

REPORT FOR: **CABINET**

Date of Meeting:	15 December 2010
Subject:	Capital Programme
Key Decision:	No
Responsible Officer:	Michael Lockwood, Chief Executive
Portfolio Holder:	Councillor Bill Stephenson, Leader of the Council and Portfolio Holder for Finance and Business Transformation
Exempt:	No
Decision subject to Call-in:	Yes
Enclosures:	Reports from PriceWaterhouseCoopers & Rita Greenwood (Independent Financial Consultant and formerly Director of Finance, London Borough of Havering)

Section 1 – Summary and Recommendations

This report advises Cabinet of an overspend in the Children's Services Capital Programme, summarises how it arose, and the steps taken to avoid any repetition.

Recommendations: Cabinet is requested to Note the contents of the report and the action already being taken; and Request the Governance, Audit & Risk Management Committee to monitor and report on the implementation of the recommendations within agreed timescales.

Reason: (For recommendation)

To enable Cabinet to understand the issues in the Council's Capital Programme, and their impact going forward

Section 2 – Report

Conclusions

During the Council's routine annual audit, some miscodings were identified. In resolving these, Finance identified overspends in two flagship school projects; Whitmore High School and Post 16 provision in our high schools. On the instructions of the Leader and Chief Executive, an external and independent management investigation was undertaken.

The investigation (reports attached as appendices) found significant failures in how the Harrow Transforming Learning Team in Children's Services ('CS') managed and controlled the 2 projects. They also identify failures in how the Major Works Team within Community and Environment ('C&E') and staff within the Finance Directorate supported and monitored these projects.

It should be stressed that the Capital Programme is a small part of the Council's budget and is in the control of a small number of staff within a few teams across the Council.

The Council's external auditors 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.

It is estimated that a one off overspend in the schools capital programme of £7.8m will result. The overall capital programme in 2010-11 is £62m. As a result of additional restrictions on the capital programme it is estimated the net forecast overspend at the year end will be £6.3m

Our external and independent investigators found that officers' motivation was to ensure that the projects succeeded, and that the school provision opened for pupils on time. No evidence was found of fraud or personal gain on behalf of those involved. Nor was there evidence of any undue influence from schools, suppliers or Councillors.

The cause of the overspend however, was a want of control over expenditure by those responsible for the projects. The existence of the problem was masked by the miscoding of expenditure, and inadequate financial control and monitoring.

The Corporate Strategy Board and Cabinet were not advised at any time that there were issues with the scope, budget or risk in the projects.

It should be stressed that the budget problems are limited to the Children's Services capital programme - checks on other capital projects outside the school's area did not identify problems elsewhere.

Schools Heads have been briefed on the situation and the schools nor any of their staff have responsibility for these overspends. During the investigation the external auditors, Deloitte LLP, have been kept fully informed of progress and are comfortable with the route the Council has taken on this investigation to date.

Background

In 2006 Harrow accepted an invitation to be part of the 'Building Schools for the Future' programme, nominating Whitmore High School as a pathfinder project. Harrow received £32m grant funding from the Department for Children, Schools and Families to build the school, which opened in September 2010.

In 2007 the Learning & Skills Council advised Harrow that it had been successful in securing £24m to build post 16 provision at its 10 high schools.

As part of the routine audit of the Council's finances in 2010, miscoding of expenditure was identified in the CS capital programme. In resolving these miscodings, it became apparent that the programme was significantly overspent. The overspend originated in the Whitmore High School & Post 16 projects.

The Leader and Chief Executive commissioned an external and independent management investigation into how the overspend had occurred, and the Corporate Director of Finance restricted capital expenditure to limit the effect on the council's overall position.

Current situation

Investigation

The investigation was co-ordinated by the Director of Legal & Governance Services, but was undertaken by senior professionals **independent** of the Authority: Rita Greenwood, independent financial consultant and former Director of Finance at the London Borough of Havering, and senior consultants from PriceWaterhouseCoopers ('PwC'). Ms Greenwood focussed on the financial management of the projects & the capital programme (see attached report); PwC on the project management of the construction works (see attached report). The team reported direct to the Chief Executive and through him to the Leader.

Key Findings

It is estimated that an overspend in the schools capital programme of £7.8m will result. The Council's overall capital programme in 2010-11 is £62m. As a result of additional restrictions on the capital programme it is estimated that net forecast overspend at the year end will be £6.3m (10%).

Overall

The overall conclusion from the reports was that there was inadequate project ownership which meant that little effective control was exercised over project decisions and finances. Three factors contributed to this: complex governance structures, lack of clarity about individual roles and responsibilities, and no one taking personal responsibility for the projects.

The culture of the individuals involved in the projects was one of passivity and not of proactivity. Performance, structured line management and proper appraisal were found to be inadequate.

Children's Services

It is clear that the individuals in the Harrow Transforming Learning Team within CS, who were responsible for delivering these two significant corporate projects, undertook very limited project management, risk management or budget management.

As the projects progressed budgets were increased to match the costs, and as their scope was reviewed, there was little attempt made to reduce these to keep them within the original funding envelope. The Corporate Strategy Board and Cabinet were not advised at any time that there were issues with the scope, budget or risks in the projects, and information that they were provided with was misleading.

Project budgets were increased in some cases by using other school funding with inadequate member or Corporate Director involvement, due diligence or proper governance.

Expenditure was miscoded, which inhibited the Council effectively managing both individual project finances and its overall financial position.

Community & Environment

In the Major Works Team within the C&E Directorate there was very little transparency in relation to the total project costs and risks of the projects. As a result the Council's existing internal authorisation procedure (Gateway) did not present the total budgeted project cost, as the cost of works undertaken directly by the Council, which in some cases were significant, were excluded.

An adequate risk management process was not established to mitigate and manage project costs, particularly concerning client risks and provisional sums. This resulted in a lack of control and concerns regarding value for money on projects.

The existing procedures for the authorisation of work variations through change requests was not sufficiently utilised on all projects, which inhibited the Council's ability to effectively manage project costs.

There were a number of weaknesses in the framework of contract management, and a significant level of non-compliance with the current procedures.

There was no systematic and regular reporting by the Major Works Team within C&E to CS, and a failure to escalate known concerns about the management of these projects.

Projects commenced before all safeguards were in place and whilst a level of pragmatism is necessary, there is no evidence that the risks in doing so were properly considered or managed.

Invoices were raised without the required SAP order.

Finance

Individuals in the Finance Department who were responsible for monitoring the project were aware of miscoding but did not challenge it; they were aware that invoices were raised without SAP orders but the practice continued; they did not recognize the need to undertake virements; and failed to ensure that project costs were in one place to facilitate proper monitoring.

Capital monitoring had not received as much attention as revenue.

There was a lack of overall project and cross year reporting and monitoring. Members' involvement in how capital was spent was limited as was their ability to challenge, given the information provided and the lack of commentary.

Reassurance

When initial recommendations for this investigation were developed, these were sent to the relevant Corporate Directors with instructions to implement them immediately, and ensure they are embedded. Internal audit will be instructed to confirm that this has taken place.

Additionally external project management expertise was applied to on-going CS capital projects, to both understand their current status and ensure proper on-going management.

Disciplinary investigations have commenced in respect of officers that had a role in these projects.

Recommendations

The reports include detailed recommendations, many of which have already been communicated to the relevant staff groups. Internal audit will be instructed to confirm that these recommendations have been implemented, and report to the GARM Committee.

Financial Implications / Performance Issues / Environmental Impact / Risk Management Implications / Equalities implications

Are as detailed in the body of the report

Corporate Priorities

The proposed actions will support the corporate commitment and priority in relation to engaging and building stronger communities

Section 3 - Statutory Officer Clearance

Name: Myfanwy Barrett	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 3 December 2010		
Name: Hugh Peart	<input checked="" type="checkbox"/>	Monitoring Officer
Date: 3 December 2010		

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap	<input checked="" type="checkbox"/>	on behalf of the Divisional Director Partnership, Development and Performance
Date: 3 December 2010		

Section 5 – Environmental Impact Officer Clearance

Name: Brendon Hills	<input checked="" type="checkbox"/>	Corporate Director Community and Environment
Date: 3 December 2010		

Section 6 - Contact Details and Background Papers

Contact: Michael Lockwood, Chief Executive
Tel: 020 8424 8447

Background Papers: None

**Call-In Waived by the
Chairman of Overview
and Scrutiny
Committee**

NOT APPLICABLE