

Final
Internal Audit Report

**Health & Wellbeing
Leisure Campus**
2019/2020

Audit Assurance: Limited
Auditor: Jacqui Murray
Date Issued: 28th July 2021

Reason for the Audit & Scope	
1	<p>A borough wide Health & Wellbeing Leisure Campus was proposed in July 2017, the proposal was formally endorsed by Cabinet and a capital budget of £15m was agreed and approved for the project in February 2018.</p> <p>Due to significance of the project to the achievement of the Council's Corporate Plan the Internal Audit Service undertook a review to provide assurance or otherwise in the following areas:</p> <ul style="list-style-type: none"> • Establish procurement process and the appointment of Faithful and Gould complies with Contract Procedure Rules; • Determine if effective governance arrangements were in place in respect of the project; and • Ensure procedures in respect of key decisions have been adhered to. <p>The draft outcomes of an initial review were provided to the Governance Committee on 16th June 2020; however, the review was not finalised at this time. Internal Audit have been requested to revisit the audit to provide concluding outcomes.</p> <p>The review and assessment of the Health & Wellbeing Leisure Campus draft report is included in the 2021/22 Annual Audit Plan approved by the Governance Committee on 23rd March 2021.</p>
2	<p>The report is based on an assessment of the electronic and paper files compiled during the initial review of the Health & Wellbeing Leisure Campus in 2019/2020 in support of the draft report presented to Governance Committee on 16th June 2020.</p> <p>No additional information has been sought or included for review, and no officers or members have been contacted.</p> <p>The audit review and report will concentrate solely on the key areas identified within the original audit review scope and will provide an assessment of whether suitable processes and procedures in line with Council guidance and policy were in place to support the project.</p>

Audit Objectives	
3	<p>The overall objective of the audit was to provide an opinion of the adequacy, application and reliability of the key internal controls put in place by management to ensure that the identified risks are being sufficiently managed.</p>

Audit Assurance	
4	<p>The Head of Internal Audit is required to provide the Governance Committee with an annual audit opinion on the effectiveness of the overall control environment operating within the Council and to facilitate this each individual audit is awarded a controls assurance rating. This is based upon the work undertaken during the review and considers the reliance we can place on the other sources of assurance.</p>
5	<p>Our work identified that there were areas relating to procurement and project governance that fell short of the required standards outlined in the Councils Contract Procedure Rules and the projects approved governance arrangements therefore a Limited assurance rating has been awarded for this review.</p> <p>It is evident that the Council gave consideration to the procurement and governance arrangements that would be required for the successful implementation of the Health & Wellbeing Campus and sought approval for these arrangements from Cabinet to expedite the project; however, in a short period of time the controls put in place for effective and transparent decision making diminished.</p>

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A failure to record robust project documentation was evident in the procurement process and the subsequent appointment of Faithful & Gould Ltd, with our work identifying a breach of the Council's Contract Procedures rules due to a lack of an effective audit trail of evaluation/decision making stages undertaken.

The Campus Programme Board was a key part of the governance framework put in place for the project, but the failure to document discussions, decisions and recommendations for Cabinet; and the ultimate cessation of the Programme Board at an early point in the project coupled with a lack of subsequent reporting to Cabinet was a significant governance failure. These deviations from the approved governance controls meant that Members were not formally informed of significant increases in projected costs associated with the project; and were not given the opportunity to make effective key decisions in this regard at a crucial point in the project.

Senior officers of the Council were aware of emerging costs that would result in the project exceeding the amount approved within the Council's capital programme and failed to meet the requirements of the Financial Regulations in relation to identifying variations, reporting capital expenditure and ensuring that expenditure continued to deliver best value for money for the Council. Furthermore, the ongoing disregard by senior officers to refer all decisions over £100,000 to Cabinet allowed the continued commissioning of work in the Council's regard by Faithful & Gould Ltd with final costs amounting to £600,000.

These substantive control weaknesses, compounded by the further governance failures identified in this report negatively impacted on the Council's ability to successfully deliver the required outcomes of the Leisure, Health & Wellbeing Campus Project.

Due to weaknesses outlined above and the lack of documentation available to support project decisions, a **Limited** assurance rating has been awarded for this review.

Control Rating Key

Full – the Authority can place complete reliance on the controls. No control weaknesses exist.

Substantial - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.

Adequate - the Authority can place only partial reliance on the controls. Some control issues need to be resolved.

Limited - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist

Background

6 A proposal for a borough wide Leisure, Health and Wellbeing Campus went to Cabinet in July 2017. This report sought Members views on the Campus approach and as a result Cabinet resolved that a Cross Party Working group be established and a further report be presented to Cabinet detailing the findings and recommendations and a resource plan.

7 At the Cabinet meeting of 25th January 2018, the 'Financial Case for the Health, Leisure and Wellbeing Campus Programme' report was considered which outlined a proposed 5 year Capital Plan for Health and Wellbeing. A budget of £24.45m was set for Health, Leisure and Wellbeing which included £15m allocated for a new leisure facility. The decision made from that meeting was that Council be recommended to approve the investment programme and that it should be incorporated into the Council's Capital Strategy. The Capital Strategy was then approved at the following Council meeting in February 2018.

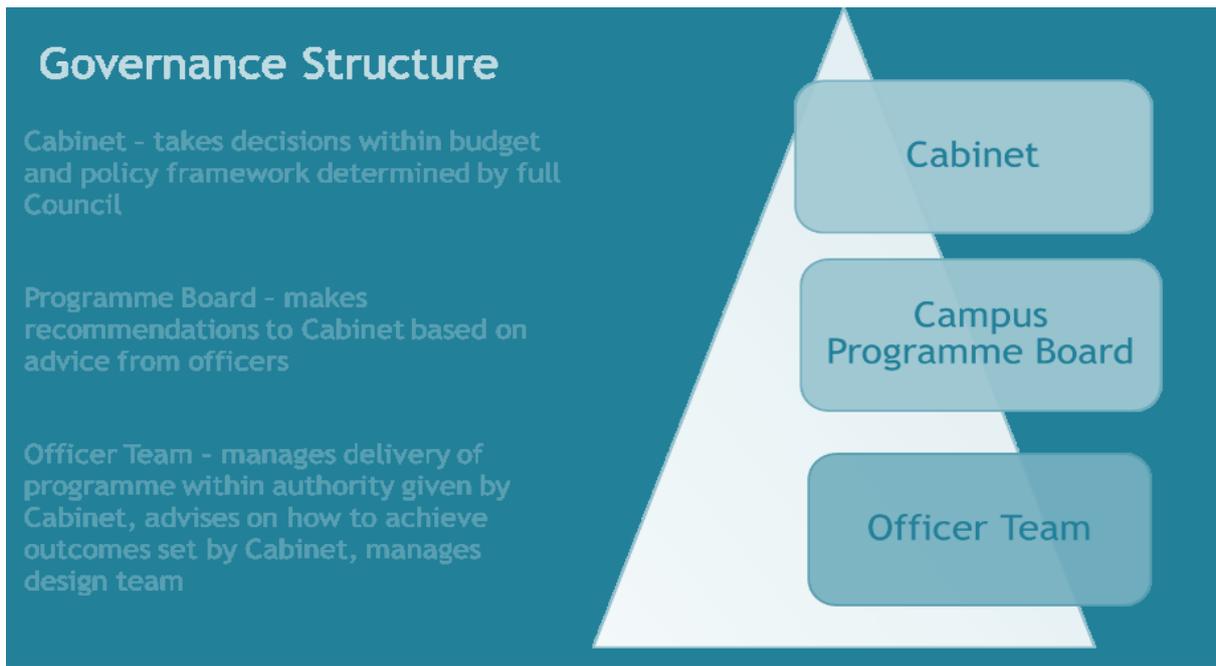
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	Procurement process & appointment of Faithful & Gould
8	<p>Following numerous discussions between the Specialist Advisor (for the project) and the Principal Procurement Officer, two direct award frameworks, both of which provided a compliant route to market were identified for the procurement of professional services in construction and premises for the Health and Well Being Campus project.</p> <p>As part of the procurement process, meetings took place with the Principal Procurement Officer and Specialist Adviser with both companies providing clarification documents and proposals:</p> <ul style="list-style-type: none"> ○ Pagabo National Framework for professional services in construction and premises – Lot 1 awarded to Faithful and Gould Ltd; Fee £1,620,000 ○ Scape Built Environment consultancy services framework – awarded to Perfect Circle.(joint venture between Pick Everard, Gleeds and Aecom. Fee £854,000
9	<p>Approval of the procurement of the development team via a single source, direct award framework was included in the report to Cabinet in June 2018 - First Phase of Campus Programme.</p>
10	<p>Paragraph 31.5 of the Council's Contract Procedure Rules refers to Framework Agreements and states:</p> <p><i>“Where a public sector framework is used in accordance with the above provisions, without entering into a full, separate procurement process, all other relevant aspects of these procurement rules will still apply, including any approval which may be required for the procurement award procedure (in this case to use the identified framework), approval for the evaluation criteria and weightings (in the event of a further competition under the framework), and approval for the contract award prior to contract acceptance”.</i></p>
11	<p>Advice from the Principal Procurement Officer and the Monitoring Officer confirmed that in the next report to Cabinet, Members could be updated with details of which framework was chosen and why.</p>
12	<p>Following a thorough assessment of all the documentation and interview notes from the initial review, it is clear that a comprehensive, documented evaluation of the two frameworks was not developed and considered by officers involved in the project.</p>
13	<p>The next report was taken to Cabinet 12th September 2018 seeking approval to enter into a contract with Faithful and Gould Ltd. via the PAGABO Framework on the basis that the final proposal fee did not exceed £1.8m. This sum was based upon the percentage of the total build cost at industry standard between 10-12%. Whilst the report gave a written commentary of the reasons why the PAGABO framework had been selected, it did not contain comprehensive evaluation details.</p> <p>In addition, the report did not contain sufficient detail regarding the professional fees outlined under each framework. The indicative fees outlined in the original proposals differed significantly with the Pagabo framework/Faithful & Gould Ltd proposal exceeding the SCAPE framework by approximately £800,000.</p> <p>The minutes of this Cabinet meeting show that Councillor P Foster queried the lack of detail provided in the report and requested that the decision be deferred. The recommendation was however, supported, but this decision was later called in at Scrutiny Committee on 27th September 2018.</p>

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14	A more detailed report was requested for the next meeting of Cabinet (17/10/18), this report included further information in respect of the governance arrangements and outlined only 1 distinct difference between the two frameworks. Further, some of the reasons for choosing PAGABO, could equally have been reasons for choosing SCAPE. There was no comparison made between the services that both frameworks could provide and the reasons also failed to detail the likely fee for the contract award.
15	<p>The process, as detailed above contains the following weaknesses / non-compliance with the Council's Contract Procedure Rules:</p> <ul style="list-style-type: none"> • One of the main purposes of the CPRs is “to obtain Best Value in the way the Council spends money, so that in turn it offers better and more cost-effective services to the public.” The process above, has failed to comply with the requirement as there is a lack of evidence / failure to produce a documented evaluation to support that the Council obtained the best value with this exercise. This requirement is fundamental in adhering to Contract Procedure Rules and especially since at £1.8m, this contract was for a significant value. Even after further detail was requested as a result of a Scrutiny Committee decision, the extra detail that was provided was not an evaluation of the two frameworks. • CPRs state that “Effective audit trails must be maintained at all stages throughout the procurement procedure, particularly when approval or agreement is required and at evaluation/decision making stages.” As highlighted above, the Council is unable to provide details of the reasoning behind why one framework was recommended to members as being the best option.
	Determine if effective governance arrangements were in place in respect of the project
16	<p>The report to Cabinet in October 2018 contained details of the governance arrangements for the project, as detailed below:</p> <ul style="list-style-type: none"> • A cross party Campus Programme Board and its role being to make recommendations to the Cabinet; • An Officer Project Team, which at that point in time, was is in the process of finalising a formal Project Implementation Plan alongside taking measures to accelerate the programme. At each meeting the team would review: <ul style="list-style-type: none"> ○ Programme and progress against programme ○ Budget and performance against budget ○ Current issues ○ Strategic risks ○ Quality and acceptance of work produced ○ Approves the report to go the Campus Programme Board agreed decisions <p>The report expanded on the governance arrangements by stating that the first meeting of the Campus Programme Board was held on the 20th September 2018. Subsequent meetings will be held fortnightly alternating with officer project team meetings. Reports to the Campus Programme Board will be reviewed by the Officer Project Team before issued to members.</p>

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17	<p>A further report was presented to Cabinet which included updated governance and reporting processes as detailed below:</p> 
18	<p>Details of the membership of each group was included as:</p> <p>Campus Programme Board: Members - Leader of the Council, Portfolio Holders or deputies, Shadow portfolio Holders or deputies Officers: Chief Executive, Deputy Chief Executive of Regeneration and Growth, Interim Project Director pending the arrival of the Assistant Director of Neighbourhoods and Development.</p> <p>Officer Project Team: Deputy Chief Executive Regeneration and Growth, Director Planning and Property, Director of Neighbourhoods and Development, External Project Director (until DCE in post then AD Projects and Development), Leisure Manager, Planning Manager, Project member Leisure Centre, Procurement, Legal and Finance.</p>
19	<p>The minutes from both Cabinet meetings confirm that the governance arrangements were unanimously agreed.</p>
20	<p>The review of the files and evidence identified the following control failures:</p> <ul style="list-style-type: none"> • Given the significant financial aspect to the project, the Section 151 Officer was not a member of the Campus Programme Board. Furthermore, only a representative from Finance is included in the Officer Project Team and not specifically the S151 Officer; • Comprehensive minutes from the Campus Programme Board meetings were not taken, therefore discussions and outcomes in relation to individual agenda items cannot be reviewed, and an audit trail of documented decisions is not available. Corporate Support confirmed that officers were informed that minutes were not necessary. Only action points only were documented and retained for the Campus Programme Board. • Evidence suggests that the last Campus Programme Board meeting was held on 11/01/19 after a total of seven meetings. There are no action points available for this meeting and we are unable to ascertain why these meetings ultimately ceased;

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	<ul style="list-style-type: none"> • Officer Project team meetings were held; however the frequency of the meetings was not as agreed by Cabinet as they were held on a monthly basis rather than fortnightly. In addition, there is no evidence of the team approving the report to go the Campus Programme Board as set out in the stated governance arrangements. • Senior officers of the project officer team were absent from meetings at the point in time when it became clear that the emerging costs were far in excess of the £15m budget allocation. • Meetings between the Council and the design team (officer project team meetings) continued monthly until 19/07/19, however it is unclear from the absence of Campus Programme Board meetings or Cabinet reporting where ongoing progress/issues were being reported or escalated. • Given the size and value of the project, the review of the files and data held on In-phase (the Council's project management system) has revealed limited project management documentation.
21	The lack of records of the Campus Programme Board and lack of project documentation demonstrates a clear disregard for the governance arrangements put in place for this project. Governance arrangements ensure effective decision making, meaning that Members were unable to make effective decisions in regard to this project.
	Ensure procedures in respect of key decisions have been adhered to
22	The Council considers a key decision as one which is likely to be significant in terms of expenditure or savings, or significant in terms of its impact on communities. The financial threshold at which expenditure or savings becomes significant is set at £100,000.
23	A series of key decisions in relation to the Health & Wellbeing Campus were made by Cabinet and are outlined in the Cabinet report and minutes of 21/06/18, 12/09/18, 17/10/18 and 21/11/18. An additional report was planned for 23/01/19 to provide a detailed programme of activity for the project.
24	In addition, the report to Cabinet in October 2018 contained the following detail: <ul style="list-style-type: none"> • every key decision of this programme the Program Director appointed following Cabinet approval 21st June 2018 will review the contract on value, price and quality and will refer all decisions above £100,000 back to Cabinet.
25	From the documentation available for review there is evidence that the project team were in possession of emerging information in December 2018 advising that the approved budget for the project was going to be insufficient for the scope of the project that had been outlined. Additionally, an increase in professional fees for Faithful & Gould Ltd was anticipated in line with additional work that would be required that was not included within the original brief.
26	It was the intention of the project team to present this significant information to Cabinet on 23/01/19 as a draft report flagged as a key decision was prepared and circulated for officer comments, however this report was never provided to Cabinet.
27	It is evident from the content of the draft report prepared in December 2018 and a subsequent feasibility study received in late January 2019, that it was apparent to the project team that the initial allocated amount of £15 million was not going to be adequate for the planned scope of the project, with revised costings now being projected between £23-26 million. As no further reports were provided to Campus Programme Board Meetings, Cabinet or Council, members were not formally informed of the increased projected costs associated with the project and the budget was approved in February 2019 without note

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	<p>or reference to these emerging costs. We are unable to ascertain from the documentation available why no further progress reports were provided to members, or the reasons why a substantial emerging cost for this flagship project was not highlighted to Cabinet or Council at this time.</p>
28	<p>The evidence in the files does confirm that the portfolio holder was issued with the draft report, however whilst it is appropriate for the portfolio holder to be kept up to date, this action was not sufficient in itself to satisfy any obligations in regard to reporting / decision making.</p>
29	<p>At this point in time an opportunity was lost to advise Cabinet of the increased cost projections for the project and to allow consideration of the options that may have been available to the Council. Further opportunities to advise Cabinet were not taken and as detailed above no further update reports on the Health & Well-being Campus were presented to Cabinet at any point thereafter. A report providing a history of the Leisure Campus was provided to Council on September 2019.</p> <ul style="list-style-type: none"> • During this period the design team, Faithful & Gould Ltd continued to submit ongoing invoices as per the agreed payment schedule for their continuing work against their agreed fees of £1.8 million with a total amount of £600,000 paid out. <p>Supporting evidence available for review does not provide insight to the reasons for the non-submission of the drafted report to the meeting of 21/01/19 and the subsequent lack of reporting to Cabinet.</p>
30	<p>Review of the evidence does however confirm that senior officers of the Council were aware of the emerging costs during December 2018. The Financial Regulations are clear in regard to all expenditure, including capital expenditure, in that: -</p> <ul style="list-style-type: none"> • Chief Officers are required to ensure that throughout the implementation period of a capital scheme, the specification remains consistent with the overall objectives of the scheme and that expenditure continues to deliver best value for money for the Council; • Chief Officers must monitor and report capital expenditure and income for all schemes within the approved capital programme and identify any variations against the approved level of expenditure.
31	<p>In addition to the non-compliance with the Councils FPRs, there is also a disregard by senior officers to refer all decisions above £100,000 to Cabinet. Senior officers allowed the project to continue in the knowledge that the initial agreed budget was insufficient and that further approval to increase the budget would be required.</p>
32	<p>The report to Council in September 2019 provided a history of the Health & Wellbeing Leisure Campus project to the new administration of the Council that had come into effect after the local elections in May 2019. It outlined an up to date assessment of the status of the project, an understanding of the state of Leisure stock within the borough, the options available for potential next steps and a summary of the operations management arrangements for South Ribble's Leisure Centres.</p>

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NO.	FINDING	ACTION TAKEN
1	<p><u>Procurement and CPR's</u></p> <p>There was a failure to record and retain robust documentation for the procurement of professional services for the design and construction element of the project; particularly with regards to a comprehensive, documented evaluation of the suitable framework agreements identified.</p> <p>Effective audit trails must be maintained at all stages throughout the procurement procedure as outlined in the Council's CPR's to support the requirement "to obtain Best Value in the way the Council spends money, so that in turn it offers better and more cost-effective services to the public."</p>	<p>Procurement and Legal Services have provided Procurement and Contract Procedure Rules training to key procuring officers during 2020/21, incorporating all elements of the procurement cycle including the use of Framework Agreements.</p> <p>The 'Staff Guide to Procurement' was reviewed and updated in February 2021 to support the training undertaken.</p> <p>The Councils Constitution, including the financial regulations and scheme of delegation was reviewed and updated in February 2021.</p> <p>Governance & Ethical Governance Training was provided to Members with a Member Ethical Decision Making and a Member Code of Conduct Learning Session held during August and September 2020; and training to key officers provided in October 2020.</p>
2	<p><u>Key Decisions</u></p> <p>There was a failure to refer all decisions above £100,000 to Cabinet and provide regular update reports to Cabinet in accordance with requirements set out in the Cabinet reports of 17/10/18 & 21/11/18.</p> <p>Opportunities were lost to advise Cabinet of the increased cost projections for the project, and to allow consideration of the options that may have been available to the Council.</p>	<p>A 'Compliance with CPR's Review' was recently completed by Internal Audit, and an adequate assurance rating awarded. Actions have been agreed with Procurement and Legal Services to further strengthen internal controls and aid compliance with the Council's CPR's.</p>

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MANAGEMENT ACTION PLAN

NO.	FINDING	AGREED ACTION	OFFICER & DATE
1	<p>It is understood that the Project Management System (InPhase) utilised during the Health & Wellbeing Campus project is no longer in use and a refresh of the Performance Management Framework (PMF) to incorporate the use of a project management toolkit, is currently being undertaken.</p> <p>The updated PMF should set out the standards and level of documentation that should be retained for Programme Board meetings to ensure there is consistency and transparency in relation to:</p> <ul style="list-style-type: none"> • Meeting attendance including the attendance of statutory officers where applicable; • Topics for discussion; • Decision-making and recommendations for further approval by Committee/Cabinet; <p>across all projects.</p>	<p>Future projects of this nature and scale identified in the Corporate Plan/Strategy will be managed through the Corporate Strategy Programme Board with all associated agendas, reports and minutes retained within the Mod.gov system.</p> <p>To further improve standards and ensure consistency of approach across all Council projects, the project management toolkit is currently being refreshed and strengthened to provide clarity and direction for project team members in the following areas:</p> <ul style="list-style-type: none"> • Approval process for the governance arrangements of large capital programmes; • Document management including retention requirements for major capital or corporate projects. 	<p>Vicky Willett</p> <p>Shared Service Lead Transformation and Partnership</p> <p>Dec 2021</p>

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