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**CYNGOR SIR POWYS COUNTY COUNCIL
AUDIT REPORT**

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SUBJECT: School Build Process: Budget Setting and Project Approvals

REPORT FOR: Information

1. Introduction

- 1.1 Audit committee received a report on 11th October 2013 discussing comparative costs of school builds. The minutes of the meeting record that a broad discussion was held around procurement, delivery, use of consultants and project variables.
- 1.2 Responding to the outcomes, this report provides specific information regarding the current and future process of school build budget setting and gateway approvals.

2. Summary

- 2.1 Over the past year or so Welsh Government (WG) 21st Century Schools Team have been implementing the 5 Case Model Business Case Methodology for the school programme. This method has been widely used for UK Central Government contracts and for Health contracts including those delivered in Wales, All Authorities in Wales are now required to follow this method for all 21st Century School Projects. However, WG had not adopted this method when Powys delivered the Ystradgynlais school projects
- 2.2 This report summarises the processes involved with an emphasis on how budgets are calculated and are adjusted through the process. Budget setting, achieving value for money and project approvals is now not just a matter for the Council but is externally assessed by WG 21st Century School team through each stage of the Business Case approval process.

3. 21st Century School Context

- 3.1 As outlined in the summary the context in which Powys sets budgets, approves and delivers projects has changed significantly since the successful delivery of the Ystradgynlais schemes. WG have implemented the 5 Case Business Model methodologies for all projects that they match fund through the 21st Century Schools Program.
- 3.2 The implementation is taking some time to 'bed in' and is complicated by WG previously requesting Authorities to proceed with design and procurement of projects when the early stages of the Business Model process had not been undertaken or approved. Therefore, an element of 'catch up' is taking place and

the development of projects in Powys and other Authorities does not match the timetable. This is accepted by WG, however, this may prove challenging to Authorities if, for example, elements of the Strategic Case or Economic case are questioned when a school has been fully designed and may result in abortive design development costs. In time, project development will align with the program and budget setting and approvals can run smoothly.

4.0 Five Case Business Model methodology

- 4.1 The attached “Assessing Business Cases ‘A Short Plain English Guide’ prepared by the HM Treasury details an overview of the process. See Appendix A.
- 4.2 In summary, the process tests the Strategic case, Economic case, Commercial case, Financial case and Management case for the project. The five Business Cases are developed through the life of the project and are iterative and follow the OGC Gateway process.
- 4.3 For projects with a value under £5m, a condensed model is followed, known as a BJC ‘Business Justification Case’, but the same principles apply.
- 4.4 WG 21st Century schools team have issued Authorities with a guidance table that sets out the development of the 5 Case Model compared to project design and procurement and WG approvals. See Appendix B.

Four key documents are developed and approved at each stage, these are:

- Strategic Outline Programme (SOP)
- Strategic Outline Case (SOC)
- Outline Business Case (OBC)
- Full Business Case (FBC)

Note: the SOP first stage required by WG is not discussed in the HM Treasury Guide.

5.0 Budget Development at Each Business Case Stage

- 5.1 As discussed in the paper considered on 11th October 2013 there are many factors and variables that must be considered when compiling a budget for a school build project; See Appendix C.
- 5.2 Powys Property and Education teams are working to align project briefing, development, procurement and delivery with this 5 Case process. This involves considerable change to working methods, staffing structures and procurement methods. A summary of the way the budgets and projects are developed at each stage follows:

Strategic Outline Programme (SOP)

The Powys SOP has been completed, revised and approved by WG and sets out the strategic program, its aims and objectives for all schools in Powys. At this stage construction projects or sites aren't defined or even known; therefore budget allocations were made based upon likely need for

new build or refurbishment in school catchment areas. Costs were prepared based on comparable recent projects to the nearest £1m.

Strategic Outline Case (SOC)

A SOC can be drafted for a single project or group of projects, for example, those in a school catchment. Referring to the 21st Century Schools guidance table; Appendix B the SOC stage aligns with the OGC Gateway Stage 1; 'Business Justification'. At this stage an early appraisal of the construction project is undertaken and the designer receives the initial brief. In terms of budget setting, a site may or may not be identified and the size and nature of the proposed school will be known in very broad terms only.

Therefore, the budget will be prepared using recent known costs for similar projects (Powys and Industry Data) and budget costs will be allowed against each of the budget sub-headings shown in Appendix B, with an inflation allowance. The size of the school will be based on a calculation of typical m² for accommodation. A design is not developed at this stage. Given the level of unknown factors it is prudent to use a relatively high level of contingency of 20% at this stage. Therefore, at SOC stage the budget may appear somewhat higher than previously completed schools.

An initial value for money appraisal is undertaken by means of examining the 5 Business Cases for the project at this early stage and WG 21st Century Schools Committee review the SOC and project proposals. If they are content with the proposals an 'in principle' approval is issued.

Outline Business Case OBC

When the OBC is submitted the preferred option has been identified. To allow value for money to be demonstrated at this stage it is necessary to develop the client brief into concept design; this aligns with the RIBA Plan of Work Stage C.

By this stage, the design will be developed to a degree that the size and form of the building is known, its position on site, access and egress routes, etc. However, it is not developed to a degree to allow a planning application to be submitted.

The project budget headings are revisited, adjusted to suit the proposed size of the school and to take account of any site abnormalities that have come to light e.g. extensive site access works. Contingency allowances will be reviewed.

At this stage the project is ready to tender with the supply chain to take over the design as part of a design and build contract, although the scheme design is at concept stage.

Typically, all work to this stage is undertaken by the Powys internal Property Delivery Team in consultation with Schools Service.

Full Business Case FBC

The Full Business Case is developed alongside the design development. Planning Permission and other statutory requirements are met or obtained and the design is tendered with the supply chain. At this stage the FBC details the procurement process, contract and contract or target price. The 5 Business Case headings in the OBC are reviewed and further developed. The project is ready to start construction at the end of this stage. All the work undertaken during this stage is known as the 'Pre-construction' phase in the Powys Construction Framework process. Following the mini-completion process at the start of this stage, the contractor is paid design and management fees to develop the design and contract price. A contract for construction is only executed if the Council and WG agree to proceed with construction and the FBC approved.

The six stages of procurement and market testing are summarised in the Construction Framework Tender process chart; see Appendix D. The first three stages ensure competition in the Framework tender and establishment phase and the second three stages continue competition through the pre-construction and construction stages.

The outline budget is used as a benchmark throughout the design process and the contractor works under an 'open book' policy where all supply chain tenders are shared with the client cost manager, who robustly challenges the developing budget and the final contract or target price.

Value for money is therefore tested throughout the process and value for money is tested by means of examining the 5 Business Cases for the project throughout each stage and by WG 21st Century Schools Committee reviewing the OBC and project proposals. If they are content with the proposals funding is approved.

6.0 Conclusion

- 6.1 As stated at the outset of this report the 5 Case process is being implemented by WG and Powys and there is an element of 'catch up' taking place. In time, project development will follow the guidance timetable and budgets and/or tender prices will be reported to cabinet at each of the SOC, OBC and FBC stages. However, this also requires Powys to demonstrate a sound strategic case is in place for each project when historically this hasn't been required to the same robust degree.
- 6.2 It is a significant change for Authorities that WG now 'test' projects through the 5 Business Case process. This means that projects, budgets and value for money are being tested and compared across Wales against established criteria. This will go a long way to establish a base line to establish budgets and value for money.
- 6.3 Currently, Authorities are submitting their first project SOC's, so as discussed it will take some time for the full benefits of the process to materialise and the criteria to fully emerge from the 21st Century School team, however, the process is gaining momentum and Powys projects are benefiting from the process.

7.0 School Construction Standards – current developments

- 7.1 Over the past few months the WG 21st Century Schools team have been discussing with property managers across Wales, at consultative groups, the viability of ‘standardising’ the school design, procurement and construction process. This may involve the use of ‘pattern book’ design or similar standardisation. The Senior Manager, Regeneration and Property will represent the Authority on a Working Group to explore how this approach can be applied across Wales.
- 7.2 There is clearly a move by 21st Century Schools to move away from the requirement for Authorities to deliver transformational projects and move to reduce costs by building cheaper schools. What is meant by this message is currently emerging but what is becoming apparent is that WG may not support Powys building schools to the same standard as the recent Ystradgynlais schemes, for example, in terms of space, facilities and building quality.

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Appendices

A Assessing Business Cases ‘A Short Plain English Guide’

B WG 21st Century Schools 5 Case Model guidance table

C School Budget headings

D Construction Process tender chart