost of the project.
- vi. The final project cost is believed to amount to in the region of £33m. However, there is no overall project budget with which to compare given the budget just kept being increased to meet the cost and social areas were then included in the scope of the project. Other than the LSC funding, there are no real budget figures for comparison as in reality there is no evidence of an overall project budget being set out by CS.

5.4.2 LSC grant and cost assumptions – review, risk, acceptance

- i. The Cabinet report to Members (Exhibit V) including this project within the approved Capital Programme, sets out the scheme as Harrow Schools' 16-19 Collegiate – **“Fully funded by grant from Learning and Skills Council £24,649k.”** This clearly suggests to members that no other funding is required. There was no reference to how the scheme detail would be agreed or that the social areas of the collegiate (which the LSC advised to exclude) remained unfunded. Furthermore, even at this point, £137k was to be funded from the church schools. It is not clear on whose authority the church schools' contribution was waived, nor why members were not told that key parts of the project were not funded by the LSC.
- ii. There is little evidence of an assessment of the financial risks in agreeing to undertake the scheme. At interview, CS advised that some areas of the bid were provisional.
- iii. As early as July 2008, the costs were considerably in excess of LSC funding (although some of this is likely to have been caused by the inclusion in the scope of the social areas) and the cost issue is a common theme in the various papers reviewed. It was at this point that there was a clear shortfall of over £4m. This should have been reported to Members and CSB, and consideration given to refining the scheme to avoid the shortfall.

- iv. In agreeing the AMPs in December:
- C&E had included within the papers £1.2m over the bid sum for contingencies and furniture and fittings that had been moved to below the line expenditure. From later correspondence it can be deduced that this was added with the knowledge and at the possible request of CS individuals.
 - The sum of £1.2m (£130k per 9 school schemes) was in effect to cover significant other items such as: some of the power upgrading; furniture, fittings and equipment; laboratory and kitchen furniture and equipment; data cabling, fire equipment, data cabling and security alarms. The final expenditure figure appears significantly in excess of this.
- v. The cost plans which support the various AMPs do provide value for money benchmarks. However given the issues, it is recommended that this be revisited and confirmed as accurate.

5.4.3 Scheme being approved as part of the overall capital programme

- i. The scheme became part of the approved capital programme via the Capital Budget Monitoring report; however, the additional funds being used to support the scheme were not identified to the scheme at any point. Members were therefore not made aware of the increased costs of the project nor did they approve the source of the funding, the opportunity cost or other schemes necessarily being postponed as a result of using this funding.
- ii. As with the Whitmore school project, for a scheme of this size and importance, it is surprising that a full report on the project was not made to the Cabinet at some point particularly when the budget began to be expanded.
- iii. There were also significant rephasings requested within the Capital Budget Monitoring report and this should have raised concern as to the accuracy of the project profiling given that the Kier arrangements would provide a reasonable monthly cash flow forecast.

5.4.4 Governance and accountability including roles and responsibilities

- i. The roles of client agent or representative (in this case C&E) and service client (in this case CS) are common in local authorities. Whilst the roles do appear to have been more complicated as explained within the Whitmore project, the same document setting out the roles between the two departments for CS capital schemes was found on several files (Exhibit M).
- ii. The groups and teams within this project are not clear nor is the hierarchy.
- iii. Decisions to start on site were taken for some of the schools and it appears that this was as a result of discussions at meetings having regard to the critical path of the project. Forms have also been signed by an individual in CS. C&E officers all stated that with no formal documentation, this would have been at Kiers risk however it is unlikely this could have stood up to challenge given the notes of meetings with Kier show that the authority was clearly involved in and had agreed to this. Documents have also been seen that state the works had started in good faith.
- iv. There is a complete lack of formal decision making at senior level to support starting on site which given the risks being taken, demonstrates poor governance.
- v. In response to the risk of starting on site before AMPs had been agreed, individuals again relied on the Gateway 1 process and pre possession agreements enabling and authorising this. However, the PwC work has identified that these were signed after work had started and expenditure incurred.
- vi. The Gateway 1 and 2 forms were signed by a variety of people through the management chain within C&E, although this is likely to have taken place as the completion of a process rather than a control and check. The client service CS clearly agreed to proceed with the AMPs.

- vii. Officers within C&E and CS have financial limits within the Financial Regulations. However, these do not reconcile with the actions e.g. signing AMPs and issuing briefs, being undertaken when progressing capital projects.

5.4.5 Overall project management of the scheme

- i. Once again, CS individuals managing the project, was the only department able to have full overview of the complete project as it consisted of different elements:
 - Construction through C&E;
 - Furniture and fittings;
 - ICT;
 - Other costs such as capitalised salaries;
 - Contingency.
- ii. There was no overall formal management of the project by the individuals within CS from a financial, risk, line management or project management perspective. Progress on the project was discussed through dialogue at meetings.
- iii. It is also apparent that at the various project meetings, the presentation of formal monitoring papers was limited to those presented by Kier.

5.4.6 Project management of the construction element

- i. The standard and consistency of record keeping was not satisfactory especially for business continuity purposes.
- ii. Various C&E cash flows and spreadsheets exist including graphical presentations but how useful these are is questionable. Significant inconsistencies have been identified in these e.g. including expenditure but not the related budget, double counting budgets. These,

fortunately, have to an extent, been compensating. However, from the papers provided, the final position is unclear with expenditure being in the region of £33m.

- iii. There was clear evidence that CS officers were being provided with information sometimes proactively and sometimes on request. However, as with the Whitmore project, there was a lack of evidence of regular monthly project reporting both within C&E and to CS. The clarity of this information is poor. It also appears that the lack of regular progress reports to CS was an issue.
- iv. Comments about how strategic oversight was maintained of all projects along with ensuring key aspects of each project were compliant with expectations are set out earlier and not repeated here.
- v. As with the Whitmore project, there was a lack of regular formal reports being presented at meetings with no regular meetings solely between those involved from CS and C&E.

5.4.7 Variations and changes

- i. There were items below the line, raising issues about the visibility of the total project cost.
- ii. Change control arrangements did exist although these do not appear to have been as robust as they could be from a process or project management perspective (see PwC report). This is particularly illustrated by the fact that on two projects reviewed, all the requests are dated the same. As stated previously, there will be times when matters are dealt with retrospectively however this should be more the exception than the norm.

5.4.8 Budget agrees to the corporate accounting system, is being managed and monitored

- i. CS was clearly the budget holder, not only providing codes, information for the Capital Monitor and to the Capital Forum, but also agreeing and initiating the schemes/project. Statements have been seen that HLT instructs and sets the budgets.

- ii. This was seen once again as Harrow Schools money.
- iii. The CS capital programme within SAP is based on funding streams and one existed for Post 16. However, the budget shortfall meant that other funding started to be used.
- iv. The project was being managed by relying on the expectation of £2.4m additional funding being forthcoming from the LSC; value engineering and then making up the remainder using other funding streams. The logic for this was that the other funding streams could be used for the project and hence virements were not required as there was not a policy change. The service finance staff did not disagree with nor prevent this approach, in fact assisting in its use. However, this meant:
 - SAP would never show the costs of the project in one place,
 - Costs were being earmarked and placed against codes that were not necessarily identified as Post 16 within another funding stream.
 - The project costs for the Post 16 Collegiate were contrary to what had been advised to members when including this within the capital programme.

The Finance staff involved should have checked that the appropriate approvals were in place, before allowing the grants to be used.

- v. The additional LSC funding had in fact not been confirmed at all. Whilst it is clear there were discussions taking place, officers have confirmed they did not submit any of the appropriate paperwork to request a grant increase as set out in the conditions of the original award letter. Given the early knowledge of the overspend, this is surprising. The individuals within CS did not consider it necessary to advise anyone about the funding gap as they would manage it, nor did they see it necessary to advise anyone corporately about the response from the LSC.
- vi. The use of these other funding streams was justified by the CS individuals by virtue of it being relevant for the schemes e.g. kitchen facilities and hence catering in schools funding

could be used. The decision on which funding to use was discussed verbally either at HTLT meetings or through informal discussions. There was no paperwork produced within CS to assess what was being proposed nor were any approvals sought to divert this funding. There has been a complete lack of due process and consideration and the use of targeted capital does not accord with the priorities set out in the Cabinet report (Exhibit AA). The fact that these other funding streams could have provided much needed investment in others areas and hence there was an opportunity cost of this action does not appear to have registered with the individuals within CS.

- vii. This project also demonstrated that budget management has taken place at the overall CS capital programme bottom line with incomplete information and a lack of capability.
- viii. The method of budget management meant that several SAP codes would need to be reviewed to understand the overall position and despite this, there was no overall financial monitor being used by CS to manage the project budget. Budget management and decisions were made using a variety of information such as the SAP information and Capital Forum spreadsheets sent by Finance and furniture and fittings expenditure spreadsheets and budget allocation spreadsheets within CS.
- ix. Officers in CS also made the decision to waive the £137k funding required from the Church Schools as set out in the LSC letter, instead using Modernisation funding. There is no evidence of member or CSB engagement in this decision. There was no member or CSB authority sought for this decision. A CS officer initially advised that this was to be funded via bringing forward grant funding from 2010/11 however it appears a Finance officer challenged this. It therefore came from the allocation for 2009/10 and was processed as a virement through the Capital Monitor as a shortfall in funding. Staff in Finance advised they were not aware of the contribution requirement although it would appear that someone in Finance must have received the original letter to substantiate the inclusion of the Collegiate into the capital programme.

- x. This is extremely poor budget management and monitoring within CS and it is not surprising that the current situation has arisen. The lack of budget management is evidenced by the August email setting out the overspend (Exhibit Y).

5.4.9 Ordering and Payments

- i. In this case orders appear to have been raised to process payments that were required or been raised to match the budget funds available rather than the expected spend.

5.4.10 Other matters

- i. Within C&E, the officers interviewed showed a lack of corporate responsibility in not escalating concerns as illustrated by the attitude of "they are not the budget holder and if the client has provided a code then it is not for them to question the use of it."

5.5 OTHER RELEVANT INFORMATION AND ISSUES

5.5.1 The following has been deduced from a review of the Capital Forum notes:

- i. C&E were seen as the lead initially on capital and this does not help with clarity of responsibility.
- ii. CS were seen as the budget lead and the individuals within CS identified themselves as such with examples of responsibility for reprofiling; rephasing; arranging and setting up codes; provision of information to Finance and resolving issues and preparing business cases.
- iii. A CS individual was clearly identified as the budget holder in the papers.
- iv. Finance staff were attending and were aware there were issues in respect of codings and a lack of sufficient budget to raise orders and pay invoices.
- v. Officers in Finance and CS met to discuss the virement position but the Finance staff did not escalate any issues arising from these meetings.
- vi. CS was specifically reminded of the need to rephrase the budget and provide projections. In addition, all were reminded of their responsibilities to revise budgets accurately.
- vii. There was a lack of CS representation at some meetings of the Capital Forum.

- viii. The notes are widely distributed including to those not in attendance.

Reliance was placed on individuals not in attendance, receiving the minutes to be made aware of issues being raised. There was no other means used to escalate or raise any of the concerns.

- 5.5.2. Through interviews, the existence of both a Strategic Partnership Board and Corporate Contract Management Group for the Property Services Partnership was identified. These appear to exist to monitor the overall Partnerships and officers advised matters would be referred to these on an exception basis.

The membership of the former includes members, C&E officers, a Kier representative, an Enterprisemouchel representative and representatives from Finance and Audit. Services are not represented. Key schemes are discussed at these and Whitmore and Post 16 are flagged in progress reports as high risk/flagship schemes. Other than a July 2008 reference being made to costs being scrutinised and that the post 16 project is £4m over the original budget with funding being reviewed and value engineering taking place, the remainder of these meetings update on progress and the cost pressures on Post 16 are recorded as having been resolved.

The Corporate Contract Management – Property group consists of C&E representatives and Kier officials. The meeting focuses on delivery with each meeting covering Post 16 and Whitmore. In October 2008, Whitmore was stated as the most challenging project.

Whilst these meetings concentrate on delivery through the Partnership and the majority of the issues being identified in the investigation would not be appropriate for this forum:

- i. The increasing temporary school cost does not appear to have been raised as an issue.

- ii. There had been a strong exchange of letters between Kier and CS (exhibits AC and AD) over Whitmore. However, once again this does not appear to have been raised as an issue at these meetings.
- iii. At least one early warning notice was issued to Kier covering festering issues, seemingly significant and yet not appearing as a point of discussion.

5.5.3 The work undertaken by Finance with PwC assistance as part of resolving the audit of the 2009/10 accounts showed significant miscodings across the whole of the CS capital programme (Example Exhibit AB). In part, the miscodings were due to a lack of virements and the management of the programme through funding pots. However, it is also evident that codes were being charged with costs inappropriately, because the codes had available budgets which enabled orders to be raised and invoices to be paid. The descriptions would appear on screen through the procurement process and hence individuals should have challenged the use of inappropriate ones. There was no evidence of fraud reported from this review of transactions in 2008/09 and 2009/10 by Finance and PwC staff.

5.5.4 Finance Business partners are expected to ensure that there are high standards of financial management in the Directorates. These clearly did not exist. The Director of Finance and deputy Chief Finance Officer have advised that they were not made aware of the issues being identified in these projects and officers within Finance did not seek confirmation about the approach to adopt with regards to the use of budgets or escalate concerns to them.

5.5.5 It is evident from the interviews that supervision and performance management of individuals is lacking within the sections involved within C&E and CS. During the lifetime of the projects, there was no formal 1-2-1, or IPAD between the CS Director and the project manager. Instead reliance was put on copying into emails and team meetings to communicate matters. This approach was also adopted within C&E where 1-2-1s were lacking.

- 5.5.6 Both of these projects were high profile and time critical and yet there was a reliance within C&E on interims to progress them and overall a lack of leadership, reporting, and strategic and corporate overview.
- 5.5.7 In situations such as this, consideration should be given to whether other checks or balances could have avoided this situation. Other ways by which the situation could have been identified are as follows:
- i. Effective project, risk & budget management would have picked up that the project costs were increasing significantly as would routine management review.
 - ii. In terms of the miscodings, routine checks may have detected miscodings given their scale and could have led to the identification of the problem.
 - iii. The individuals coding the orders could have questioned why the descriptors were not relevant to the details on the order and/or raised concerns corporately. This may have led to the identification of the problem.
 - iv. Increased vigilance, given the concerns about the quality of the finance support for the Capital Programme, may have identified the problem.
 - v. Reviewing purchase orders raised at the time or after the date on the invoice would have identified these were not being raised properly.
 - vi. Reviewing project milestones alongside the profiled budget for a scheme both in year and across years would have ensured a complete overview and identified the rising costs.
 - vii. Finance support being allocated to the project would likely have ensured a project monitor existed and hence the increased costs becoming known.
 - viii. The AMP being checked to the overall budget by Finance would have identified the increasing costs and that CS individuals were increasing the budget.
 - ix. The provision of a complete business case with all costings and the risks would have ensured a clear base position.
- 5.5.8 There were constant references to the need for the “wow” factor in the buildings suggesting that cost escalation was inevitable. If this is what officers believed was their brief (which is difficult to clarify given the paucity of member involvement), they should have sought

explicit authority for the extra costs that delivering an iconic building may have incurred. That said the assumption that an iconic building could not be delivered within the original grant has not been tested.

- 5.5.9 Internal Audit had undertaken a review of the general Gateway process and had not identified any issues of significance.
- 5.5.10 CS officers at interview advised of concerns about the value for money being achieved by the current Partnership arrangement, but there is no evidence that this was escalated to CSB. It also appears that there are considerable fees being incurred in scheme development which are not delivering or are disproportionate to the outcomes.
- 5.5.11 There are other schemes within the CS capital programme which have considerable levels of overspend and are likely to have been caused by the same practices that existed for the two projects discussed in detail in this report. It is also clear that projects have been deferred as a result of using the funding for schemes already in progress.
- 5.5.12 The Council's Contract Procedure Rules and Financial Regulations set out the requirements of officers. In reviewing these, there are several instances where there was a failure to adhere to these.

6. THE CAPITAL PROGRAMME OVERALL.

6.1 Development of the Capital Programme

- 6.1.1 The Capital Programme when approved covers three years however once approved, the forthcoming year becomes an annual budget managed and reported in the same way as a revenue budget. Underspends at year end will be treated as such unless approval to a carry forward is agreed by members under the rules set out in the Financial Regulations. In addition, members at Cabinet during the year approve additions, reductions, virements, slippage and rephasing.

6.1.2 The Capital Programme being approved only looks forward and hence is not a complete picture given the degree of carry forwards from the previous year. When it is approved there does not appear to be any explanation or governance proposals around agreeing how the funding will be spent. This is also an issue for the in year additions to the programme.

6.1.3 Whilst an annual budget approach, promotes individuals to deliver the Capital Programme in the year in question, frees up capital not spent for other priorities and provides a perception of managing to a budget; in effect it has been leading to large carry overs or rephasings (as is the case when a capital programme is managed across financial years) and has the increased risk of a lack of clarity and certainty for the overall scheme budget when the scheme is across several financial years.

6.1.4 As is typical in most authorities, approval of schemes is via a business case. However, Harrow has not required these for externally funded schemes in the past (although it is not clear who made this decision). The requirement to undertake these should be reviewed to ensure it is appropriate, clear and covers all appropriate schemes however funded. This is for a variety of reasons including:

- Revenue obligations that may be inherited by the Council for externally funded capital schemes.
- Exempt VAT threshold monitoring.
- Assessment of the risks of not delivering the scheme within the funds available.
- The conditions, timing and security of the external funding.

6.1.5 There are a number of processes in place for financial and operational purposes which in summary are:

- Scheme identification as part of preparing the outline programme to members.
- Business case for getting approval for certain schemes.
- Gateway 1 to enable costs to be incurred on fees e.g. for feasibility, scheme design.
- Gateway 2 to enable the overall project to commence.

6.1.6 The approval of the business case or confirmation of external funding is the catalyst for a code to be issued which then enables a commitment to be raised within the SAP system. Costs, however, may have to be incurred to formulate a robust business case. It is also apparent from reading Capital Forum minutes that the business case process needed clarity and that the approval arrangements were causing delays in schemes, with officers suggesting that in some cases, schemes were starting before this approval via the use of other codes.

This raises the following issues:

- Delays will affect the delivery of the Council priorities within the programme.
- The use of other codes circumvents the control that spend should not be incurred until approval of the business case.
- The use of other codes creates work on transfers and has a risk that these will not take place causing a misstatement of expenditure.
- The business cases may not be robust given there has been no authority to spend on fees to assess feasibility and obtain reasonable costings.

6.1.7 Capital budgets are loaded into SAP as an annual budget. There is no profiling across the year nor is the budget allocated across key headings such as fees.

6.2 Procurement, Ordering and Invoicing

6.2.1 Once an Agreed Maximum Price is agreed between the client service, client representative and contractor, purchase orders should be raised. These are authorised through the client representative hierarchy based on the budget holder having provided the code.

6.2.2 The AMP includes such things as preliminaries, lump sums and contingency sums derived from a risk assessment. However, there has also been a practice to exclude items and deal with these outside of the AMP.

6.3 Roles and responsibilities

6.3.1 There were no generally documented roles and responsibilities apparent for the Capital Programme. However, the roles of client representative and service client are clearly visible and operate in a way that is customary in local authorities. The finance support arrangements differ in authorities and often the capital monitoring system operates differently from the revenue budget monitoring system due to the span across years and the various parties involved. Having C&E finance undertake the overall monitoring and coding could cause confusion and lead individuals to believe the budgets are C&Es responsibility. There are also a number of different Finance teams involved in attending the Capital Forum which can cause confusion.

6.3.2 There is a lack of clarity about the purpose and role of the Capital Forum. The Council is relying on the Forum to manage and monitor the Capital Programme. Its role is defined with the Financial Regulations and yet the Chairman was unaware of this and disagreed with the defined role. The reliance on the Forum has provided an assurance that cannot really be relied upon, as in fact the Forum is just bringing together the various capital budget holders to report on their capital position. It uses SAP information and peers to provide a degree of challenge however this is fairly limited given that:

- The information just compares the actual spend plus commitments to the annual budget with no reference to the project milestones.
- The information provided by the budget holder is then used for the Capital Monitor.
- It relies on the honesty and competency of the budget holders.
- There is evidence that some budget holders routinely failed to provide the required information.

6.4 Culture

6.4.1 The system has the traditional separation of duties as well as the inability to raise an order if there is insufficient capital budget in place. The latter check has, however, been circumvented by using other codes with available budgets or making commitments without

an order. This practice does not appear to be uncommon and some Finance staff are aware that it happens.

6.5 Budgets and Budget Monitoring

6.5.1 Overall monitoring arrangements can be broadly summarised as follows:

- Information from SAP is down loaded into spreadsheets.
- Projections are sought from budget holders.
- Projections and SAP information are reviewed by the Capital Forum.
- Quarterly, this information is used to prepare a capital budget monitoring report for Cabinet.

6.5.2 It appears that:

- Where projections are not provided, the budget is being used as a default.
- Various Finance people are involved and the process seems disjointed as a result and open to problems e.g. there is a risk that each assume the other is dealing with something. For the rest of the organisation, it can also confuse as to who they should go to.
- The Finance teams will take a different approach so whereas Service Finance did not view virements as necessary, when Corporate Finance were advised of a similar funding proposal, they did include a virement in the Capital Monitor.
- The Capital Monitor was not reviewed by the CSB.
- The Capital Forum is focused on the financial information rather than an integrated approach with project delivery.

6.5.3 The role of Finance in monitoring appears to be in preparing the monitoring information. The value being added by and expectations of Finance needs to be reviewed given some of the issues being identified, including not escalating the known problems in respect of coding and the concerns being raised about budgets; not arranging virements and not undertaking sufficient reviews as illustrated by the significant miscoding. Changes are already being made following the arrival and involvement of new personnel however, it is important that the role

and expectation of Finance is made clear and reinforced both within Finance and throughout the organisation.

- 6.5.4 Reports to Cabinet are reasonably detailed but the value of the information needs to be considered. There are lots of figures with very little narrative and nothing to put the figures into context, or to enable members to challenge e.g. what proportion of the project budget is being rephrased and why are there delays? (Exhibit AF)

The Capital Monitor and the monitoring reports used by the Capital Forum are also very funding focused which might make things easier from an accounting perspective, but do not always enable schemes to be looked at as a whole. The monitoring arrangement overall should be scheme or programme specific depending on the nature of the work and once the initial funding has been agreed, this should be reviewed and reconciled separately, whilst still ensuring awareness at a service level for grant condition and virement purposes.

- 6.5.5 There does appear to be significant changes to the capital programme during the year agreed by Cabinet (Exhibit AE illustrates this). These changes include significant additions to the programme but with no explanation or governance proposals around agreeing how the funding will be spent. There is also no referral to full Council. This is illustrated in the following table.

	2008/09	2009/10
Original budget	83.6	61.0
Changes in year	37.1	57.0
Final budget	120.7	118.0
Outturn	98.9	95.9
Variance	21.8	22.1
Carry forward	15.7	19.4
Under spend	6.1	2.7

- 6.5.6 These changes are significant especially considering these are net sums i.e. additions as well as rephasings into future years. More refined phasing is needed to avoid such significant changes as well as ensuring that the treasury management implications are planned.
- 6.5.7 The transparency around capital monitoring could be improved. The reporting to Cabinet is at a high level with significant changes being made through the year due to rephasing, additions, slippage and virements. At the year-end, carry forwards are agreed which in effect provide for further rephasing and slippage. Whilst some schemes will genuinely underspend and resources be released, many schemes will end the year with the budget being amended to match the actual expenditure.

7. CONCLUSIONS

- 7.1 These conclusions are drawn from reviewing the circumstances surrounding two CS capital projects and considering the general management of the capital programme.
- 7.2 Clearly as part of the investigation and particularly through the interview process, individuals have defended their actions. Hence, in reaching any conclusions, consideration has first been given to considering the defenses and mitigation provided by the various parties involved. The extent of any mitigation that is likely to be used along with views on these are set out below.

7.2.1 Children's Services

- i. *"CS were not the budget holder or individuals within Children Services were not the budget holder".*

This is not a tenable argument as they were the budget holder as shown by:

- Budget monitoring papers which name a CS officer as the budget holder.
- Information being provided for Capital Monitors by CS.

- Minutes clearly demonstrating the budget holder as CS e.g. verifying spend and profiles; agreeing change requests; checking virements.
- Emails where they were being asked to agree the AMP.
- CS officers advising of the codes and hence budgets where costs should be charged.
- Project roles and responsibilities.

It is also fairly obvious that if an officer is accepted as the budget holder, then their manager, by virtue of being their manager, is also responsible for ensuring that budget is being properly managed. C&E officers were responsible for managing the project within the AMP and the provisional sums along with their own fees. Whilst the cost statement for Kier costs is still being finalised, there are clearly the issues of:

- C&E control over the costs of the temporary school which meant there was less for the main school and a need to descope
- The in house fees having increased considerably.

ii. *"The budgets were not clear".*

This is untenable. Whilst within SAP the overall budget was not clear because of the tendency for the programme to be based on funding streams and the annual nature of the monitoring systems, CS were the only department with the complete overview of the project and they were arranging the budget as the scheme progressed. Furthermore if there was such a concern:

- Why was the AMP agreed?
- There could have been a Director level meeting called to resolve the position, but there was not.

iii. *"CS officers could not establish what the actual expenditure was and there was different information coming through".*

The actual expenditure was difficult to identify on SAP because of the various codes being given by CS officers. It is also clear that the information from C&E was lacking. However, it was CS who agreed to make the commitments. In terms of projected spend, payments to Kier are simply a single monthly payment based on valuations and these have already been

estimated through a cash flow. CS were aware of the cash flow projections which were emailed, whilst not regularly, on several occasions. Whilst CS officers sent emails asking for information, there was no overall project budget monitoring being undertaken within CS in a systematic and regular manner. The Capital Monitoring information does only provide information for one year, but it is reasonable to expect that the project manager, who has the only oversight of all elements, would be keeping an overall project monitor sourced from a variety of information including SAP. Finally, if CS officers are also stating that they were trying to establish the expenditure, then by virtue of this they are suggesting they are the budget holder.

iv. *"There was limited or no access to SAP".*

It is clear that some CS officers did have access and even if this was not to a level that enabled drill down, Finance officers were sending SAP information via email every month. Other officers in CS could also have requested this.

v. *"Change instructions were out of control/lacked structure".*

In the early stages of the project this was clearly the case as evidenced by the temporary school. Despite arrangements being put in place, there did appear to continue to be issues however there is evidence of the majority of these being approved by CS representatives as the client at some point and schedules of all, whether agreed or not, being discussed at project meetings.

vi. *"Common practice to use other codes."*

The year-end checks undertaken to resolve the external audit suggest that the significant coding issues were isolated to CS and it does appear that if other officers did use others codes for expediency, these were then proactively corrected .

In terms of it being custom and practice within the way that CS officers operated, this does appear to be the case, as evidenced by the expenditure found charged to Whitmore in 2007/08 relating to non educational projects. There has been systematic coding of expenditure to inappropriate codes and a lack of virements to ensure the overall project

costs are accurately reflected within the corporate accounting system, the latter being known by Finance staff. This however does not mitigate against:

- Increasing the budget for projects without authority.
- Not monitoring the projects overall.

- vii. *"CS had no means of addressing or escalating issues with Kier, this was managed by C&E."*
There were meetings, both at a member and officer level, managing the Partnership which did not seem to include service representatives. These were delivery focused. However, if concerns were as significant as suggested by CS, it is difficult to believe that senior officers would not insist on attending the meeting to get issues addressed. This was not the case.
- viii. *"CS believed that C& E were keeping members advised via the Major Works portfolio holder."*
This was likely to have been assumed due to the aforementioned meetings although these are not the appropriate forum. Furthermore, this would not be the correct portfolio holder in any case.
- ix. *"Finance was not providing information nor having monitoring meetings."*
Finance officers were sending information (Exhibit AG) and have provided evidence to show that they were proactive in trying to get information from CS. Finance staff advised that meetings were often not attended and calling in unexpectedly was used to discuss matters with CS officers. There is clear evidence of meetings taking place with notes being recorded. Apparently CS were the only area requiring meetings, other areas were managing and monitoring budgets and submitting projections without requiring assistance.
- x. *"Expectations of responsibilities as a senior officer not having been made clear."*
Whilst this could be accepted in mitigation for a junior officer, this does not have credibility at senior officer level not least because the job profile is very clear.
- xi. *"The Council did not have enough capacity or expertise for the projects."*

This point was suggested in relation to C&E. CS did in fact raise concerns and as a result, consultant interims were recruited to provide additional capacity. It is not unreasonable for the authority to expect that if there were still further concerns that a senior officer would ensure these were resolved.

xii. *"The belief that there were sufficient monies in the overall programme."*

A capital programme the size of CS cannot be managed at the bottom line. It is also not appropriate to be looking at what is spare or not commenced and then allocating this to other projects during ad hoc conversations without any governance structure.

7.2.2 Community and Environment

i. *"C&E was not the budget holder."*

This is a fair statement as their role is to manage within the sum agreed. There are the issues however of:

- The temporary classroom where costs escalated without control.
- The professional fees being charged exceeding the initial agreed sum.
- Costs being charged to projects in an untimely manner.
- Whether there was robust control over change instructions.

There is also the corporate responsibility of officers generally to raise concerns if things are not right. It was evident that there was insufficient budget on the codes being provided for the projects and this should have been escalated to a more senior level. Furthermore C&E had overall responsibility for leading the Capital Forum where on several occasions there were concerns about the budget availability and funding. Relying on the distribution of minutes to other officers is not a sufficient mechanism to escalate concerns.

ii. *"C&E were not responsible for codes."*

There is a corporate responsibility of officers to raise concerns if things are not right and it was evident that some inappropriate codes were being used. These officers individually maintain timesheets and are well used to the need to have a single oversight of the project construction costs. Furthermore C&E had overall responsibility for leading the Capital Forum

where on several occasions there were concerns about the codes. This could have been proactively escalated to a more senior level in the organisation.

It also appears that within C&E, the tendency for CS to use different pots of money was well known and talked about – one interviewee referred to it in terms of “robbing Peter to pay Paul”

iii. *“The AMPs and Gateways were signed off by CS.”*

CS officers were not involved in authorising Gateways and are not a regular signatory of these. There is evidence that the AMPs were explained and that CS officers agreed to proceed with these. C&E officers have, however, put the Council at risk by not following due process before work started as evidenced by the valuations and expenditure which exist prior to authorisation of commitments through pre possession agreements (see PwC report).

iv. *“Change instructions were authorised”*

The temporary school situation at Whitmore demonstrates that the change control procedure was not used properly. It also is clear that, notwithstanding an acceptance of the need to be practical to get the job done, processes for getting authority and following due process in a timely fashion were not there.

v. *“The Client Service was always kept informed.”*

There is evidence of email updates and regular meetings but there is clearly a lack of regular, consistent and complete project update reports being submitted to the client.

7.2.3 Finance

i. *“The budget holder knew what the budget was and could have managed the budget on a simple spreadsheet basis.”*

Whilst, this is a fair statement, Finance staff should have expected an overall monitor to be discussed at budget monitoring meetings and hence have raised concern that CS did not have these.

- ii. *"There is a need to rely on the honesty and integrity of employees particularly senior staff."*
Whilst there is such an expectation, any organisation needs relevant checks and balances in place for non-compliance.

- iii. *"Finance was not asked to be part of the project team and do not have the capacity for this."*
Finance was not part of the project team. Significant schemes such as these should have had more attention from Finance.

- iv. *"Finance staff did not escalate this to deputy CFO or CFO level."*
There is no evidence to suggest that this was escalated to this level by Finance staff. However, a fundamental role of Finance must be to review and police. Finance staff clearly knew of weaknesses and did not escalate these. The Capital Forum minutes were circulated and did show there were issues.

- v. *"Weaknesses in finance support had been identified and addressed moving forward."*
Increased vigilance could have been put in place.

7.3 Those individuals involved within CS:

- 7.3.1 Committed significant capital expenditure on these projects without adequate budget and authority;
- 7.3.2 Committed significant capital expenditure on these projects without due process;
- 7.3.3 Had a significant lack of control and management of these projects and the overall CS capital programme;
- 7.3.4 Were inadequately monitoring the budgets of these projects and the CS capital programme.

7.4 Those individuals involved within C&E:

- 7.4.1 Committed fees on one of these projects without adequate budget and authority;
- 7.4.2 Possibly committed expenditure on the temporary school and via change instructions without adequate budget and authority;

- 7.4.3 Committed the Council to significant capital expenditure on these projects without due process;
 - 7.4.4 Had a lack of control and management of the construction element of these projects;
 - 7.4.5 Were inadequately monitoring the construction budgets of these projects;
 - 7.4.6 Lacked corporate responsibility in failing to escalate concerns.
- 7.5 Those individuals involved within Finance:
- 7.5.1 Through not ensuring that virements were undertaken and assisting in the use of other codes significantly contributed to the lack of budgetary control of these projects;
 - 7.5.2 Were inadequately monitoring the budgets and related expenditure of these projects;
 - 7.5.3 Lacked corporate responsibility in failing to escalate concerns.
- 7.6 Capital monitoring has not received as much attention as revenue and specific roles and responsibilities for the capital programme were not documented across the Council.
- 7.7 The capital monitoring systems are based on one year and not linked to deliverables meaning that the value is limited. There is a lack of overall project and cross year reporting and monitoring in the current arrangements which do not assist in clarity and transparency.
- 7.8 Members' involvement in how capital was being expended was limited as was their ability to challenge both this and monitoring information, given the information provided and the lack of commentary.
- 7.9 Work is being commissioned without purchase orders and effective corrective action of this has not been taken.

8. RECOMMENDATIONS

8.1 Specific to this investigation

- 8.1.1 This report is reviewed alongside the responsibilities as set out in the Council's governance framework by the Chief Executive and Director of Human Resources to determine whether any conduct investigations are warranted.

8.1.2 The investigation suggests there are no systems in place within CS to manage the capital programme in a manner that is expected. The Council should consider recruiting an individual to take over the management of the programme, setting up proper systems of control and management as well as identifying any further issues on other schemes.

8.1.3 The circumstances around the temporary school needs further review to assess if there is any redress for the escalating costs.

8.1.4 The cost plan which supports each AMP does provide value for money benchmarks. However, it is recommended that these be revisited and confirmed as accurate for these projects.

8.1.5 The Council should check that it has complied with the grant conditions and is not carrying any risk from having waived the contribution from the church schools.

8.2 Partnership arrangements

8.2.1 The Council should assure itself that the current Partnership arrangement delivers value for money, having regard to all the costs incurred in this arrangement and the way that the Partnership is operated.

8.2.2 The Council should review expected project governance structures with its Construction Partner to ensure these are concise and clear, making any necessary changes to agreed documentation as a result. This should complement the expectations within the Council's governance framework.

8.2.3 The Council should review the expectations from the Strategic Partnership Board and Contract Management Group, ensuring these are fit for purpose and the role clearly understood within the organisation. A more formal monitor of all projects using key indicators should be used.

- 8.2.4 The Council should arrange to review the operation and performance management of the Special Projects Team, including: the application of clear and consistent procedures; formal reporting to the client on a regular basis; and ensuring that there is an overall high level schedule being reported, on key aspects of each project and that this is used for exception reporting and discussion.
- 8.2.5 In situations where agreed processes are not being followed due to practicalities in delivery e.g. starting on site, a formal exemption process should exist which requires authority through the management hierarchy.
- 8.2.6 The authority to sign prepossession agreements, agree and sign AMP documents, issue briefs and budget codes needs to be set out clearly and reconciled to the authority levels within the Financial Regulations.
- 8.2.7 The Council needs to incorporate into the Financial Regulations contract authorisation arrangements in relation to the Construction Partnership and the Council should review, clarify and communicate how contracts and capital schemes should be committed within SAP.
- 8.2.8 The client service department should be authorising the Gateway and any other commitments being made.

8.3 Capital Programme

- 8.3.1 The Council should clearly set out within its Governance documents, the arrangements for agreeing the details of the Capital Programme at scheme and project level e.g. Cabinet, Portfolio or Director decision.
- 8.3.2 The scheme identification and business case processes which form part of the capital budget development should be combined with the Gateway 1 and 2 processes in order to have an integrated process that: improves cost estimates; provides for feasibility studies where

appropriate; avoids duplication; and ensures that there is a single view of the overall budget and funding available and that expenditure is kept in line with this.

- 8.3.3 As well as combining the business case approval with the Gateway process, the process for issuing codes should be reviewed.
- 8.3.4 Business cases should be required to include information about the complete scheme, irrespective of funding, as well as ongoing revenue implications. Furthermore, consideration should be given to completing these prior to the Cabinet agreeing the Capital Programme in order to inform decision making.
- 8.3.5 The Council should review, clarify and communicate how contracts and capital schemes should be committed within SAP.
- 8.3.6 The monitoring system should provide for the facility:
- To allocate the budget across key headings, this will provide more information for budget monitoring and control purposes.
 - To show the schemes budget across financial years from inception, in order to have a complete overview of a scheme both approved budget and costs incurred.
 - To risk assess programmes and schemes in order to focus attention.
- 8.3.7 The Council should consider the cost benefit of being able to profile the budget across quarters – this will enable the financial information to be integrated with the cashflow within the AMP and provide information for treasury management purposes.
- 8.3.8 The Capital Programme procedure notes to support the Financial Regulations need to be reviewed in the light of what has happened and the recommendations arising from the reviews including roles and responsibilities and the approval of virements. These procedures notes should make as much use of flowcharts as possible to ensure clarity and ease of reading.

- 8.3.9 The overall programme, coding and monitoring should be focused on scheme/project rather than funding streams.
- 8.3.10 There should be consideration to putting in place some checks and balances based on such things as:
- Exception reports, where purchase orders are declined for insufficient budgets, being seen by Finance support staff that can use these at monthly monitoring meetings and alert senior managers;
 - Exception reports where the purchase order date is the same as or after the invoice date
 - Reports on blocked invoices;
 - Reviews of transfers;
 - A requirement to complete a post completion report once the budget has been fully committed.
- 8.3.11 There should be agreed terms of reference for the Capital Forum if it continues to exist along with a clearly defined corporate responsibility and clarity as to the role of attendees and the Chairman.
- 8.3.12 The representatives on the Forum should be reviewed to ensure they are appropriate having regard to the terms of reference.
- 8.3.13 The Capital Forum should consider undertaking detailed project reviews on a cyclical risk based approach having particular regard to rephased projects. This should consider project milestones.
- 8.3.14 Where projections are not provided by budget holders, this should be escalated and be presented as "budget holder has not provided a projection".
- 8.3.15 The monitoring schedules should incorporate intelligence from the cash flow and milestones within the projects.

- 8.3.16 Capital Monitoring appears to be focused on the client service representative, the Capital Forum and Cabinet. There needs to be more involvement of senior management, with reviews at both departmental and corporate management levels. This is already being implemented.
- 8.3.17 Finance should review the current financial support involved in the capital programme to ensure there is clarity of roles, expectations are clear and there is adequate strategic oversight. This is already in the process of being reviewed.
- 8.3.18 The capital budget monitoring to members should present the whole programme across the financial years of the approved programme.
- 8.3.19 The capital budget monitoring to members should provide more information in order to enable adequate challenge and scrutiny.
- 8.3.20 The Council should review all grants schemes being developed or in the pipeline having regard to funding risks, ongoing revenue implications and grant conditions/penalties.

8.4 Project management

- 8.4.1 The Council should review the adequacy of its corporate reporting and monitoring of strategic, high profile projects.
- 8.4.2 The Council should reinforce its expectations of project management methodology being used on capital projects.

8.5 Other matters

- 8.5.1 The Council needs to address purchase orders not being raised or being raised after invoices have been received. In addressing this, the Council should consider the approach to adopt to get most benefit from this, because the inclusion of commitments is only of value in monitoring and checking, if there is clarity about timescales and deliverables. By way of illustration, a project which has a commitment showing 80% of spend, could still be overspent, if in fact spend is expected to be evenly incurred and the commitment is only up to period 6. Action is already being taken in this area.
- 8.5.2 Within both of the sections in CS and C&E, performance management of individuals needs to be implemented using regular 1:1s and iPADs.
- 8.5.3 Based on the findings of this review, the Council should consider what action is needed specifically and more generally to ensure that individuals comply with controls and the responsibilities as set out for example in the Financial Regulations. This includes taking proactive action when there is evidence of issues of concern or failure to comply with the relevant systems and procedures. The overriding objective should be to promote the best interests of the Council.
- 8.5.4 The Council has made it clear that it is committed to ensure corrective measures are put in place and that recommendations are taken on board and implemented.

LISTING OF EXHIBITS

- A Letter template accepting the invitation
- B Email re increase in pupil numbers at Whitmore
- C Minutes of a meeting with school concerns included.
- D CS email confirming budget for Whitmore in February 2008
- E Minutes of meeting confirming budget of £38.15m
- F Minutes of budget and risk management meeting Nov 2008
- G Project Partnering Agreement extract
- H Prepossession Agreement Oct 2008
- I Prepossession Agreement March 2009
- J Cost Consultant report
- K CS email confirmation to proceed on Whitmore
- L Temporary school draft final account
- M Process map for commissioning and roles
- N Project Governance Note
Attachment –Quote for temporary school
- O Copy of front sheet of Gateway 2
- P Copy of report re structure of schools team
- Q Minutes of budget monitoring meeting
- R Email from Finance setting out budget insufficiency
- S Payment schedule – Whitmore
- T Business case for additional contribution for community facilities
- U LSC award letter
- V Cabinet report agreeing Post 16 into Capital Programme
- W Letter to LSC re overspend and request for additional grant
- X CS email confirming agreement to proceed with Post 16
- Y Email setting out financial position August 2009
- Z Letter from LSC stating no more grant would be forthcoming
- AA Extract from Cabinet report on priorities
- AB Movements required due to miscodings

- AC CS letter to Kier
- AD Kier response to CS
- AE Illustration of in year additions to the Capital Programme
- AF Illustration of in year variations to the Capital Programme
- AG Monitoring information provided to Children Services

LISTING OF ABBREVIATIONS

- AMP Agreed Maximum Price
- BSF Building Schools for the Future
- CS Children Services
- CSB Corporate Strategic Board
- C&E Community and Environment
- DfES Department for Education or its equivalent at that time.
- HTLT Harrow Transforming Learning Team
- LSC Learning and Skills Council
- PPA Pre Possession Agreements

