

Town Centre

Regeneration

Project - Project and

Risk Management

Stevenage Borough Council

Audit 2007/08

October 2008



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Summary report

Introduction

- 1 The Government's modernising agenda aims to transform the way the whole public sector delivers policies, programmes and services. The intention is to build services around customer needs, not the organisations themselves.
- 2 Project-based working, with teams formed to meet specific targets in a specific time, is an ideal way to tackle the work needed to achieve these aims. However, the public sector as a whole has a mixed track record in the successful delivery of projects. Barriers to success include:
 - poor project management, often due to use of inexperienced staff;
 - poor identification, evaluation, control and monitoring of risk;
 - mismanagement of contractors and suppliers;
 - lack of benefits realisation; and
 - lack of recognition and management of cultural, political and multi-agency issues.
- 3 Failure to address these issues will result in poor project delivery which can lead to:
 - waste of scarce resources;
 - damage to staff and public perception of the project and the organisation; and
 - the opportunity for fraud.
- 4 Although project and risk management methods cannot take the place of experience and good judgement, the adoption of sound project and risk management practices should substantially reduce the risk of project failure.

Background

- 5 During the last 40 years, Stevenage town centre has been subject to piecemeal renewal. It is now declining in terms of its growing level of void commercial properties and the Council consider it is not fit for the planned expansion in population from 80,000 to 104,000 by 2021. The town also suffers from increasing competition from nearby Luton and Bedford and has dropped from 123 to 149 in the national retail rankings.
- 6 The Stevenage Community Strategy, 'Stevenage 2021' (December 2007) contains an objective to create a prosperous town that attracts and supports businesses and encourages local enterprise; this included a revitalised town centre. The Town Centre Area Action Plan is at an early stage and will not be adopted until 2011. It will set out planning policies for future developments in the town centre to 2021.

- 7 The Council has selected its partners in the town centre regeneration scheme and construction was originally planned for 2009.
- 8 Key risks to the project include:
 - failure to deliver on a corporate Council objective to revitalise the town centre;
 - loss of car-parking income;
 - identification and management of strategic risks (e.g. the impact of not delivering affordable housing in terms of contribution to the Council's overall housing need; impact on overall job creation and business continuity); and
 - complexity of negotiations around land leases and rental income.

Scope and objectives

- 9 The audit is designed to evaluate the Council's approach to the management of the town centre regeneration project and the management of the associated risks. The report is based around the following key questions.
 - Has the Council considered how the project supports its strategic objectives and identified the risks to those objectives?
 - What are the Council's arrangements to ensure the financial appraisal is robust?
 - Has the Council the capacity to complete the project successfully?
 - Are the project management governance arrangements robust?
 - Are effective arrangements in place to secure continuity of service delivery?
 - Are arrangements for the identification, evaluation, control and monitoring of risk effective?
 - Has the Council effectively addressed its potential conflict of interest as both planning authority and development partner?

Audit approach

- 10 The audit approach included:
 - interviews of Members and Officers with responsibility for the town centre regeneration project or the management of its risk;
 - interviews with relevant partners; and
 - a review of relevant documents.

Main conclusions

- 11 The Council has a clear vision to re-vitalise Stevenage Town Centre with cross-member support. Strong leadership is evident and the majority of financial risks have been transferred to the developer. The financial appraisal arrangements have been effective but the Council carries a financial risk of recovering town centre assets from the developer should the project fail after the development commences. Delivery of the intended affordable housing is currently uncertain.
- 12 The management of project progress has been mixed with some key milestones missed. It is not clear that documented and effective reviews have taken place at key points at which the business case is reviewed and a decision made whether the project should progress further. Limited officer capacity has led to some shortcomings and represents a growing risk as the project becomes more complex.
- 13 Risk management arrangements are adequate but risk workshops are irregular and have failed to pick up some key risks. Risk control and monitoring documentation provide an inadequate audit trail.
- 14 The Council has recognised its conflict of interest as planning authority and landowner but could enhance its good governance and public confidence through published protocols.

Recommendation

- R1** Enhance the town centre regeneration project risk management process through:
- a regular programme of risk workshops all or part of which involve a representative of the developer;
 - re-assessment of potential risks arising from the project being terminated;
 - highlighting key current risks in the monthly project report; and
 - validation of the risk management processes through an internal audit review.

This will ensure the council can have confidence the risk management process is robust and that all relevant risks are identified and controlled effectively.

The implementation of this recommendation will have high impact with low costs.

This should be implemented by March 2009.

Recommendation

R2 Reassess the capacity of the project team to ensure sufficient resourcing is available through:

- consideration of back-filling key posts; and
- enhancing recruitment procedures to minimise delays in appointment of project posts.

This will ensure key project objectives and milestones can be achieved whilst minimising the impact on service delivery.

The implementation of this recommendation will have high impact with medium cost.

This should be implemented by March 2009.

Detailed report

Has the Council considered how the project supports its strategic objectives and identified the risks to those objectives?

- 15 The Council has a clear vision for the regeneration of the town centre which directly supports the objectives of the community strategy. The lack of an attractive retail centre is affecting the local economy and impacting on the Council's income. For example, Stevenage residents have a choice of a number of similarly sized towns within reasonable distance, each competing for their retail custom whilst providing an enhanced shopping experience. In view of the perceived need for radical improvement to the town, Councillors made a deliberate decision to seek a step change rather than adopt a less risky incremental approach. The regeneration project was also designed to help address the need for a 40 per cent increase in homes planned over the next 15 years and specifically to provide both town centre accommodation for young professionals and to increase the availability of affordable housing across the Borough.
- 16 By transferring key financial risk to the developer, the council has successfully and significantly reduced its own risks within the regeneration project. Since agreeing the project in 2001, the Council has worked with English Partnerships, the other key landowner within the town centre and its regeneration partner, to share the pump-priming project costs of around £1m, most of which will be recoverable from the developer as the project proceeds. Should the development agreement not be signed, the Council's £500k will be lost but much of it will have been utilised on preparatory work which can contribute to alternative schemes.
- 17 Strong commitment to the current developer carries the risk of compromising the Council's effective management of the project. The developer tendered for a much more ambitious project than its competitors which subsequently found support across the whole Council. However, the commitment to the enlarged vision for the town centre also increased the dependence of the Council on the developer. Inconsistent performance by the developer in achieving agreed targets and milestones has been subject to challenge but with limited outcome. For example, information had been requested on a regular basis from the developers on the affordable housing delivery paper and the financial appraisal which were subsequently provided well behind schedule. In addition, submission of some of the supporting strategies for the development agreement is still awaited. Parameters of acceptable performance by the developers have been established but it is not clear how these have assisted the Council to judge the level of risk in continuing the project.

- 18** The level of affordable housing provision through the regeneration project remains uncertain. The project's affordable housing strategy was developed against a requirement of 25 per cent rather than the subsequent/current regional and national target of 35 per cent. If a target of 35 per cent (which may rise to 40 per cent) is not reached, the Borough will not achieve its allocated proportion of the regional housing plan. Existing financial appraisal by the developer suggests that no more than 25 per cent can be funded but the developer will need to demonstrate the financial case to the planning committee. The current economic climate represents an additional risk to the viability of the housing scheme. Councillors are seeking to ensure that 50 per cent of the affordable housing funded by the developer is sited outside the town centre to achieve a more strategic balance but this has yet to be resolved.

What are the Council's arrangements to ensure the financial appraisal is robust?

- 19** The Council has taken effective steps to ensure its financial appraisal of the regeneration project is robust. The financial status and standing of the developer within Europe has been very high and its construction project experience includes successful retail centres elsewhere which officers took time to visit. English Partnerships, as a key Stevenage landowner, became the regeneration partner and has provided an additional range of expertise. The Council has utilised a number of consultants experienced in relevant fields including financial appraisal, retail analysis and leisure to support the project's business case. The Executive included the chair of its scrutiny committee in the tendering and short-listing processes.
- 20** Whilst protecting its town centre assets should the regeneration project fail, the Council has increased its longer term financial risk. The Council has retained 'step-in' rights such that any land the developer acquires as part of the development must be offered to the Council should the project fail after the development commences. However, this represents a risk in terms of the capital funding that would be required by the Council to recover the land. This specific risk is not highlighted in the strategic or project risk registers and it is not therefore clear how effectively the Council has assessed or addressed the risk.

Has the Council the capacity to complete the project successfully?

- 21** Through appointment of appropriate consultants, the Council has successfully ensured necessary expertise is available within the project team. The Council has appointed an independent project management company with appropriate and extensive experience in construction projects. Further consultants have been retained for varying periods providing expertise in retail analysis, financial appraisal and legal issues.
- 22** Limited internal capacity to support the project represents a continuing risk to successful and timely progress. The Council's appointment of consultants has helped eased the load of key officers but their responsibilities to the project alongside their service commitments have led to delays in progressing the project within planned timescales. Progress has also been delayed through poor recruitment performance. For example, additional legal staff were required in September 2007 but due to delays, were not appointed until June 2008. The shortfall in capacity is not being addressed fully. Through the lack of available officer time, key milestones have been missed such as completion of the complex development agreement planned for March 2008 and now expected in September 2008 which is pivotal to the success of the project.

Are the project management governance arrangements robust?

- 23** The Council has taken an effective approach to managing the project through the appointment of an independent consultancy. The project manager is an associate director of the consultancy and dedicates 3.5 days per week to the project. He has had extensive experience in construction related projects and has the benefit of an assistant project manager working 2.5 days per week. The project is managed in line with an overall project execution plan, last updated in January 2008. The plan outlines the project objective, scope and constraints, roles, governance arrangements and key milestones.
- 24** The Council has identified and fully engaged relevant stakeholders in the planning process. These include CABE (Commission for Architecture and the Built Environment), Government Office, East of England Assembly etc. The Council has undertaken two consultation exercises and during the first period, 6000 people visited to view the model of the proposed scheme. Various community bodies have been fully consulted where new premises are being provided for them such as the Citizens' Advice Bureau. Effective consultation and engagement with Stevenage residents is essential to ensure continued support for the project.
- 25** Control mechanisms of the project are generally effective. The key control document is the project manager's monthly report which highlights progress to date, key milestones, finance issues, contract issues and outstanding requests for information. This is circulated to Council officers and relevant consultants prior to the monthly core team meeting to help decision making but is not circulated to the developer. Major project activity is recorded within a Client Activity Schedule showing the task, owner, status, target completion date and dependencies. Theme group schedules provide more detailed activities for which responsibility is allocated but there are no associated timescales for such activities which would allow identification of delays in completion. Whilst effective project management is not dependent upon bureaucratic processes, the Council needs to ensure it can monitor and control key tasks, particularly as the project is likely to become even more complex over time.
- 26** Measurement and management of progress of the project is adequate. Key milestones are identified and monitored in a monthly report but a number have slipped past the expected completion date and the project as a whole is two years behind schedule. Whilst a complex and ambitious construction project is likely to attract delays for a variety of reasons, a number of the recorded delays have arisen from late or inadequate responses from the developer or capacity issues within the Council, which should have been subject to more robust management. There is no programme of gateway reviews, where the Council can take a positive decision to continue or discontinue the project, but key milestones are utilised such as the signing of the heads of terms or development agreement. Prior to this investigation, the project overall has not been subject to an independent review and governance arrangements have not previously been tested or questioned, for example, through peer review or by the Office of Government Commerce.

- 27** Councillor involvement in the project is strong. The Executive invites the chair of Scrutiny to briefings and there is a councillor reference group which receives updates from the project team and the developers. The reference group also provides feedback to the team on specific issues, for example, concerns which arose relating to the theatre. The deputy leader holds the regeneration portfolio and meets regularly with project team members, and both the leader and deputy leader provide clear leadership in seeking to achieve the Council's vision. Scrutiny now involves the use of focus/topic groups to look at specific issues rather than sub-committees but no topic group has yet been established covering the town centre regeneration project. Effective scrutiny of projects would provide reassurance for councillors and reduce risks.
- 28** Control of the project budget is not fully effective. The project manager has responsibility for monitoring the budget but is not accountable since he is not an employee of the Council. In addition, directors and service heads are able to draw from the budget and there is inconsistent allocation of items between revenue and capital budget heads. The annual budget amounts to about £180k split between capital and revenue expenditure. The project manager takes steps to control expenditure but is inhibited through his lack of accountability for the budget.

Are effective arrangements in place to secure continuity of service delivery?

- 29** Plans for the effective continuity of service delivery when the Council office move takes place are at a very early stage. New council offices will form part of the town centre development but will not be ready before 2011. A full specification will form part of the development agreement currently being finalised but progress has been limited, to date. Councillors have ambitious plans to make the new building more accessible and attractive to gain greater public attention and participation. Continuity of service delivery during and after the office move is not yet on the risk register.

Are arrangements for the identification, evaluation, control and monitoring of risk effective?

- 30** Arrangements for the identification and evaluation of risks associated with the project are adequate. The project manager has responsibility for identifying and evaluating project risks through risk workshops, attended by key officers involved in the project alongside selected consultants and advisors. The developer is not represented at the workshop. However, whilst these are scheduled at four monthly intervals, they are currently being held six monthly. The Council needs to reassure itself that the current workshop schedule is adequate for its needs and that the exclusion of the developer is appropriate. Risks which may result in the cessation of the project are identified but not the risks that may arise following closure, such as the potential capital costs associated with possible re-acquisition of land bought by the developer. Other key risks such as those around continuity of service delivery have not yet been identified.

Detailed report

- 31 The monitoring and control of risk is mixed. Risks are not routinely highlighted in the project manager's monthly report but the project manager takes responsibility for monitoring and will bring key risks to the attention of officers as appropriate. The deputy leader also monitors the project risk register. The risk register is updated but on an infrequent basis. The last two workshops occurred in October 2007 and May 2008. In addition, there are no supporting documents to provide a detailed audit trail of mitigation or removal of the risk. Key financial risks of the project have been successfully transferred to the developer.
- 32 The Council is losing an opportunity to ensure its risk management arrangements are robust. Whilst the project management company has its own internal audit programme which has not found shortcomings with the risk management processes, the Council has not yet utilised SBC's internal audit to provide reassurance that project risks are properly identified, evaluated, controlled and monitored. However, risk management within the Council is being enhanced with the introduction of a corporate risk management group. Councillor training in risk has been undertaken with 75 per cent attendance being achieved.

Has the Council effectively addressed its potential conflict of interest as both planning authority and development partner?

- 33 Through separating its planning and landowner functions, the Council has successfully addressed its potential conflicts of interest. The Council has established a system of information protocols designed to prevent confidential information leaking from one department to another or otherwise compromising the Council's statutory duties. However, the arrangements have been devised informally and there is no written procedure. The Council is fully aware of the risks of judicial review if it misuses its planning powers and has received one challenge from a member of the public to date. One Executive member sits on the planning committee and whilst this complies with legislation, it risks exposing the Council to criticisms concerning a conflict of interest. In the interests of transparency and expediency it would be good practice to avoid such exposure.

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Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<Recommendation Title>					
5	R1 Enhance the town centre regeneration project risk management process through: <ul style="list-style-type: none"> a regular programme of risk workshops all or part of which involve a representative of the developer; re-assessment of potential risks arising from the project being terminated; highlighting key current risks in the monthly project report; and validation of the risk management processes through an internal audit review. 	HIGH	Steve Perkins Steve Perkins/All Steve Perkins/All Steve Perkins/All Steve Perkins Nick Parry /Paul Froggatt		- Schedule quarterly Risk Workshops and invite representative from Developer Team (next one in January 2009) - Re-establish the Activities Register and include all actions arising from the Risk Register - Review the Activities Register at every Core Team meeting (RAG Report) - Liaise with SBC's Internal Audit to establish a Best Practice process for managing the risks - Establish a schedule of SBC staff "Roles and Responsibilities" and target response times to RFI's and actions - Identify a revised governance structure for the project to increase engagement of SBC Members	17.11.08 17.11.08 17.11.08 17.11.08 17.11.08 17.11.08
6	R2 Reassess the capacity of the project team to ensure sufficient resourcing is available through: <ul style="list-style-type: none"> consideration of back-filling key posts; and enhancing recruitment procedures to minimise delays in appointment of project posts. 	HIGH	Steve Perkins		In recognition of this key risk the Authority took immediate steps to recruit an interim support manager to enable the staff member to devote greater time to the delivery of the Town Centre project. The current pace of the project does not warrant any further intervention at this time, although it is recognised that a similar arrangement would be introduced should the resource requirement of SBC staff increase in the future.	17.11.08