

Item No:	Classification: OPEN	Date: 4 November 2003	Meeting Name: EXECUTIVE
Report Title:		Report of Overview & Scrutiny Committee's Review of the Capital Programme Overspend at Charter School	
Ward(s) or Group affected:		All Wards	
From:		Overview & Scrutiny Committee	

EXECUTIVE SUMMARY

1. Overview and Scrutiny Committee finds that there has been failure of project and risk management arrangements in respect of the refurbishment of the Charter School site. This has been compounded by poor arrangements for reporting to members and acting on internal and external audit reports.
2. In the space of three years, two major capital project management failures occurred, leading to overspends on Charter School and Peckham Pulse¹. We are determined that such failure should not recur in the council's management of such projects.
3. While we are encouraged by some of the developments in the areas of procurement and project management that have been reported to us by officers, we believe that the council needs to satisfy itself that they are robust and sustainable.
4. We have deliberately not sought to apportion blame for the overspend. It is clear that a number of individuals at different levels in the organisation made mistakes, but the key issue is the system failures.
5. We ask the Executive to frame its response to this report in terms of the learning from Charter School, and how this learning is being applied in the council's approach to the management of capital projects.
6. **We recommend to the Executive:**
 1. That the Chief Executive reviews the Council's approach to managing large capital projects and proposes a corporate methodology which includes clear arrangements for member involvement, project roles and responsibilities, senior management sponsorship, training, monitoring and the role of the corporate centre in supporting and/or intervening in projects which are running into difficulties;

¹ A healthy living centre built in Peckham in 1999

2. That the Strategic Director of Education is asked to report publicly on Atkins' Faithful and Gould's findings and recommendations and his response to them in as far as he can, given the commercially confidential aspects of the report;
3. That the council cannot rely on external contractors to protect its corporate interests and therefore it is necessary to ensure robust client management structures are in place for major capital projects;
4. That the Executive should ensure adequate protection of the council's interests by employing those with the necessary technical expertise to perform the client role in contract management;
5. That the Chief Financial Officer is asked to report on the Council's risk management strategy – how ongoing risk is assessed and actively managed; how the risk management strategy should work to trigger support/intervention from the corporate centre; and how it worked in the case of the Charter School project;
6. That officers are asked to report on how capital projects are reported to members in future, addressing the questions of risk management, overall project progress and clarity of financial reporting; and
7. That the Chief Executive reports on his proposals for improving the tracking of audit reports, and how the new system will ensure that the council is genuinely learning the lessons of such reports.

BACKGROUND – PURPOSE OF THE REVIEW

7. The Executive asked Overview and Scrutiny to undertake this review following their consideration of a report on the 2002/3 capital programme. The costs of this school refurbishment had increased from an initial assessment of £4.5M to approximately £22M² over the life of the project. Overview and Scrutiny noted that there were two other reviews in hand, one led by District Audit and one by Atkins Faithful and Gould (quantity surveyors), commissioned by the Strategic Director of Education and Culture. Overview and Scrutiny resolved that the focus of its work would therefore be:

to consider how the capital building project at the Charter School was planned, approved and monitored at Member level, and make recommendations to the Executive as to how such projects could be better managed in future, taking into account the findings of the reports arising from inquiries carried out by the District Auditor and the Director of Education.

² We understand that a further contract is yet to be let for the remaining external works, and that the cost of this work is estimated to be approximately £750,000. We appreciate that as the school expands it will require additional play areas. The Executive will need to satisfy itself that it represents good value.

OVERVIEW AND SCRUTINY'S APPROACH

8. Overview and Scrutiny received evidence at their meetings of 19th March, 19th May, 7th July and 15th September and visited the Charter School on 30th June. A number of members also visited Waverley School, which has also undergone substantial refurbishment. The bulk of evidence, reports and discussion on this matter have been taken in closed session. The committee is conscious that a closed scrutiny may appear to be a contradiction in terms and that there is a good deal of public interest in this matter. However, we are satisfied that we needed to conduct our review in closed sessions because:
 - a) it has involved the consideration of contractor costs which are contractually confidential
 - b) it was necessary to avoid the possibility of prejudicing any legal action that might arise if there were found to be failures in the responsibilities of project managers or the contractors; and
 - c) one of the key sources of evidence we drew on is the District Audit report, which was received in confidential draft.

The School

9. The Charter School is a mixed community secondary school on the site of the former Dulwich High School for Boys. The former school was closed in July 1999 and the first intake of year 7 pupils to the new Charter School took place in September 2000. A major refurbishment of the accommodation was necessary in order to meet the requirements of the new school, and this was planned in phases alongside the year on year incremental admission of pupils.
10. We have structured the report into the 4 main themes of our findings. Each section draws on the evidence of the two other reviews as well as the information presently directed to Overview and Scrutiny. We hope that drawing the entire picture together in this way will assist the Council in learning the lessons and ensuring that the Council's capacity to manage current and future major capital projects is significantly improved.
11. We spent some time discussing the question of whether or not there has been extravagant expenditure on design and on equipment at Charter School but have not made a judgement. It is clear that the school has achieved a very pleasing environment and high standard of equipment for its students. However, other schools in the borough have not been offered the same opportunity but have been required to manage within budget allocations or raise their own funds. We see this as a failure of the project management as discussed throughout this report, and not a criticism of the school.

Project Management

12. It is apparent that project management processes failed significantly in respect of the Charter School. The client side of the project was formally managed by officers in the Education Property Team, with a team of external consultants (architect, project manager, quantity surveyor) carrying out the work and a steering group composed of representatives of the parents group who had campaigned for the new school, council officers and the then council leader. This latter group was later replaced by the shadow governing body and the newly appointed head teacher. Both the steering group and the shadow governing body played influential roles in developing the plans for the school, but neither body had any responsibility for budget monitoring or more importantly containing expenditure.
13. Both the Atkins Faithful and Gould and the District Audit reports drew attention to the large number of consultants working on the scheme, inevitably in a complex and time limited scheme. However we can see no evidence that the council put a corresponding structure in place to manage the client side. For example, we were told that the project group was meeting regularly to progress the scheme, but it is not apparent that this group's recommendations were being evaluated or questioned by senior officers. Similarly, Atkins Faithful and Gould commented on the lack of technical expertise available to the Property Team officers, which hampered their ability to manage the professional team in terms of questioning their advice or challenging the escalating costs. They also drew attention to the fact that the external project manager did not have responsibility for controlling or managing costs. There was therefore no incentive built into the project structure to control costs.
14. We heard evidence from the Head of SBDS that there is useful work going on to improve project management techniques, but it was not clear to us how far this has gone in terms of its impact on projects currently in hand and how it links to the procurement strategy the Assistant Chief Executive (Performance and Strategy) is leading.
15. **We therefore recommend to the Executive:**
 1. That the Chief Executive reviews the Council's approach to managing large capital projects and proposes a corporate methodology which includes clear arrangements for member involvement, project roles and responsibilities, senior management sponsorship, training, monitoring and the role of the corporate centre in supporting and/or intervening in projects which are running into difficulties;
 2. That the Strategic Director of Education is asked to report publicly on Atkins' Faithful and Gould's findings and recommendations and his response to them in as far as he can, given the commercially confidential aspects of the report; and
 3. That the council cannot rely on external contractors to protect its corporate interests and therefore it is necessary to ensure robust client management structures are in place for major capital projects.

Risk Management

16. The decision to close Dulwich High School and open the Charter School was formally made as a result of a major review of secondary school and 16-19 provision in Southwark in 1998. Southwark's Education and Leisure Committee approved the proposals in November 1998 and the Secretary of State for Education approved the statutory proposals in May 1999. Officers have told us that it was their assessment from the outset that this was a very ambitious timeline in view of the scale and complexity of the scheme, but it was believed to be feasible and there was considerable public pressure to deliver the new school. The District Audit report drew attention to the lack of risk management associated with this project. We share this concern and have focussed on two specific issues to illustrate the point.

Asbestos

17. We were particularly concerned by the additional costs of approximately £3.6M arising from the discovery of asbestos in the site. Overview and Scrutiny Committee was surprised to learn that there had not been a robust asbestos survey at the outset. We fully appreciate that hindsight is a luxury and we also note the point the head of SBDS made to us - that the asbestos was in an unexpected part of the buildings and may therefore not have been discovered by a survey. Nonetheless, we must suggest that the standard practice should be that full surveys are undertaken unless there is a compelling reason not to do so, and that a decision not to undertake a survey should be explicitly confirmed by a senior officer on the basis of appropriate technical advice. This also links to the point about the lack of technical expertise available to the Property Team in respect of their ongoing management of this major project.
18. **We therefore recommend to the Executive:**
 4. That the Executive should ensure adequate protection of the council's interests by employing those with the necessary technical expertise to perform the client role in contract management

Escalating costs

19. It is clear that the early budget estimates were wholly unrealistic. The Strategic Director of Education pointed out to Overview and Scrutiny Committee that the original estimate of £4.5M was based on the Department for Education and Skills "book figure". In effect therefore, the likelihood of budget overruns was written in from the very beginning but we see no evidence that this was explicitly understood by members. We accept that the pace of the project meant that some of the key decisions as to the school's infrastructure had not been taken when budgets were set. Again, we see no evidence that this was provided for in the financial decision making and reporting arrangements for the project, which should have been a standard risk management practice.
20. **We therefore recommend to the Executive:**

5. That the Chief Financial Officer is asked to report on the Council's risk management strategy – how ongoing risk is assessed and actively managed; how the risk management strategy should work to trigger support/intervention from the corporate centre; and how it worked in the case of the Charter School project

Reporting to Members

21. We have looked at the formal committee reports to members and we were told about the role of the steering group, which was a consultative group with no decision making powers. We have not seen terms of reference or minutes of this group, but we understand that its role was to provide a forum for the various stakeholders to plan the physical refurbishment of the site and take forward the development of the ethos and character of the school. There are two key points to make about the reports to members.
22. Firstly, there is a striking gap between the work described to us as being carried out by the project group and the decisions that were formally put to members via committee reports. The evidence we received from officers, the head teacher and the chair of governors make it clear that there was a deliberate goal from the outset to develop a flagship school. The Strategic Director of Education, the head teacher and the chair of governors all talked about the need to generate parents' and pupils' belief in the new school given the previous history, the context of Southwark's need to make a step change in education performance, the contribution a flagship school could make to this, and the opportunity to develop a school with an entirely different approach to curriculum delivery. We are sympathetic to all these points but they are not reflected in either the risk management arrangements or the reports to members. There is a lack of connection between the financial planning and the aspirations of those making or influencing the early decisions. The ambitions for Charter School did not match the budget for Charter School and we have not been told of any strategic member level discussion about how to bridge the gap. The committee reports asking members to increase the capital budget allocation for Charter School were not supported by detailed assessments of the project's progress and did not present real choices as to the level of spend.
23. With the benefit of hindsight, it is apparent that a new build would have been more cost effective than the refurbishment. But the combination of the non-negotiable target of opening in September 2000, together with the weak budgetary work, poor reporting arrangements, and lack of risk management mean that there were no real opportunities to discuss such options. This has consequently impacted on the whole education capital budget, causing other schools to have to cut back on their plans for capital works.
24. Secondly there is an issue about the clarity of financial reporting on this project. The Chief Executive told Overview and Scrutiny Committee that reporting of capital budgets to members was typically incremental and that he accepted that this could have the effect of reducing members' ability to monitor the overall picture on individual schemes.
25. **We therefore recommend to the Executive:**

6. That officers are asked to report on how capital projects are reported to members in future, addressing the questions of risk management, overall project progress and clarity of financial reporting.

Follow up Action from Audit Reports

26. The District Audit report pointed out that some of the mistakes made in the Charter School project had already been the subject of previous audit reports, both internal and external, and that the recommendations did not always seem to have been carried out. We looked at the District Audit report on Peckham Pulse and were concerned to see some similar themes echoed in the two reports. We heard some evidence from the Assistant Chief Executive (Performance and Strategy) that audit reporting is to be integrated into the quarterly performance reporting arrangements already in place. We look forward to learning more about this and for our part will consider what role scrutiny might play in “dip testing” progress against audit recommendations.

27. **We therefore recommend to the Executive:**

7. That the Chief Executive reports on his proposals for improving the tracking of audit reports, and how the new system will ensure that the council is genuinely learning the lessons of such reports

Conclusion

28. The committee wishes to emphasise that the scrutiny review has concentrated on the specific issue of the overspend arising from the refurbishment of the school. This was a review of the management of the capital project, not an education review. It is clear that Charter is a first rate school and we were pleased to hear of the very positive Ofsted report the school received in February 2003. We hope that the school will continue to flourish. We wish to thank the head teacher and the chair of governors for participating in our review and for accommodating the committee’s visit to the school.

29. The council’s aspiration to use Charter School as a symbol of change in education outcomes has been diminished by the poor management of the refurbishment project. The Charter School seemed to get what it wanted with little reference to the overall education capital budget. Other schools have had to scale down their plans to meet overall budgetary constraints. Charter should not have been immune from that process. More effective risk and project management would have reduced the continuous overspending. Members should have been integrally involved in the project.

Background Papers	Held At	Contact
Overview & Scrutiny Committee – Agenda and Minutes	Southwark Town Hall, Peckham Road, London SE5 8UB	Lucas Lundgren Scrutiny Team 020 7525 7224