

MAJOR PROJECTS REVIEW

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

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Summary

The Full Council decided on 8 October 2019 to terminate the Calverley Square project, involving a cash write-off of £10.3 million. There has been considerable interest in learning lessons from this.

This report draws together a summary of the findings and recommendations made by a number of audits and reviews of the Calverley Square project, in addition to matters we have found.

The project management arrangements have also been checked against various sources of best practice to identify strengths and weaknesses in the Calverley Square approach. The Amelia Scott project has also been considered in the process to identify any lessons that should be learned.

All this material has been taken into account in our recommendations.

The Terms of Reference for this review are set out in Appendix C.

Recommendations

- 1: The Programme Management Office should maintain a project management framework that is periodically reviewed and tested against best practice. Appendix A outlines what this involves.
- 2: All major projects should have a Member Oversight Panel established.
- 3: Major projects should be subject to independent reviews that have unfettered access to project information.
- 4: Any major project should have a key data repository that provides easy access to all key information.

Key findings from previous reviews

The Public Inquiry held in February 2019 and the decision notice issued in May 2019 tested the legitimacy of all aspects of the Calverley Square development. The recommendations and key findings from the Inspectors report are a matter of public record. Other reviews and tests of the Calverley Square development included a CIPFA review in 2017, a Mid Kent Audit review in November 2017, an application for a Judicial Review of the Planning Decision at the High Court and a Grant Thornton Value for Money & Governance Review in July 2020, after the Calverley Square project had been cancelled.

There have also been references to reports produced by Avison Young. We have reviewed these (14 in total) together with their Stage 4 report of Aug2019. We conclude that they are project management reports that summarise the things normally expected in a project: finance, progress, risk and issue management, change logs etc. These reports show that the project had some likely schedule slippage and that higher-than-expected costs would probably exhaust the project's contingency. None of the points were cited as critical. The monthly reports served to show that established project management disciplines were in place. Several of the reports commented that communication with local stakeholders was of paramount importance, although it was not clear how effectively this had been delivered. The reports also commented that project changes should not be funded from contingency.

The findings from these reviews and our own investigation were tested against various sources of best practice for the initiation and running of major projects. We also took account of the Amelia Scott project whose key innovation for our purposes is the existence of a Member Oversight Panel.

From all this we have four main findings.

1 Although established project management processes were in place, there are a number of areas for improvement

Sound project management processes were in place and were checked off against various sources such as the NAO common causes of project failure. Most of these common causes did not apply to this project. However, value for money and risk status needed to be more clearly documented in the Calverley project reports to Council. In addition, the cost increases, driven in part by scope increases, did not appear to be as clearly set out as expected from good practice. Value for money covers both costs and benefits- the benefit part of the equation was not well communicated, as noted by a Councillor at A&G committee meeting.

On the Amelia Scott project, no consideration was given to breaking the construction element of the project into phases or steps. On that project, the creation of a Member Oversight Panel is a helpful innovation.

The Council uses the RIBA staged plan of work for construction projects. There are a number of possible contractual approaches such as “Fixed Price Lump Sum Design and Build”. Possible approaches need explicit evaluation at an early stage in the project life and the acquisition method should not be decided by default. This bears on recommendations 1 and 3.

2 There was strong local opposition to the project

A number of local people were increasingly opposed to the scheme, in contrast to initial support from several businesses and other potential investors. The eventual lack of cross-party support left the project vulnerable to a change in political direction, ultimately leading to its termination. This means that for future projects, the Council should consider forms of public consultation at an early stage to ensure that stakeholder views are fully considered, and to provide a mandate that is less dependent on the political landscape. In addition, the design of a complex project with distinct elements incorporated under a single planning and procurement decision may restrict the options available to proceed with some elements if other elements are delayed or cancelled.

The creation of a Member Oversight Panel would provide a means of taking account of any local opposition to the project.

There is clearly a need to engage councillors in major projects but there then arises an issue over expertise - one cannot assume that there will be a cohort of councillors with project experience. Training can provide some help but the important item is to ensure that the project is subject to regular independent reviews whose report distribution should include the Members Oversight Panel. This bears on recommendations 1 and 2.

3 Cost and scope increased significantly

Estimated projected cost rose substantially. Some of this increase was due to factors that applied generally to construction projects at that time and some to unexpected problems discovered, but much of this was due to increase in project scope. Good practice would require that any increases which derive from scope increase should be explicitly reported and should not be paid for out of project contingency. This point was made in several of the Avison Young reports. The business case should be updated in such circumstances with the cost/benefit analysis showing clearly what the costs and benefits are.

This bears on recommendations 2, 3 and 4.

4 Information was not as clear as might be expected and it was not easy to put together a timeline of decisions and cost estimates

We found it unnecessarily difficult to establish a clear cost/timeline between the RIBA stages. Associated with cost is benefit and this was less clearly communicated than cost.

There needs to be a project data repository that provides easy access to all relevant project information. Where information is to have restricted access, this needs to

be explicitly justified on a case-by-case basis and there should be an aim to make such information accessible to the Member Oversight Panel, subject to appropriate non-disclosure arrangements.

This bears on recommendations 1, 3 and 4.

What is a Major Project?

Our findings and recommendations are aimed at major projects.

There is no simple definition of a major project. This is a combination of degree of expenditure, complexity, risk, the nature of political and stakeholder support, and is likely to require decision making by Full Council. This could also apply if the project is especially novel or contentious. The Calverley Square project met all these criteria.

We note that a major project may straddle more than one electoral cycle, in which case the political context can change significantly and this may affect stakeholder support. This certainly materialised with the Calverley Square project and needs to be considered for future projects - it is more than cross party agreement (because there was initially cross-party agreement for Calverley Square) and it certainly must involve continued engagement with public and Members on the purpose, objectives and benefits of the project being planned. This links to engagement of stakeholders from the outset of a project and on the clarity of the information provided to support decision making. In turn this bears on the nature of a Business Case, as set out in Appendix B.

APPENDIX A: PROPOSED PROJECT FRAMEWORK

The proposals herein are for major projects. The approach will be excessive for minor projects.

After reviewing a number of reference sites to assess the latest thinking in Project Management good practice, a number of themes emerged that relate to:

- Project Initiation
- Options Reports
- Holistic Risk Management
- Project Governance
- Stakeholder Engagement
- Regular and Integrated Stage Gate Reviews
- Project Health Checks
- Clear and readily accessible project information

The Council's Project Management Office is taking account of these themes in setting up a template to be used in the initiation and management of major projects. This template aligns with a number of standards for construction projects.

We have reviewed a draft of this template which was prepared by Michael Josh, an experienced project manager who is Project Management Office Lead and Project Manager of the Council's Business Delivery Unit. He had no prior involvement with the Calverley project. We agree with this template, with some modifications as outlined in this report.

The Council's standard approach for construction projects is based on the RIBA Plan of Work. There are possible contractual approaches such as "Fixed Price Lump Sum Design and Build", which puts the onus on the contractor to design the building and manage all aspects of the construction. This transfers risk and project management to the contractor but this is critically dependent on getting the Project Brief right since that determines what the Council will get. This approach precludes changes of scope. A variant of this approach is the "land swap" that involves the transfer of building land to the contractor instead of paying cash for the project.

The preferred acquisition route needs to be explicitly considered at project inception and not be decided by default.

The template will need periodic independent check to ensure that it embodies best practice as this develops over time.

Project Initiation

This calls for production of a management plan that sets out what has to be done, the acquisition strategy, what governance should be put in place, and what review schedule should be set up. Specifically, this involves establishing: the Requirement (often set out in the initial Business Case); the Brief; and the various plans setting out design, programme, implementation, handover and maintenance. If the design and build approach is followed, the Brief is critically important- once the contract is let, that is what will be delivered. That risk may be offset by the significant transfer of risk to the contractor. This also tends to discourage scope creep.

A key factor in deciding the procurement route is to understand the key risks, what can be done to mitigate them and who would own which risk in the proposed approach.

A guiding principle is “no surprises”.

Project Governance

This needs to be clearly established. It is well established good practice within project management delivery to have a strong, representative, and empowered Governance board.

A broad-based Project Governance Board should be set up during the very early stages of Project Initiation. Additionally, a Member Oversight Panel should be constituted akin to the approach adopted by the Amelia Scott project. The membership of the Project Governance Board together with Terms of Reference should be subject to Member Oversight Panel scrutiny and approval.

The Governance arrangements should be reviewed on a periodic basis by the Member Oversight Panel.

An important aspect of good Governance is project delivery assurance through Project Health Checks. These should be conducted by an independent body with unfettered access to project information. Their reports should inform deliberations of the Member Oversight Panel. Members of that panel should be offered some project management training since we cannot assume that they will be experienced in this regard. This is one of the reasons why the independent reviews are so important.

Stakeholder Engagement

These arrangements should also provide for effective Stakeholder Engagement from the outset. Best practice sources stress the importance of this as a key component in delivery of a successful major project. This was identified as one of the key areas for improvement in some of the Calverley Project reviews.

A key feature of the approach is that a project stage gate approach should be identified from the outset and that stakeholder engagement should be embedded as well.

A stakeholder assessment and engagement plan should be drawn up at an early stage within project initiation. The engagement plan should include Stakeholder surveys and scoring that is reviewed on a regular basis and includes rectification measures if required. This also connects with the need for a communications plan from the outset, along with a clearly set out benefits realisation plan.

Options Appraisal

This is one of the key parts in a Business Case. A number of findings from the Calverley Project reviews concerned clarity of information. A coherent structure to Business Cases is a key way to meet this need, since a key part of that is the Options Appraisal. Appendix B summarises what should be in a Business Case. The Options Appraisal should not be seen as a one-off exercise undertaken during project initiation. Established systems for option appraisal seek to promote good decision-making and should be subject to continual review and reference at key stage points.

A validated approach should be documented and agreed by the Project Governance Board. Part of the options report processes will be consulting with stakeholders and drawing up an initial long list and then short list of options. The preferred option will then be identified. The preferred option will be signed off by the Project Governance Board and validated through the Member Oversight Panel.

This should be reviewed and enhanced through the initiation process. A full options appraisal should be undertaken at a later stage and should be reviewed at later checkpoints.

If there is any proposed change of project scope, the options appraisal will need revision since the project budget should be reset to meet the newly-identified situation.

Integrated Stage Gates and Interim Reviews

Stage Gate reviews are seen as an essential element within project control to assess the project readiness to move forward to the next stage and to re-evaluate the project viability.

Stage Gates should contain a mixture of criteria including Business readiness, project viability and stakeholder acceptance. For a construction project this might be based upon the RIBA project stages, depending on the acquisition strategy. Stage Gate frequency should be agreed at the start of the project and reviewed on a regular basis. Typically, a Stage Gate should be undertaken at least every six months but linked to a key project delivery stage.

At each Stage Gate review a Financial Assessment should be undertaken to reassess the project viability. The degree of certainty of the costs stated will increase as the project progresses through the lifecycle however the same dimensions can be used.

The Project Management Institute (PMI) is one of the sources of good practice for Stage Gate Reviews.

The Stage Gate reviews should be presented to the Project Governance Board who will decide which outcome should be pursued:

- The project does not progress at this point in time until areas of concern have been addressed.
- The project proceeds but with a reduced or different scope.
- The project proceeds at Risk with agreed significant mitigation planned to address key risk areas.
- The project proceeds as planned.

Project Health Checks

Project Health checks should be undertaken at pre-agreed stages and points within the Initiation and Delivery lifecycle. The Health Checks should contain both internal and external reviews. The schedule for Health Checks will be signed off by the Project Governance Board.

The output from the Health Checks will be presented to the Project Governance Board. The Health checks may be scheduled to align to Stage Gate reviews to inform the Project Governance Board when making decisions on project direction and project viability.

As with Stage Gate reviews, the outcomes from the Health Checks should be made visible to the Member Oversight Panel.

Note that according to best practice, such reviews are conducted by organisations with no other connection to the Council. Local Partnerships is a joint venture between HM Treasury and the LGA. They are able to deliver independent Stage Gate and Health Check reviews.

Project Repository

Key project information needs to be readily accessible in one place. Anybody who needs to review the decisions, and their history, should be able to access this without this becoming an exercise in archaeology.

For example, the evolving Business Case should be in this repository. It ought to be a straightforward matter to assemble the decision trail regarding changes of scope etc.

There may well be certain information that has to be kept under limited access but the basis for this must be explicitly set out. With a public sector project the presumption is for free access to the public.

APPENDIX B Business Case

Preparing a Business Case

The review reports state that at each decision point, appropriate information was available to Council. However, a number of these also question the completeness and clarity of information provided at those decision points. The standard approach to achieve clarity is to have a structured approach to Business Case preparation. For example, the RIBA framework for construction projects calls for a Business Case (BC) from Stage 0.

Where there are various stakeholder interests and potentially conflicting views, this puts a premium on having clear information at all stages.

The Treasury produces a guide to Business Cases in the “Treasury Green Book”. This material needs to be adapted for Council use.

At the start of a project, a full BC is not possible but there can be a Strategic Outline Case (SOC) that sets out the strategic context, makes the case for change and explores possible ways forward, always with a focus on outcomes.

As the proposal proceeds, the SOC can be developed into an Outline Business Case (OBC) that adds material on affordability and required funding. The Full Business Case (FBC) adds potential value for money, and outlines how this might be delivered. The BC should be updated as the project proceeds. In particular, any change of scope should involve a revision of the Business Case.

Content of BC

The full BC should contain five parts.

1.Strategic Fit

The case for change should cover rationale, background, policy context and strategic fit, with clear objectives in terms of outcomes and why it is needed now.

2. Options Appraisal

Identify the costs and benefits of at least three potential options. The options should include “do nothing” or if that is not possible, “do minimum”. The evaluation should include explicit allowance for Optimism Bias in which historic analysis of various project types is used to make allowance for overrun of cost and time in the CBA.

3. Commercial Aspects

This section should set out the commercial feasibility / deliverability, what procurement is required and the procurement strategy.

4. Affordability

Focus on affordability; is full budget funding secured and budgeted by all parties?

5. Achievability

Is the proposal practically deliverable and what are the delivery plans?

Some questions for a Business Case

Does it:

- have a clear benefit delivery plan? Is there a clear communications plan?
- show clear delivery dates and detailed milestones?
- set out appropriate programme or project management techniques? Note that this varies with project type:
 - Infrastructure & construction (RIBA/ Design and Build/Other)
 - ICT
 - Transformation & service delivery
- identify major dependencies, constraints and risks identified with outline plan for addressing them.?
- include clear arrangements for Gateway reviews and healthchecks?
- have a contingency plan with arrangements & provision for risk management? Note that risk management is linked to project assumptions which need to be clearly articulated from the outset.
- show that the required skills and expertise are in place?

Best practice calls for the Options Appraisal within the BC to include “Optimism Bias”. This reflects the fact that many projects take longer and cost more than envisaged at the outset. Historic project data has been compiled such that typical allowances are identified for various project types. The Optimism Bias allowance is then factored into the Cost Benefit Analysis and the question then asked is whether the project still has a positive CBA after this is taken into account. Note that the Optimism Bias is quite separate from any project contingency.

The Optimism Bias guidance for a standard building is 2-24% on cost. For the Calverley Place project, possible cost overrun was within the historic range.

APPENDIX C: TERMS OF REFERENCE

Review of Major Projects

The aim of this review is to identify: what happened with Calverley Square; how this relates to best practice for major projects; and to build on these lessons in setting out how the Council should engage in any future major projects. This learning will also include the progress reports of The Amelia Scott project. This will be based on previous reviews of the project, in particular the CPO report (May 2019) and the external audit value for money and governance report (July 2020). The primary output from this review is to set out what must be in place for the initiation and management of any major projects the Council might undertake in the future.

This is not an audit nor is it a place to allocate blame or to revisit previously expressed opinions, interests, or political viewpoints. It is not about scoping any particular new or successor project.

The Portfolio Holder for Finance and Governance will be the review Sponsor. The review will be conducted by the two independent members of the Audit and Governance Committee: Tony Quigley and Geoff Turner. They will prepare a report for consideration at the July 27 meeting of the Audit & Governance Committee. They will have access to source material and reports including the most recent ones produced by Avison Young.

A draft of the report will be presented to the Portfolio Holder, the chair of the Audit and Governance Committee and members of that Committee. The final report will be submitted to the Audit & Governance Committee for its consideration and decision.

1 Establish what happened.

Provide the timeline of all the key decision points and links to the documentation that supported or informed those decisions.

Tabulate all recommendations and key findings from prior reviews.

Findings should be compared with the National Audit Office (NAO) list of common causes of failure for major projects.

2 Consider guidance on initiation and running of major projects.

Guidance on major projects is available from the Government's Infrastructure and Projects Authority (IPA) and the NAO. From all this select what would be appropriate for a major Council project.

It is noted that the accepted guidance says that the options appraisal for any major project should include a "do nothing" option against which all other options are tested. When this is not possible, as is the case with the Calverley project, this should be replaced by a "do minimum" option, since, for some projects such as Calverley Square, doing nothing is not an option. Hence any recommended process changes should recognise that options under consideration should include "do nothing" or if that is not possible, "do minimum".

3 Produce a Framework to be used for Major Projects

Taking account of findings and recommendations from 1 and 2 above, make recommendations for the initiation and management of any future major projects the Council might undertake.

It is noted that the Council uses RIBA Plan of Work stages, which apply to a building project.

If a project has a major IT component, different project management disciplines apply, such as Agile programme management. It follows that selection of the programme management method should be covered in the proposed framework.