

# Report

## **Audit Committee**

### **Part 1**

**Date:** 24 September 2015

**Item No:** 06

**Subject**     **Update: Market Square Bus Station – Project Overspend**

**Purpose**       To update the Audit Committee on Market Square Bus Station project.

**Author**       Streetscene Head of Service (Interim)

**Ward**          ALL

**Summary**     As required by Standing Orders (projects likely to overspend by 10% of more) the Audit Committee received a paper of a potential overspend on the above project.

**Proposal**     To provide a final outturn report to the committee of the overspend encountered on the above scheme

**Action by**    Head of Streetscene

**Timetable**    Immediate

## **Background**

The project comprised of two distinct phases:

Phase 1 main construction which was due to commence 12<sup>th</sup> November 2012.

Phase 2 the fit out which was due to commence 27<sup>th</sup> July 2013.

Members should refer to previous papers produced and discussed in November last year.

## **Progress since last Member Briefing**

The original bus station project awarded to Encon construction Ltd was forecast to be completed for a sum of £1.7 million. The final certificated outturn has recorded an excess cost of £163,000 following extensive negotiations on the substantial elements of contractual claims submitted by Encon .with a final certificate of £1.863,000

Whilst this still represents an overspend for NCC, it is a considerable reduction on the liability reported at the previous Committee.( circa £2`065`000 ) Members will already be aware – from the earlier report- the significant areas where improvements could be made.

A key aspect is to better understand the risk associated with major project delivery and to both make provision for 'optimism bias' where people can be overly optimistic in assessing costs; but equally the skills and capacity of the NCC staff in delivering projects.

It should be noted the contractor who built the bus station entered in to negotiations and had a very strong and lucid account of issues and complications in the project. Equally NCC drew on the skills and resources of officers and an interim consultant in negotiating a marked reduction and refund from the contractor. As stated above, whilst any overspend of public project must be challenged, the quantum of that overspend has reduced markedly.

Given the nature of public funding and recent experiences , the NCC Project team has been dissolved as funding for that team no longer exists and several key Officers left NCC last year. Equally, Streetscene project processes have improved significantly , and there is a clear requirement for formal project management qualification (i.e. Prince 2) for all significant projects officers in the future. . Moreover the choice of engineering contract is one that demands appropriate expertise – if NCC does not have that in house capability it will consider how to fund appropriate external expertise to be engaged within any future major project delivery.

Streetscene Management has already instigated a lessons learnt investigation.

This is seeking to understand what happened and crucially how to mitigate the risk of such future issues. This report will consider issues of Governance, Project Management expertise and the skills and experience of our supply chain partners.

## **Action**

As reported in the previous report "In accordance with Council Standing Orders and Financial Regulations, any contractual overspend of more than 10% must be reported to Audit Committee.

## **Financial Summary**

Following further financial analysis of the overall scheme costs it is now confirmed that the overall project costs for the Market Square construction is £2`047`000. . This includes all ancillary costs , design , consultancy , services and other specialist engagements as well as the Encon contract. It is felt the overall project cost needs to be reported to give a full financial indication , not being restricted to purely the Encon contract which was the basis of previous reports.

After discussion with finance staff, it was agreed by StreetScene to absorb the cost as a one off capital cost against NCC's 'Annual Sums'.

**Links to Council Policies and Priorities:**

N/ A update only

**Options available:**

N/A update only

**Preferred Option and Why:**

N/A update only

**Comments of Chief Financial Officer**

As noted in the Financial Summary, Committee Members need to be made aware of the overall overspend on the project as a whole, which amounts to £350k over a budget of £1,700k. The reasons for this have been documented above with regards to the Encon contract, but it would also appear that an insufficient budget was allocated

As stated in the report above, the overspend on this one-off project was funded by utilising funding from the StreetScene annual maintenance budgets and was agreed by StreetScene project and management staff.

StreetScene have instigated changes to how projects are managed in the future. It will also be important to learn from this project that this kind of "funding solution" must be made more transparent as there is an "opportunity cost" to utilising general maintenance budgets to offset one off projects which overspend. The solution made here is entirely appropriate, as long as it was known and agreed what the impact would be. The only other alternative would have been to increase the budget provision and incur additional borrowing costs, which in itself comes with problems regarding balancing the Council's overall budget.

Finance staff have been told to ensure solutions to deal with any overspending are now included in the regular monitoring reports which go to Cabinet.

**Comments of Monitoring Officer**

In accordance with Council Standing Orders and Financial Regulations, any contractual overspend of more than 10% must be reported to Audit Committee in order to explain the reasons for the overspend and to satisfy the Committee that procedures have been put in place to address any issues arising from the contract. An interim Report was presented to Audit Committee in November 2014, based on projected figures because of an on-going dispute over the contractor's final account. Those disputes have now been resolved and the final out-turn figure is set out in the Report. The reasons for the overspend have already been identified in the previous interim reports. Increased costs have been incurred due to unforeseen ground conditions and the need for additional contract works, and this is an inherent risk with all building and engineering contracts and cannot reasonably be foreseen. However, this contract has highlighted the need for improved project management and arrangements have already been put in place to address these shortcomings.

**Staffing Implications: Comments of Head of People and Transformation**

**Comments of Cabinet Member**

**Dated:** September 2015