

RESOURCES AND SERVICES OVERVIEW AND SCRUTINY COMMITTEE

22 JULY 2024

JOINT REPORT OF THE PORTFOLIO HOLDER FOR HOUSING AND PLANNING AND THE ASSISTANT DIRECTOR BUILDING AND PUBLIC REALM

A.2 SPENDELLS PROJECT

(Report prepared by Andy White)

PURPOSE OF THE REPORT

To provide the Committee with an update on the progress of the Spendells project and specifically the unauthorised overspend.

To respond to the specific issues raised by the committee in relation to the project.

SCOPE - THE AIMS AND OBJECTIVES OF THE REPORT

To outline issues and progress since the decision by Cabinet on 24 May 2024, report and financial supplement attached as Appendices A and B. The Minute Extract from the Cabinet Meeting in respect of this matter is attached as Appendix C.

To address specific issues raised by the Committee:

- Explanation of Portfolio Holder oversight that was in place.
- Our rules and procedures surrounding project development.
- Linear path explanation of events, dates and costs of the overspend
- What is the assessed impact this will have on the Council going forward, both reputationally and financially.

INVITEES

Leader of the Council, Portfolio Holder for Housing and Planning, Chief Executive, Corporate Director Operations and Delivery, Assistant Director of Building and Public Realm, Assistant Director Finance and IT and Assistant Director Governance

BACKGROUND

The background to the project is set out in the Cabinet report appended at Appendix A.

RELEVANT CORPORATE PLAN THEME/ANNUAL CABINET PRIORITY

Under Article 6.02 of the Constitution the separate Overview & Scrutiny Committees (OSCs) perform the role of overview and scrutiny in relation to:

Resources and Services OSC

“the effective use of the Council’s resources including approval of discrete researched and evidenced reviews on the effectiveness of:

Financial Forecast and Budget setting and monitoring (including the General Fund and the Housing Revenue Account)

Corporate Plan Theme

- Financial Sustainability and Openness

DESIRED OUTCOME OF THE CONSIDERATION OF THIS ITEM

It is proposed that the Committee considers the report and enquiries at the meeting and considers whether it wishes to make any representations or recommendations to the Cabinet or the Portfolio Holder and/or pursue enquiries into issues that have been identified to it in this report (and consideration thereof) and, if so, determines the scope of such enquiries.

RELEVANT NATIONAL GUIDANCE FOR OVERVIEW AND SCRUTINY

In considering this matter, it is useful (at this point) to remind ourselves of the Statutory Guidance for Councils in respect of 'Overview and Scrutiny'. The full version of the current guidance is available here:

<https://www.gov.uk/government/publications/overview-and-scrutiny-statutory-guidance-for-councils-combined-authorities-and-combined-county-authorities/overview-and-scrutiny-statutory-guidance-for-councils-combined-authorities-and-combined-county-authorities>

Within the guidance states that effective overview and scrutiny should:

- provide constructive 'critical friend' challenge
- amplify the voices and concerns of the public
- be led by independent people who take responsibility for their role
- drive improvement in public services and strategic decision-making

The above provides a useful guide for all concerned as this report, and the enquiry into this matter, is undertaken. Further to this, the attention of Members is also drawn to the Council's own Cabinet-Scrutiny Protocol (developed having regard for the statutory guidance) includes the following:

"All Members should promote an atmosphere of openness at Overview & Scrutiny Committee meetings and should strive to ensure that questioning and debate takes place within a climate of mutual respect and trust."

Within the Government's Statutory Guidance on the Best Value Duty ("the Guidance") refers to the importance of scrutiny and accountability throughout.

Under the Continuous Improvement Best Value theme the Guidance states "*The Chartered Institute of Public Finance and Accountancy (CIPFA) /Society of Local Authority Chief Executives (SOLACE) Delivering Good Governance in Local Government Framework, along with the Centre for Governance and Scrutiny and Local Governance Risk and Resilience Framework can help authorities to identify, understand, and act on risks to good governance*".

Characteristics of a well-functioning authority (under Continuous Improvement theme) include "*The authority's scrutiny function is challenging, robust and contributes to the efficient delivery of services*".

The Governance Best Value Theme is described within the Guidance as:

“In a well-run council officers and members will have a clear understanding of the democratic mandate as it operates in the organisation.

There will be clear and robust governance and scrutiny arrangements in place that are fit for purpose, appropriate to the governance arrangements adopted locally (executive / committee system), and in accordance with statutory or sector guidance such as statutory guidance on overview and scrutiny and the Centre for Governance and Scrutiny’s governance risk and resilience framework. These arrangements should be understood by members and officers alike, reviewed regularly and accurately described in the Annual Governance Statement.”

Characteristics of a well-functioning authority (under Governance theme) include “*Scrutiny and internal audit functions are challenging, robust, valued and contribute to the efficient delivery of public services*”.

The Centre for Governance and Scrutiny (CfGS) promotes that effective, member-level oversight of financial matters is a cornerstone of good governance. The CfGS produced guidance for councillors on audit committees and scrutiny committees on how member-level activity on audit, and councils’ scrutiny functions, can work more closely (recognising their maybe perceived overlap). There are some practical ways for councillors, and the officers supporting those roles, to share information and work together better to ensure robust financial oversight. Scrutiny is concerned with the review of policy, its formulation and implementation, areas (from CfGS Guidance) highlighted for consideration include:

Action on mindset and culture:

Culture here is about the attitudes, behaviours and values of those involvement in the management and oversight of financial management. Scrutiny can use its role to test and challenge the presence of this culture across the organisation as part of its wider role.

Securing good governance:

Scrutiny’s inquiries can also serve to identify weakness and risk in this area.

Risk:

Risk can provide an important framework for prioritising matters on the work programme – it can be used as a tool to understand where pressures and weakness lies on which scrutiny can contribute productivity.

Value for Money:

All authorities have a responsibility to make arrangements to secure “best value”, and continuous improvement, under the Local Government Act 1999 – ensuring that scrutiny and audit work closely together on this critical issue is likely to be important. Audit and scrutiny have distinct and complementary roles here. Audit oversees the adequacy of arrangements to secure VfM while scrutiny can delve into performance and outcomes.

Wider policy issues, and the impact of the Council’s strategy on financial management:

This may include way the Council works with its partners (and exposure to risk in respect of those matters). This may include the way that the council procures and outsources services, its approach to borrowing and the capital strategy, its approach to commercial activity, and other local factors which may influence financial affairs.

DETAILED INFORMATION

Spendells House was a 1960s constructed sheltered housing scheme with shared washing facilities and limited living space by modern standards. Spendells House is at Naze Park Road, Walton-on-the-Naze, Essex, CO14 8JJ. By 2017 the scheme was under occupied, hard to let and suffering from a number of repair and maintenance difficulties. At the same time the Council was (and still is) experiencing high and increasing demand to provide temporary housing for homeless people. At national level it was reported that homelessness had increased by around 13%. That demand had substantially exceeded the available accommodation in the stock and had resulted in the block booking of hotel rooms.

The Council committed to the closure of the scheme and remodelling it into accommodation for the homeless. The progress of the project, decisions and issues encountered are detailed in the report to Cabinet dated 24 May 2024 and appended as Appendix A.

Cabinet also considered an addendum report, which provided it with the formal written comments of the Council's statutory Section 151 Officer on this matter. The Addendum is appended as Appendix B.

Since Cabinet's decision on 24 May 2024 the following has occurred:

- a) The Chief Executive has instructed that a formal review to be undertaken to provide further clarity on how the issue arose and developed (including the governance arrangements associated with issuing verbal orders), which in turn can inform any further actions along with informing decision making and project delivery in the future, this is currently underway.
- b) The Chief Executive has sent a directive to all Senior Managers relating to financial and budget management, which explains the consequences and expectations of them in their roles and will be supported by further collective meetings with Senior Officers over the coming weeks / months; and
- c) has commenced arrangements for the implementation of a Senior Officer Project 'Board' that in turn will report directly to the Council's Senior Management Team on a regular basis. This is ongoing.

A detailed investigation and negotiation around the issues identified with internal Fire doors were progressed with mixed outcomes:

- Potential to upgrade and reuse existing doors was ruled out by Building Control.
- The Contractor negotiated bulk rate for the manufacture of new doors, if they were all to be completely renewed together
- The need for an additional three, one-hour fire-resisting doors to electric meter cupboards was identified.
- The time taken to investigate and conclude these matters resulted in an additional three week extension of the contract which has a corresponding cost increase associated with it.
- Under delegated powers an agreement to reallocate funds from within the overall HIP's programme, from the cash incentive scheme to the project to allow the necessary further instructions to be issued. There is no expected financial impact given the historic demand/application of the cash incentive scheme.
- The project has been reinvigorated on site in physical terms and is progressing towards completion to revised budget and timescale on 04 September 2024.

To address specific issues raised by the Committee:

Explanation of Portfolio Holder for Housing and Planning oversight that was in place.

As set out in the introduction to the Addendum Report, item A6, 24th May 2024.

“The issues set out in the main report emerged during Q4 2023/24 and was referenced within the financial performance report that was considered by Cabinet on 19 April 2024. Since the issue emerged, the Council’s Senior Management Team / Leader and Housing and Planning Portfolio Holder have been working with the Service to better understand the situation and the level of potential overspending / unauthorised expenditure.

Given the wider financial risks, such as the consequences of potentially suspending the on-going refurbishment works, and as the scale of the issue has only recently been established as part of the 2023/24 outturn review, the project continuing in the interim period was acknowledged.

The report considered by Cabinet in April referred to above indicated that the matter would be revisited as part of finalising the outturn report for 2023/24. However, the work associated with finalising the outturn position for 2023/24 has now been completed and given the scale of the issue, a separate report is being presented to this meeting of Cabinet rather than wait for the wider outturn report to be presented to Cabinet in July to ensure the matter can be addressed as timely as possible.”

In respect of the timeline, the Portfolio Holder was first made aware of issues relating to overspends in February 2024.

Our Rules and Procedures surrounding project development.

The key elements of the Council’s relevant procedures are set out the Addendum to Cabinet 24th May 2024.

The internal review of the project, led by the Internal Audit Manager, is expected to identify areas of potential improvement to comply with the governance framework, where necessary or appropriate.

Linear path explanation of events, dates and costs of the overspend.

Appendix D provides a timeline of costs and significant events. Detailed financial information is also set put in the Addendum Report.

What is the assessed impact this will have on the Council going forward, both reputationally and financially.

Although at the present time the HRA outturn position for 23/24 has yet to be finalised, it is currently expected that an overall, favourable variance of approximately £500k will remain at the end of 23/24. Which would be transferred to the HRA general balance. This would largely offset the additional £860k that was approved by Cabinet in May 24 to successfully complete the project. It is also proposed to explore opportunities during 24/25 to actively manage the overall HRA programme to limit any long term impact of the Spendells House scheme.

It is acknowledged that the financial aspect of the project could be seen negatively. However, in use the facility will provide accommodation for homeless families and will reduce the need for hotel accommodation. This is especially important given the significant

financial impact on the General Fund budget. Wider value for money considerations were given in the Addendum report, 24th May. It is likely that in use the facility will be reputationally positive and that this will be the more enduring reputational effect.

RECOMMENDATION

That the Committee determines whether:

- (a) it has any comments or recommendations it wishes to put forward to the relevant Portfolio Holder or Cabinet; and/or**
- (b) it wishes to pursue enquiries into issues that have been identified to it in this report (and consideration thereof) and, if so, determines the scope of such enquiries taking into consideration the Overview and Scrutiny function and adjusts its work programme accordingly for 2024/25.**

PREVIOUS RELEVANT DECISIONS

In addition to the decisions listed in Appendix A:

Cabinet Members' Items - Report of the Housing & Planning Portfolio Holder - A.6 - Further Update on Spendells House and Review of Budget and Reference under Section 5 of the Local Government and Housing Act 1989 24/05/2024

Budget Virement - Housing Revenue Account Capital Schemes

BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL

None – other than those published documents referenced in this report.

APPENDICES

Appendix A - Report to Cabinet dated 24 May 2024

Appendix B - Addendum to the above prepared by the s151 Officer

Appendix C – Minute Extract from the Cabinet meeting on 24 May 2024.

Appendix D – Timeline illustration.

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