



Comptroller & Auditor General

**Management of Major Property Transactions:
Learning from the proposed acquisition of
Lime Grove House**

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JERSEY AUDIT OFFICE

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Introduction

- 1.1 This report considers the management of major property transactions, focusing on the proposed procurement of Lime Grove House (LGH) as a headquarters building for the States of Jersey Police, what has happened subsequently and the lessons to be learnt.

History of the proposed transaction

- 1.2 The need for a replacement police headquarters was identified in 1999. A feasibility study and option appraisal in 2005 led to a planning application for a different site that was abandoned in 2007. A new option appraisal commenced in 2009 that considered LGH. The property had been built as a shell in 2000 but never occupied. Jersey Property Holdings (JPH) entered into negotiations with agents for the vendor of LGH and, with the agreement of the Assistant Minister – Treasury, made a conditional offer in March 2010. This offer was accepted with a six-week exclusivity period. There then followed 17 months during which:
 - Political support for the proposed purchase was discussed;
 - JPH were removed from involvement in the proposed purchase;
 - The affordability was reviewed by the Interim States Treasurer;
 - The Assistant Chief Executive was appointed as Project Director for the proposed acquisition;
 - Further valuation advice was sought;
 - The relationship of the proposed purchase to the wider office accommodation strategy was considered; and
 - Heads of Terms were agreed and continued discussions about defects and snagging were conducted.
- 1.3 Eventually, in August 2011, the vendor accepted an offer to lease LGH from another party. The States subsequently embarked on a project for a new build headquarters, for which planning consent was given in July 2013.

Previous consideration of the proposed transaction

- 1.4 There was significant concern about the failure of the transaction. A Corporate Services Scrutiny Sub-Panel was convened to consider it and referred it to the former Comptroller and Auditor General (C&AG). My predecessor undertook significant work leading to two publications issued in May 2012:
 - The proposed acquisition of Lime Grove House – Report; and
 - The proposed acquisition of Lime Grove House – Chronology.

Objectives and scope of this review

- 1.5 The focus of my review has not been to replicate the work of my predecessor but instead, building on that work and my own enquiries, to consider the proposed acquisition of LGH as an example of the management of a project by the States. I have therefore:
- evaluated the design and implementation of the States' controls and arrangements in the context of my responsibilities;
 - established and evaluated any subsequent change in the design of operation of controls and arrangements. In doing so I have considered subsequent major projects. Whilst these are not directly comparable to the proposed acquisition of LGH, the underlying characteristics of effective management of projects are directly relevant; and
 - made recommendations of wider application as appropriate.
- 1.6 My work was not designed to and does not extend to:
- property transactions undertaken by the States of Jersey Development Company;
 - wider aspects of the operational effectiveness of JPH;
 - events before January 2009, except in so far as necessary to evaluate arrangements relevant to events after January 2009;
 - events after August 2011 (including in respect of the project for the new police headquarters) other than changes in the design or operation of arrangements put in place by the States relevant to the findings of the review; and
 - detailed review of relevant work undertaken by internal audit.
- 1.7 In the remainder of this report I:
- summarise the findings of my review and the recommendations I am making (Section 2);
 - consider the States' arrangements for risk assessment of major projects (Section 3);
 - review arrangements for preparation of business cases for proposed transactions (Section 4);
 - evaluate how the States undertook option appraisals (Section 5);

- assess the effectiveness of arrangements for project management (Section 6);
- review arrangements for obtaining valuation and other professional advice (Section 7); and
- consider the effectiveness of governance arrangements, including at a political level (Section 8).

Summary of findings and recommendations

- 2.1 No major project is guaranteed to succeed. But success can be enhanced by:
- appropriately assessing the risk associated with the project and allocating the right skills and resources to it;
 - preparing a robust and comprehensive business case to support the project;
 - thoroughly evaluating alternatives in a structured way;
 - establishing robust arrangements for project management;
 - identifying the need for professional advice and then both requesting and obtaining the advice in writing in accordance with recognised professional standards; and
 - establishing appropriate governance arrangements that involve politicians on a timely basis and provide appropriate evidence of their involvement.
- 2.2 In all these areas there were weaknesses evident in the attempted purchase of LGH. Those weaknesses contributed to the failure of the project.
- 2.3 There is evidence of improvements in arrangements in more recent projects. But what is lacking are comprehensive States-wide standards for how to manage such projects from start to finish, coupled with the investment in skills and expertise necessary to implement those standards and the mechanisms to monitor their consistent implementation.
- 2.4 I have therefore made a series of recommendations aimed at strengthening the arrangements for managing property transactions that, if implemented, should reduce the risk of failure. These recommendations are summarised in **Appendix 1**.

Risk assessment

- 3.1 It is essential to devote the right processes, resources and skills to a project, based on an assessment of both:
- the consequences of failure, taking into account the scale of the project and its sensitivity; and
 - the likelihood of failure, taking into account the complexity of the project and experience of a project of that type and scale.
- 3.2 To secure such an outcome there should be a formalised process for making such an assessment and agreeing the deployment of appropriate resources and processes in light of that assessment.

What happened during the LGH project?

- 3.3 At the outset of the LGH project neither the States as a whole, nor JPH, had in place a formalised process for assessing the risk of the projects and allocating resources to them. Assessment of risk and the response to it was left to JPH. Furthermore, officers within JPH did not, despite the scale or sensitivity of the project, assess it as high risk or apply formalised project management disciplines to it.
- 3.4 The failure to recognise the risks associated with the project and to take appropriate steps to mitigate those risks was a key cause of failure.

What has happened subsequently?

- 3.5 Formalised project management structures have been adopted for the revised police headquarters project at Green Street. As an example, whilst there were weaknesses in arrangements in the Health and Social Services Department (HSS) for stages 1 and 2 of the Intensive Care Unit, Internal Audit noted improvements for stage 3.
- 3.6 However, what has not happened is the formal adoption of a consistent States-wide approach to assessing the risks associated with projects and deploying appropriate resources and approaches in light of the assessment of risks. This increases the chance that projects fail because the risks associated with them are not recognised and appropriate steps to mitigate those risks are not put in place.
- R1** Adopt a consistent States-wide approach to evaluating the risks associated with projects and identifying the appropriate approaches and resources to mitigate those risks.
- R2** Put arrangements in place to monitor compliance with such a States-wide approach.

Business case

- 4.1 A prerequisite for a successful project is a robust and comprehensive business case. The elements commonly found in a robust business case are set out in Exhibit 1.

Exhibit 1: Elements of a business case for property procurement















What happened during the LGH project?

- 4.2 No formal business case was in place when the initial offer for LGH was made. As illustrated in Exhibit 2, even the business case prepared by JPH in October 2010, some seven months later, was neither comprehensive nor robust.

Exhibit 2: Evaluation of business case for replacement of police headquarters

- 4.3 The evaluation is detailed below along with a 'traffic lights' system; where components are being met (green), where there are issues to be addressed (amber) and where components are not being met and urgent action is required (red).

Component	What was there?	Our assessment
Need and business opportunity	Early identification of need for replacement.	
User requirement	Detailed user specifications not developed until December 2010. Significant issues relating to security, segregation, accommodation layout, car parking and boundary rights identified that were not reflected in original business case.	
Fit with strategic requirements and property strategy	No linkage to overall States' property strategy.	
Alternatives and preferred option	Other options considered, but no fallback option identified and consideration not in context of wider strategic objectives.	
Benefits and costs	Costs based on an initial analysis only.	
Financial analysis, value for money and affordability	Limited Treasury involvement. Failed to highlight budget gap of £2m and consider implications.	
Constraints e.g. budgets, timescales	Limited financial analysis leading to unresolved budget gap. No robust timeline identified.	
Market analysis	Alternatives considered but not in the context of strategic objectives.	
Risk assessment and sensitivity analysis	Poorly developed with low recognition of risks associated with the project.	
Flexibility and future proofing	No alternative identified despite claimed time critical nature of decision.	
Detailed specification	Developed at a late stage in project highlighting significant issues not previously identified.	
Implementation plan with milestones	No clear timetable or milestones.	

- 4.4 Following the decision to remove JPH from the project, a review of the business case was undertaken by the new Project Manager in February 2011. This identified the budget gap and an alternative option but also indicated that the analysis was preliminary and the costings were indicative.
- 4.5 The inadequacy of both the original and revised business case is reinforced by the discussion of variant options with the Minister, Treasury and Resources in April 2011, six months after the original business case and two months after the revised one.
- 4.6 The absence of a robust business case was a key contributor to the failure of the project: an offer was made with approval under delegated powers for LGH without a compelling rationale. Subsequently both officers and ministers, with justification, challenged the proposal.

What has happened subsequently?

- 4.7 More robust business cases appear to be in place for some more recent developments, such as the new police headquarters at Green Street and the housing development at Fields 516 – 518, Rue de Patier, St Saviour.
- 4.8 But what is not in place is a uniform standard for business cases across the States that assists in the preparation of business cases and reduces the risk that such business cases are either not comprehensive or not robust.
- R3** Adopt a consistent States-wide business plan template for major projects with consistent requirements for contents and supporting guidance.
- R4** Put arrangements in place to monitor the use of such a States-wide business plan template.

Option appraisal

- 5.1 One component of good business cases is effective option appraisal: evaluating alternatives against one another in a structured way to maximise the chance of achieving business objectives.
- 5.2 Typically, option appraisals involve identification of criteria and scoring of alternatives against criteria. This provides a systematic approach to comparing the relative merits of options against objectives. A possible approach is outlined in Exhibit 3.

Exhibit 3: Possible criteria for option appraisal

Criteria	Score (out of 10)	Typical weighting	Total score
	(a)	(b)	(a) x (b)
Size – adequate floor space and parking	7	6	42
Flexibility – of accommodation to meet future needs	6	4	24
Accessibility – of site by all transport forms	9	6	54
Value for money	8	10	80
Environmental quality	7	2	14
Implementation factors and risks – site risks, planning issues etc.	6	4	24
Impact on staff – recruitment and retention factors	5	6	30
Image of Police Force – is the solution appropriate?	8	2	16
Total			284

Please note the scores and weightings are indicative only

What happened during the LGH project?

- 5.3 Neither the original nor the revised business cases for LGH contained a systematic analysis of alternatives against business objectives. This increased the risk of subsequent challenge to the proposed acquisition – a risk that subsequently transpired.
- 5.4 Moreover, the project was developed without an adopted overall property strategy: only a draft was in place when the offer for LGH was made. And the option appraisal contained within the business case does not evaluate the LGH option against that business case.
- 5.5 The absence of a property strategy, or evaluation of options against it, increased the risk of ineffective use of the property resources of the States taken as a whole.

What has happened subsequently?

- 5.6 A more detailed analysis against criteria has been adopted for subsequent projects. However, the analysis is confined to 'yes/no' answers against criteria rather than scoring and no weighting is attributed to individual criteria. This approach limits the effectiveness of the analysis as a means of weighing the relative merits of different options.
- 5.7 A revised property strategy was prepared in July 2010.
- R5** Adopt a consistent model for option appraisal, including scoring and weightings against agreed criteria that reflect the property strategy.
- R6** Put arrangements in place to monitor compliance with the use of the revised option appraisal model.

Project management

6.1 Once a project is decided upon it is essential that appropriate arrangements for managing the project, identifying deviations from plans and taking corrective action are in place. Good project management involves engagement of those with relevant interests in the project, allocation of clear roles and responsibilities and the implementation of formal structures for monitoring of the project and for escalating issues as necessary. Formal standards for project management, such as PRINCE 2, exist to provide a consistent framework for the management of projects.

What happened during the LGH project?

6.2 At the outset of the project no formal project management structures were put in place:

- there was no Project Manager;
- there was no Project Board;
- there was assignment of formal roles to different interested parties within the States, with very limited involvement of the States Treasury, despite the financial implications of the project;
- there was no implementation plan; and
- there were no tools for monitoring implementation of the project and identifying slippage or bottlenecks.

6.3 It was only in February 2011, some 11 months after the initial offer for LGH was made, that an individual assumed the role of Project Manager.

6.4 The absence of effective project management increased the risk of the project failing as:

- responsibilities for delivery of the project were unclear;
- financial advice was not adequately sought from the outset;
- there was no effective plan for delivery of the project or monitoring its implementation; and
- there were no mechanisms for considering and agreeing upon a strategy for negotiations in the context of the agreed business priorities.

6.5 The appointment of a Project Manager and change in management arrangements for the project at a late stage demonstrate recognition of the weaknesses in arrangements.

6.6 The weakness in project management arrangements meant that the oversight of the negotiations on price was ineffective and an ambiguity between the parties was neither recognised nor addressed in a timely fashion:

- the States' offer was on the basis that the vendor would accept responsibility for material defects and snagging; the vendor's written acceptance was on the basis that such costs were minimal and should be the responsibility of the purchaser;
 - there was ambiguity over who would be responsible for defects and Category A fit out costs and who would bear the cost should these exceed the estimate. The documentation did not explicitly address the issue but the risk was not identified until April 2011, some 14 months after the offer was made.
- 6.7 Furthermore, the absence of a formal project management structure meant that key meetings took place without the taking of minutes. This is a significant breakdown in internal control and meant that my predecessor was unable to resolve conflicts of evidence he identified in the course of his review.

What has happened subsequently?

- 6.8 For the Green Street police headquarters project, formal project management arrangements were put in place, including:
- a Political Steering Group/Ministerial Oversight Group;
 - a Project Board, chaired by the States Treasurer and comprising senior officers from relevant departments;
 - a Project Director with overall responsibility for the project;
 - a Project Manager reporting to the Project Director;
 - a Project Delivery Team comprising lead officers responsible for the detailed project delivery; and
 - a Project Design Team, chaired by the consultant architects to focus on detailed issues relating to the project design.
- 6.9 Meetings of the Board and Teams have been appropriately minuted.
- 6.10 In addition to this, the States Treasurer is now the Accounting Officer and 'gatekeeper' for all property decisions which has added a further level of assurance for Ministers and JPH.
- 6.11 Although in practice PRINCE 2 project management standards are adopted for major projects across the States and a number of staff have been trained in the PRINCE 2 methodology:
- the use of PRINCE 2 is not formalised;
 - there is no requirement for a proportionate form of project management for smaller or less complex projects;
 - there is no formal identified group of staff with project management skills available for deployment on a flexible basis across the States.

Recommendations

- R7** Adopt a uniform project management framework across the States, including a requirement to designate a project manager for all projects.
- R8** Ensure that ambiguities and potential disputes with other parties are identified, escalated and resolved at an early stage.
- R9** Include documentation standards within the States-wide project management framework.
- R10** Develop a strategy for maintaining an adequate project management capacity, including a training programme and flexibility in use of skilled staff.
- R11** Monitor implementation of the project management framework across the States.

Professional advice

7.1 Effective delivery of projects requires engagement of professional advisors on an appropriate, robust and timely basis. In the context of a negotiated property purchase, valuation advice is essential to ensure that the States is securing value for money.

What happened during the LGH project?

7.2 As illustrated in Exhibit 4, four different valuations of LGH were undertaken in the course of the project, one internal and three external.

Exhibit 4: Valuations of LGH

Date	Valuer	Details	Capital value £m
August 2007	CB Richard Ellis (CBRE)	Open market value £10.75m less Cat A fit out costs £1.2m. Rental value £846,500.	9.55
March 2010	Internal update of CBRE valuation by JPH	CBRE initial valuation updated and Cat A fit out costs reassessed as £1.5m.	8.75
June 2010	BNP Paribas	Valuation for shell and core at £8.8m. Cat A fit out estimated at £1.7m Rental value £852,000.	8.80
February 2011	Drivers Jonas	Valuation for shell and core £8.45m. Cat A fit out costs from BNP provided and confirmed as £1.7m Rental value £788,000.	8.45

7.3 I am concerned that:

- The in-house valuation was very informal and not supported by the written commentary and analysis that would be expected for a property valuation. Comprehensive working papers to support the valuation were not maintained;
- The States did not provide written instructions to BNP Paribas, increasing the risk that the valuation was not fit for the purpose for which it was commissioned. In contrast, full written instructions were provided for the final valuation undertaken by Drivers Jonas; and

- The lack of confidence in the valuation advice received led to other sources of information about valuation being taken into account in decision making.
- 7.4 In addition, at a late stage an absence of in-house skills was identified leading to engagement of:
- an architect to advise on fit out and snagging costs; and
 - an external professional to negotiate with the vendor's agents.
- 7.5 Whilst engagement of external expertise is an entirely appropriate part of management of a major project, I am concerned that the absence of in-house skills was not identified at an earlier stage, putting the States 'on the back foot' in negotiations.

What has happened subsequently?

- 7.6 I recognise that there remains a continuing issue in securing external valuation advice where there are a limited number of valuers with knowledge of the market on the island. The States might benefit from other approaches, such as retaining off-island valuers to review the approach adopted by local valuers (as opposed to undertaking valuations themselves).

Recommendations

- R12** Ensure that States-wide project management approaches include an early and comprehensive identification of the need for internal or external professional advice.
- R13** Where in house expertise is used, ensure that professional standards for undertaking, communicating and documenting the work undertaken are followed.
- R14** Ensure that all instructions to professional advisors are in writing.
- R15** Consider other options for providing assurance over valuations for more significant projects, such as retaining off-island valuers to review the approaches adopted by local valuers.

Governance arrangements

- 8.1 Any major project requires a framework for oversight and securing accountability of senior officers and politicians. Effective governance requires:
- clarity of roles and responsibilities; and
 - clarity about the nature of their involvement and the decisions reached.

What happened during the LGH project?

- 8.2 Not only was no formal project management structure put in place but, when it was in February 2011, formal mechanisms were not put in place for the engagement of key politicians as a group.
- 8.3 In accordance with delegated powers under Standing Order 168, the Assistant Minister for Treasury and Resources approved the conditional offer for LGH on the basis of a limited business case, although ultimately only the Minister for Treasury and Resources signed the contract. This created an inherent tension as the offer could and was made without the ultimate political decision-maker being fully aware of the proposal or its terms.
- 8.4 Many of the deliberations concerning LGH, including those involving Ministers, were not recorded on a contemporaneous basis. This leads to ambiguity and potential confusion about decisions reached, increasing the risk of project failure. Furthermore, subsequent scrutiny of events is weakened and conflicting evidence based on subsequent recollections might be incapable of reconciliation.

What has happened subsequently?

- 8.5 For the Green Street police headquarters project, in addition to comprehensive project management arrangements, appropriate governance arrangements were put in place. A Political Steering Group/Ministerial Oversight Group was established with the Minister and Assistant Ministers for Treasury and Resources and the Minister of Home Affairs as members. Meetings of the Group are appropriately minuted.
- 8.6 Delegation arrangements have also been revised with different thresholds for authorisation. In addition, weekly property meetings have been introduced giving an opportunity for the Minister for Treasury and Resources routinely to discuss all property transactions with the Treasurer and JPH.
- 8.7 As an example, for the recent housing development at La Rue de Patier, the new arrangements meant that the Minister of Treasury and Resources was directly involved at four key stages: authority to enter into negotiations, authority to continue negotiations at a revised

estimate, authority to acquire the property and authority to finalise the purchase. At each stage, a joint paper from the Treasury and Resources and Housing Departments was presented to inform the Minister's decision.

- 8.8 However there are no standardised arrangements across the States setting out the respective roles and responsibilities of Chief Officers and Ministers in the management of major projects.
- R16** Adopt a consistent framework across the States setting out the roles and responsibilities of Chief Officers and Ministers in the management of major projects.
- R17** Adopt a consistent standard for recording Ministerial deliberations including the taking of contemporaneous notes.

ENDS

Appendix 1 Summary of recommendations

- R1** Adopt a consistent States-wide approach to evaluating the risks associated with projects and identifying the appropriate approaches and resources to mitigate those risks.
- R2** Put arrangements in place to monitor compliance with such a States-wide approach.
- R3** Adopt a consistent States-wide business plan template for major projects with consistent requirements for contents and supporting guidance.
- R4** Put arrangements in place to monitor the use of such a States-wide business plan template.
- R5** Adopt a consistent model for option appraisal, including scoring and weightings against agreed criteria that reflect the property strategy.
- R6** Put arrangements in place to monitor compliance with the use of the revised option appraisal model.
- R7** Adopt a uniform project management framework across the States, including a requirement to designate a project manager for all projects.
- R8** Ensure that ambiguities and potential disputes with other parties are identified, escalated and resolved at an early stage.
- R9** Include documentation standards within the States-wide project management framework.
- R10** Develop a strategy for maintaining an adequate project management capacity, including a training programme and flexibility in use of skilled staff.
- R11** Monitor implementation of the project management framework across the States.
- R12** Ensure that States-wide project management approaches include an early and comprehensive identification of the need for internal or external professional advice.
- R13** Where in house expertise is used, ensure that professional standards for undertaking, communicating and documenting the work undertaken are followed.
- R14** Ensure that all instructions to professional advisors are in writing.

- R15** Consider other options for providing assurance over valuations for more significant projects, such as retaining off-island valuers to review the approaches adopted by local valuers.
- R16** Adopt a consistent framework across the States setting out the roles and responsibilities of Chief Officers and Ministers in the management of major projects.
- R17** Adopt a consistent standard for recording Ministerial deliberations including the taking of contemporaneous notes.



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