

Draft Report of the Chair of Audit Committee and Chief Auditor

Audit Committee – 28 June 2016

YGG LON LAS NEW BUILD – REFERRAL FROM CABINET DRAFT AUDIT COMMITTEE RESPONSE TO CABINET

Purpose:	This report provides the draft response to Cabinet following the review of the YGG Lon Las New Build project following its referral by Cabinet so that lessons may be learned and adopted within future projects.
Policy Framework:	None
Reason for Decision:	To allow the Audit Committee to discuss, review and contribute to the Audit Committee response to Cabinet following the review of the YGG Lon Las New Build project.
Consultation:	Legal, Finance and Access to Services
Recommendation(s):	It is recommended that Committee review and discuss the draft Audit Committee response to Cabinet.
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1. Introduction

- 1.1 The YGG Lon Las New Build scheme was reported to Cabinet on 17 September 2015 for approval. The scheme included the design and construction of a new school on the existing YGG Lon Las site and the creation of a temporary school at an alternative site for the duration of the new build.
- 1.2 Cabinet approved the project but due to the increased cost of the scheme and the length of time taken to develop the scheme, Cabinet referred *'the project and all relevant plans to the Audit Committee in order to enable lessons to be learned.'*

- 1.3 The Director of People presented a report to a special meeting of the Audit Committee on 22 March 2016. The report provided a detailed description of the Welsh Government's 21st Century Schools Programme and the steps required for each scheme including the Five Case Business Model and the Royal Institute of British Architects (RIBA) Plan of Work. The report also outlined the cost planning, procurement and governance aspects of the Programme.
- 1.4 A detailed outline and analysis of the YGG Lon Las scheme was also provided including a number of lessons learned which had been identified by the service.
- 1.5 This report provides a summary of the lessons learned identified in the report to the Audit Committee and other issues raised by the members of the Audit Committee during the discussion of the report.

2. Background

- 2.1 In December 2011, approval in principle was provided by the Welsh Government under the 21st Century Schools Programme for the Council to proceed with the Band A projects included in the Strategic Outline Programme (SOP).
- 2.2 A funding envelope of £51m was provided to Swansea subject to contract and the Council providing 50% match funding from its own resources. The priority capital investment schemes within Band A are by their very nature a long term programme running from 2011/12 to 2018/19. Therefore it was unrealistic to expect the value and detail of the overall programme would remain constant over this period.
- 2.3 YGG Lon Las was included in the Band A projects as the school was operating out of failing and expensive to maintain buildings which were not fit or purpose in terms of teaching and learning needs. The school site was fragmented and had buildings in various states of disrepair.
- 2.4 The development of the YGG Lon Las project has been a protracted process extending over 5 years with the scope of the project changing twice from complete new build to partial new build and back to complete new build in response to external factors. An effective review of the business case for the project was undertaken at each stage including economic appraisals of the new build and temporary arrangements which were approved by the Welsh Government.
- 2.5 In November 2014, Dawnus Construction was appointed to provide the pre-design service for the scheme and to submit a planning application. The agreed cost for this element of the project was £353k.

- 2.6 The planning application was submitted in May 2015 and approved in September 2015. The application included the new build on the existing YGG Lon Las site as well as temporary school facilities at YG Y Cwm and a temporary staff car park at Cefn Hengoed School.
- 2.7 The Cabinet report in September 2015 sought approval for the overall scheme and identified a risk in that work needed to start on the temporary school facilities in advance of the final scheme approval being received from the Welsh Government. To facilitate the development of the temporary facilities, the value of the pre-construction contract with Dawnus was increased to £1.1m.
- 2.8 The total capital cost of the YGG Lon Las scheme approved by Cabinet was £9.8m which included the new build and temporary school facilities. This was a significant increase on the original indicative cost of the scheme of £6.5m put forward in 2010 and the estimated costs at Outline Business Stage of £8.0m. The increased cost was due to a number of factors including the original estimate excluding internal fees, temporary accommodation costs, ICT set up and installation costs, transitional costs and optimism bias / contingency. The costs also increased as a result of unforeseen ground issues and inflationary rises of 5% over the period.
- 2.9 Following the receipt of tenders, the total cost of the scheme was £12.1m but a significant re-engineering exercise generated savings of £2.3m to bring the final approved cost of the scheme down to £9.8m

3. Lessons Learned

- 3.1 The review of the YGG Lon Las scheme by the Audit Committee has generated a number of issues which are considered to be lessons learned which can be applied to existing and future 21st Century Schools Programme schemes. The lessons learned and the background in each case are identified in the following paragraphs
- 3.2 ***A robust case for the preferred way forward for each scheme is established prior to the submission of the Strategic Outline Programme***
- 3.2.1 The YGG Lon Las scheme was subject to an extended development period which gave rise to a number of issues which impacted on the scheme as a whole. The issues included
- Whether the new build should take place on an alternative site. As part of the Strategic Outline Case stage in 2009 a number of alternative sites in Swansea Vale were considered but ruled out due to flood risk, drainage issues and development restrictions. The alternatives were again reviewed in 2015 to ensure that there was no change in position.

- Whether the existing site could be demolished which was subject to CADW approval as the school was in a conservation area
- Whether the school had to be decanted to an alternative site during the construction period which was agreed as necessary on health and safety grounds following the appointment of Dawnus
- Unforeseen ground issues which could only be identified through detailed ground investigations

3.2.2 The issues contributed to slippage in the development of the scheme which may have been mitigated by the establishment of a more robust case at the outset. This would involve increasing project intelligence by commissioning detailed site investigations to reduce the likelihood of unforeseen issues arising later in the project's development. This would require the provision of significant up front funding for such feasibility and detailed site investigation works, not available to the programme previously. It is not currently possible to charge such costs against future schemes, nor to access Welsh Government funding to support such works, essential though they are.

3.2.3 It is recognised that the processes established in the 21st Century Schools Programme are prescribed by the Welsh Government. Therefore any changes will require discussions with the appropriate Welsh Government officials.

3.3 ***The means of cost planning at SOP development stage is reviewed, to ensure that all foreseeable costs are accounted for and adequate contingency is allowed.***

3.3.1 The original indicative capital cost of the scheme at SOP stage was £6.5m, however this excluded significant costs which should have been foreseeable at the time e.g. a more realistic estimate could have been provided of the cost of establishing temporary school facilities. It is recognised that a site had not yet been identified so it would be difficult to rely on the estimate but an element could at least have been included in the overall scheme costs for temporary facilities.

3.3.2 A further significant cost excluded at the SOP stage was optimism bias or contingency. Optimism bias is based on HM Treasury guidance and uses data based on past projects to provide an adjustment to project costs. The optimism bias rate for a new build project at the initial stage is 24% which reduces over time to 1% at contract award stage. Optimism bias was not applied to the YGG Lon Las scheme until the Outline Business Case stage where a rate of 7.94% was applied to the scheme costs.

3.4 ***All school organisation proposals are completed where possible prior to SOP submission to ensure that proposals are deliverable and within the proposed timescales.***

3.4.1 Whilst there were no school organisation proposals i.e. closure or merger in the case of YGG Lon Las, the current approach of completing the school organisation proposals before the submission of the business case for capital development should continue to ensure that the new build/refurbishment proposals when brought forward are deliverable on budget and within timescale.

3.5 ***The basis of cost estimates in SOP submissions is reviewed with Welsh Government***

3.5.1 The Welsh Government's advice is that capital expenditure can include any architects and surveyors fees where they lead to the acquisition or construction of a building if the appropriate business case is approved and the asset is created or built. However where fees are incurred in the very early stages of a scheme's development they are considered to be revenue costs which would have to be funded by the Council.

3.5.2 Unless the Welsh Government is prepared to change its advice for the funding of the early stages of a scheme's development then the costs incurred to facilitate business case development in advance of capital funding being approved by the Welsh Government will fall on the Council. This may include costs which do not ultimately lead to a successful business case approved by the Welsh Government.

3.6. ***Provision of an adequate budget and appropriate resource to facilitate business case development prior to SOP submission is sought***

3.6.1 It is essential that a detailed feasibility study is completed for all proposed schemes in advance of the Strategic Outline Programme submission. A detailed feasibility study at the outset could avoid some of the issues which arose with YGG Lon Las e.g. the ground issues may have been identified sooner and could have been included in the business case submitted to the Welsh Government

3.6.2 However, additional budget and staffing resources would be required to ensure that detailed feasibility studies could be completed. A case should be made to the Welsh Government to provide adequate funding for feasibility studies. This is particularly important for the future development of business cases should funding be provided by the Welsh Government for Band B schemes

3.6.3 If the Welsh Government do not provide sufficient funding then the costs of detailed feasibility studies would have to be provided from the Council's own revenue budget as the work would be required in advance of any scheme approval by the Welsh Government so it could not be charged against a capital scheme.

3.7 ***A review should take place of existing schemes to see whether savings can be achieved which can be used to fund further schemes***

3.7.1 Savings of £2.3m were achieved in the YGG Lon Las project by significant re-engineering following the receipt of tenders, as is the case for any scheme. Savings were achieved in foundation costs, de-specification, highways works and reductions in optimism bias and decant costs. To undertake this work earlier would represent a duplication of effort because firm costings are required to undertake the task.

3.7.2 It is recognised that reductions in a proposed scheme may impact on the quality of the scheme delivered but the Audit Committee felt that there was merit in reviewing existing schemes to see whether savings could be achieved which could then be used to fund or accelerate schemes in other schools.

3.8 ***An overall Project Director/Co-ordinator should be appointed with responsibility and accountability for the delivery of all major capital projects***

3.8.1 The QEd 2020 Programme has been using the Council's defined and well established project management and governance methodology. The Programme was managed by the QEd Programme Board and individual Project Boards supported by the QEd Strategic Development Group and QEd Steering Group.

3.8.2 The project management and governance methodology includes a Programme Manager and Project Sponsor and exception reports are made to the Programme and Project Boards on a monthly basis by exception.

3.8.3 The governance of the QEd 2020 Programme was subject to an independent OGC Gateway review as required by the Welsh Government. The Gateway Review made 4 recommendations to make the governance structure more manageable and effective, the recommendations have been largely implemented.

3.8.4 The Audit Committee were concerned that there may not be sufficient clarity of accountability with regard to the oversight and delivery of major building projects. The Committee felt that accountability would be enhanced by appointing an overall Project Director/Co-ordinator with full responsibility for the delivery of all major capital projects within the Council.

3.9 ***The lessons learned identified in this report should be applied to all existing and future QEd 2020 projects***

- 3.9.1 This is to ensure that the remaining Band A projects benefit from the lessons learned as well as future Band B projects.

4 Conclusions

- 4.1 The Audit Committee recognise that a number of schemes have already been successfully delivered in Swansea with the 21st Century Schools Programme funding provided by the Welsh Government.
- 4.2 It is also recognised that the Band A projects included in the £51m funding envelope provided by the Welsh Government will be delivered within budget and timescale despite the time slippage and increased costs associated with the YGG Lon Las scheme.
- 4.3 The YGG Lon Las scheme has been significantly more complex than other schemes delivered as the new build was on the existing school site which in turn required the decanting to a temporary site while the new build took place.
- 4.4 A comparison of the total cost per pupil of the YGG Lon Las scheme shows that it compares favourably with other projects already delivered especially when the demolition and decanting costs which were not incurred in other schemes are excluded.
- 4.5 The review by the Audit Committee of the processes involved in getting the YGG Lon Las scheme to Cabinet approval stage has identified a number of lessons learned which are outlined in this report and it is the Committee's view that they should be applied to all existing and future schemes.
- 4.6 It is particularly important that discussions are held with the Welsh Government in an attempt to influence any future systems and procedures to be established for the delivery of Band B projects.

5. Equality and Engagement Implications

- 5.1 There are no equality and engagement implications associated with this report

6. Financial Implications

- 6.1 There are potential financial implications relating to the funding of earlier feasibility studies and site investigations to be able to deliver a robust business case for each project at a much earlier stage. If the Welsh Government is unwilling to change its current policy of not funding the early stages of project development then the costs would have to be borne by the Council's revenue budget.
- 6.2 Sufficient budget and staffing will be required for detailed business case development with a potential risk that the budget is spent without any

commitment from the Welsh Government to subsequently fund the scheme.

7. Legal Implications

7.1 There are no legal implications associated with this report.

Background Papers: None

Appendices: None