



A52 Transport Improvements Scheme Investigation CEO's Executive Summary (Head of Paid Service)

Derby City Council 7 February 2019

Purpose

Our Internal Audit service - the Central Midlands Audit Partnership (CMAP) - has produced a report following their investigation into the A52 Transport Improvement Scheme (the Scheme) on the east side of the City. The report is detailed, fact finding, comprehensive and runs to over 130 pages.

This Executive Summary summarises the key issues outlined in that report and sets out what the Council is doing as a result. This is intended to provide a concise overview of the situation. It is not intended to replace the report and interested parties are strongly encouraged to read the detailed report.

The Investigation

The Council's Strategic Director of Corporate Resources asked CMAP to undertake this investigation on 12 May 2018 in the light of a significant increase in Scheme costs. This was endorsed by the Acting Chief Executive and the political leadership. CMAP were requested to investigate and report back on:

- the appropriateness of the design;
- the appropriateness of the framework and contractor;
- accuracy of cost estimates and verification of costs and works;
- project management arrangements;
- governance arrangements in respect of approvals;
- governance and reporting arrangements for monitoring contract performance and delivery.

The investigation has been wide-ranging and CMAP has examined documentation, interviewed councillors and officers, established and secured the necessary evidence to support their findings and formally reported their findings to the Council's Chief Executive Officer (CEO). The nature, complexity and scale of the fieldwork has been extensive and auditors needed time to complete all their lines of enquiry before reaching conclusions on their findings and issuing the report.

The Report

A draft report was issued to the Strategic Director for Corporate Resources for comment and a final version was issued to the CEO on 18 January 2019. Since then, as a result of the significant issues outlined in the report, the CEO has sought and received advice on legal, financial, HR, constitutional and communication matters in readiness for its publication.

The Strategic Director for Corporate Resources has regularly spoken with the Council's external auditor during the period of the investigation to keep him apprised of progress. The CEO sent a copy of the report to the external auditor on 23 January 2019 and has spoken with him a number of times. In his initial feedback, he has described the report as "*comprehensive, independent and balanced*".

The report being published today differs slightly from the version issued to the CEO. Very minor changes have been made to make the report easier to understand, to clarify some key points and to make minor redactions for reasons of commercial confidentiality and in the light of further action that's being taken. These changes comprise the provision of a more detailed glossary to explain the acronyms and technical terms used in the report (Appendix B) and the addition of a map of the site (Appendix C). The names and post titles of more junior officers have been replaced with

“Officer A”, “Officer B” etc. and “her/him” and “he/she” have been changed to gender neutral pronouns (they/them/ their) for data protection reasons. There are three further additions.

Paras 2.1.6 And 2.2.2 clarifying who was and is in the ‘Project Team’ referred to throughout the report;

Para 2.2.40 clarification of the £14.9m Target Cost and the £14.906m Cabinet approval. It’s just coincidental that both figures round to £14.9m. The management of costs within the £14.9m envelope includes all other costings for the Scheme in addition to the construction costs;

Para 2.2.59 inclusion of a direct quote from a colleague rather than a summary, in line with direct quotes from individuals having been used throughout the report (although this has been redacted for reasons outlined above).

The A52 Scheme

The Scheme is designed to provide significant highways benefits on a congested part of Derby’s principal road network. In February 2014, a preferred option for the Scheme was approved. In December 2016, Cabinet approved the start of the Scheme and the Council entered into a contract with Galliford Try for delivery of the works. Scheme costs were expected to be £14.906 million.

Since the main works started in October 2017, there has been a significant increase in costs. The cost of the Scheme was increased to £17.063m in March 2018. When further significant overspends were identified in May 2018, the Council considered termination of the contract and cessation of the project, but this would have incurred significant termination costs and the risk of financial clawback. There would have been further reputational impact and a potential jeopardising of future funding bids. The benefits of the Scheme would also not have been delivered. Therefore, on 13 June 2018 Cabinet agreed to allocate a further £7.65m increasing the overall cost to £24.713m, to enable continuation of the Scheme.

At the point of releasing the audit report, costs were estimated at £33m, for which approvals were secured from Cabinet on 12 September 2018. Since then, further work indicates that estimated costs are higher still at c£42m. This will require further Cabinet approval.

Audit Findings

The report identifies a series of weaknesses, which can be summarised as follows:

- This was a poorly conceived and costed project;
- There were weak governance, risk management, financial management and project management arrangements;
- Contract management within the Council was inadequate;
- Issues were not appropriately escalated to more senior officers and councillors;
- There was insufficient oversight and challenge by line management; and
- There is evidence of inadequate officer leadership.

There were problems with the Scheme from the start, due to not having sufficiently mature designs in place when letting the contract and an over-optimistically low budget for the works; this project was never going to cost £14.9m. This was compounded by placing unreasonable reliance solely on one individual officer for defining and checking detailed designs and specifications. There was also insufficient challenge to initial and subsequent costings and inappropriate de-scoping of works. Issues were not escalated and there was insufficient management oversight and grip. Overall, the project is an example of ‘what could go wrong did go wrong’. There have been comprehensive failings and weaknesses over a long period of time.

Evidence from the Audit findings show that many problems and issues are centred in the officer domain. Councillors are not expected to be experts in project and programme management. They have a legitimate expectation that they will be well supported and served by officers and provided

with sufficient briefings and information for them to exercise their roles. The report evidences that, until more recently, this has not been at the consistent standard it should have been.

The findings show there is no evidence of fraudulent and/or criminal activity.

Action Taken

Project Management

In June 2018, following the commissioning of the audit investigation, project management arrangements were significantly strengthened. A Strategic Board was set up to oversee the project and has met monthly since July 2018. The Board has formal agendas and documentation, appropriately circulated in advance. The Board comprises relevant individuals from within and external to the Council. The fundamentals of effective project management are now in place. The Project Team includes some different people from before and the team is now appropriately supported and managed.

In the autumn of 2018, the CEO moved the Performance and Intelligence Team out of the Communities and Place Directorate and established a corporate Programme Management Office to focus on strengthening project and programme management. A project managers' network has been set up to support portfolio, programme and project management more generally.

Individuals Referenced in the Report

In advance of publication, it's been important to ensure that those individuals referenced in the report have had an opportunity to be made aware of its imminent release into the public domain and, where appropriate, were able to read it. Therefore, a number of former and current colleagues have been contacted to advise them of this and, where appropriate, have been provided with a copy of the updated report.

Councillors referenced in the report were invited to a briefing and have also been provided with a copy earlier this week.

Political Leadership

During week commencing 4 February 2019, the Council's four political Group Leaders were briefed and provided with a copy of the report. The Cabinet were also briefed at a separate meeting and similarly provided with a copy of the report.

Governance Issues

There will be a further report by CMAP to the Council's Audit and Accounts Committee, setting out the systems weaknesses outlined in the investigation report and an action plan to address them will be produced and implemented.

In the light of the significant weakness identified on this project, the CEO has commissioned a further audit review of all other key and/or significant projects and programmes within the Communities and Place Directorate.

The CEO has also commissioned a review of the current project arrangements for this Scheme to ensure they reflect best practice, and the current Senior Responsible Officer has stepped away from the project.

HR Issues

There are four current colleagues who, as a result of the findings of the report, are subject to separate employment related investigations. These are already underway and must run their course. There would have been a similar process applied to some former colleagues had they still been in the Council's employment.

Next Steps

At the meeting of 12 July 2018, the Council resolved that once the report was available it would be debated at Full Council – the resolution was as follows:

“Resolved: Council is deeply concerned at the scale of the projected overspend on the A52 improvement scheme and the implications for the Council, from both a financial and governance perspective.

In order to provide reassurance and transparency to the people of Derby, Council calls on Council Cabinet to ensure the results of the CMAP (Central Midlands Audit Partnership) investigations are made public by bringing the report before Full Council for debate.

Council also calls upon Councillor Afzal to fully co-operate with this investigation and to divulge when he was first aware of the overspend and what actions he took to mitigate the impact prior to him leaving his Cabinet position in charge of the project in May of 2018.”

The next meeting of Full Council is 27 February 2019 at which the annual budget is due to be debated. The CEO is currently liaising with the four Group Leaders as to the best date for the debate on the audit report to take place, which will be as soon as is practicable, and will be identified in the next four weeks.

AUTHOR

Carole Mills - Chief Executive Officer - 7 February 2019