North Norfolk District Council

Position Statement – Egmere Project

2019/20 (NN/20/19)

FINAL

March 2020

Contents

Position Statement – Egmere Project

Executive Summary

INTRODUCTION

1. This review was carried out in December 2019, as an addition to the audit plan on request of the Chair of the Governance, Risk and Audit Committee. Following the issue of a previous audit report in August 2019, detailing the outcomes of a review on the Council's Project Management arrangements (NN/20/01), it was requested that two further projects were subject to audit scrutiny; this is the second of those two reviews, the first being Sheringham Leisure Centre (NN/20/18). This review relates to the potential development opportunity at a site situated north of Edgar Road, Egmere. At the Cabinet meeting held on 15th August 2019 a report was provided recommending that Cabinet cease the current scheme and that any unallocated funds are made available for alternative capital projects and this recommendation was approved.

SCOPE

2. The objective of the review was to highlight any possible areas for improvement and provide a 'Position Statement' to the senior management of the Council on the outcomes of the review, as outlined above. The review considered the initial information that was provided to Members at the time that the project was approved, the budget of the project and the effectiveness of the governance arrangements.

MATERIALITY

3. The report to Cabinet on 23rd September 2019 reported on the financial position, stating that spend to date on the project had been circa £180k, with a net cost to the Council of £85k after Norfolk Business Rates Pool (NBRP) contributions. In December 2019, the Estates and Asset Strategy Manager provided updated information for the audit showing a total cost of £175k, less £94k funding, leaving a total cost to the Council of £84k. It was clarified that these costs do not include recharges for Council staff time.

KEY FINDINGS

4. Outcomes of the review are detailed in the table below.

AUDIT OBSERVATIONS

5. The audit has concluded that there is evidence in place demonstrating ongoing governance, including regular reporting to Cabinet, and reviews from external consultants BE Group in both 2015 and 2019. The benefits, risks and financial implications were reviewed at each stage and reported to Members for consideration. As it was decided in August 2019 not to proceed with the scheme, a formal project was not started to develop the site. Reasons for the project not proceeding included rapid changes in the renewable energy sector, an inability to attract tenants at such an early stage, time taken to agree a potential

lease with the land owner, and ultimately withdrawal of the proposed anchor tenant. A review of documentation found regular communication with the potential anchor tenant, who confirmed continuing interest as late as February 2019 before withdrawing interest in June 2019.

Findings from the review are detailed below. There is one new Suggested Action / Improvement for management to consider, which builds on those Suggested Actions / Improvements raised in the Project Management audit report NN/20/01, in particular, for project boards to include officers with the requisite skills, including representation from Finance and Legal Services, from the outset if deemed appropriate.

Other issues have been identified in this project, which have previously been identified in relation to the Council's project management overall. These include ineffective governance arrangements, lack of input from areas such as finance, legal into project appraisal, and project objectives and milestones not being adequately defined or reported on. See the previous audit report on Project Management (NN/20/01) for details and recommended actions. Where appropriate, actions from that report have been restated in the 'Findings' section of this report, in particular:

- Initial risk assessments be completed consistently between projects, using a standard template and methodology.
- Project objectives and milestones be defined at the beginning of the project and progress against these is regularly reported on.
- Regular updates to senior management on project progress to be provided, including details of issues arising and remedial actions required.

Findings

Controls/Areas	Observations	Suggested Actions/Improvements
1. A detailed business case for the project was prepared.	An original report outlining this potential development opportunity was reported to Cabinet in October 2014. Cabinet agreed that the Council should lead a project proposal to open up a minimum of 1.65 hectares of land within the area covered by the Egmere Local Development Order (LDO) subject to securing the necessary external funds to deliver the project. Cabinet authorised officers to obtain cost estimates for the provision of utility services into the proposed development area, pursue applications for external sources of finance, conclude discussions with the Walsingham Estate regarding the Council taking a head lease on the land, and to promote investment opportunities at Egmere to businesses seeking to invest in this part of the district. The approval at this stage was for the Council to deliver the infrastructure (road and utilities) to open up the site for development. The scope of the project increased during 2015, as the Council had entered discussions with a local business about leasing a unit on the site. The Council would construct the unit and then lease it to the business to generate income. A report on the revised proposals was presented to, and approved by, Cabinet in January 2016. While the risks associated with the projects increased with the expanded scope, they were mitigated by the securing of an anchor tenant and greater certainty about the project costs. By this stage, the constructions costs were more certain as the proposals had been fully costed by a consultant. In addition, a funding contribution had been secured from the Norfolk Business Rates Pool and the application for the Egmere Enterprise Zone had been approved, making the site more attractive to businesses. Once the heads of terms for the lease of land from the Walsingham Estate and for the lease of the unit to the anchor tenant had been agreed, and the tender price from the preferred bidder for the construction contract had been obtained, the Council was in a position to sign all of these contracts and commence the development. A report requesting authority to proceed was presented to Cabinet in 2018. The report described the benefits	None.

Controls/Areas	Observations	Suggested Actions/Improvements
	of proceeding with the scheme, the financial implications, including a sensitivity analysis of different scenarios, and the risks associated with the project. At the Cabinet meeting held on 15th August 2019, a report was provided recommending that Cabinet cease the current scheme and that any unallocated funds be made available for alternative capital projects and this recommendation was approved. Further development of a business plan and initiation of a formal project therefore did not take place. The business cases at each stage were supported by the findings of two reports by the BE Group, an external consultant. The first report was a Business Growth and Investment Opportunities Study in 2015. This concluded that the Egmere site should be left to the market, although it also stated that, 'The land will require improvements to accommodate new development [and] the landowners are likely to be reactive rather than drive speculative investment in the location.' The report also referred to a general lack of industrial units available in the district. A second report, specifically about Egmere, was produced in 2019. This advised the Egmere Business Zone project was a marginal and high-risk project from a purely financial point of view, but that it would deliver significant economic and community benefits to the community.	
2. The business case includes an evaluation of the associated costs, outlines how the project will be funded, builds in contingency for risk, highlights any expected savings. Assumptions are realistic and can be evidenced.	Internal audit reviewed the documentation in place supporting the project history. This was considered satisfactory. No examples of unrealistic assumptions were identified, and the costs and risks were subject to scrutiny by Members, with Cabinet making the decisions. The cost estimates reported to Cabinet in 2014 were £750k for the road works plus £750k for service connections, which were considered reasonable, and not out of line with the eventual costs in the 2018 report to Cabinet. The intention was to seek external funding in order to minimise the financial risk to the Council. A funding bid for £1m was submitted to the Coastal Communities Fund in 2014, which was ultimately unsuccessful; however, a bid to the Norfolk Business Rates Pool for £450k was successful. Reports to Cabinet in January 2016 outlined that the application for Egmere to be designated an Enterprise Zone had been successful (Nov 2015), the Norfolk Business	None.

Controls/Areas	Observations	Suggested Actions/Improvements
	Rates Pool application had been successful (Oct 2015) and there was firmer interest from Tidal Transit in regard to leasing premises on the site. At this time, the scope of the project had expanded to include the Council constructing one unit on site and then letting this to the anchor tenant. This increased the financial risk involved in the project, although it is noted that the Council did not commit to any expenditure, by agreeing the lease with the Walsingham Estate, without a corresponding certainty of income from the tenant. It was reported to Cabinet in March 2017 following the formal designation of the Enterprise Zone that the budget increased once tender responses had been received – preferred bidder price of £1.77m for infrastructure and construction of unit 1. A financial appraisal and sensitivity analysis was produced in July 2018 for the August 2018 Cabinet meeting. This stated that the expected return on NNDC's investment was 5.13%, but with the worst-case scenario (in which the Council was unable to let more than one unit) giving a return of 1.62%.	
3. A project team and supporting governance arrangements, such as project boards, have been created to manage the project.	The scheme was led by the Corporate Director and supported by the then Head of Assets until the Estates and Asset Strategy Manager took over the lead role in 2017. . Advice was provided by the Head of Legal from August 2017Evidence shows involvement from Members during the project and formal decisions were taken by Cabinet and reported to Full Council. The Leader of the Council and other Cabinet portfolio holders were involved in formal meetings with key stakeholders. A formal project board and governance arrangements were however not set up for this project.	Further to the Suggested Actions / Improvements raised in the Project Management audit report NN/20/01, to enhance project management further, project boards to include officers with the requisite skills, including representation from Finance and Legal Services, from the outset if deemed appropriate. (See also

Controls/Areas	Observations	Suggested Actions/Improvements
		findings in section 4 below that link to this suggested action). **Management response:** Agreed where appropriate.
4. All key legal and regulatory requirements were considered before project commencement, including procurement and planning permission.	In respect of the development of the Local Development Order (LDO), the proposal to create the LDO came from a Cabinet Member who had a background in planning law. Research was conducted by the Council, including meetings with other stakeholders such as local landowners and the Wells Harbour Commissioners. Evidence was obtained from other LDOs around the country to understand the process and likely outcomes. The land lease terms were renegotiated to increase the length of the lease from 25 years to 99 years, following advice from the Head of Legal. Officers identified that the changes required new approval from Cabinet and a 'call in' request to Overview and Scrutiny was actioned in September 2018 in line with Council Procedures. Members challenged the project, as was demonstrated by evidence provided for the audit. At the call-in, it was resolved, 'To recommend to Cabinet that the business case for the Egmere Development Zone is passed to an outside agency for stress testing of the risk assumptions and to give advice as to whether this investment is a prudent one for the Council.' A further recommendation to Cabinet was made by Full Council in September 2018, that Cabinet reconsiders its position. Cabinet resolved not to accept these recommendations, and implement its original decision, at its meeting in October 2018.	None.
5. A detailed project plan has been developed covering each stage of the project, is broken down into	As the Egmere development did not proceed, the stage of preparing a detailed project plan was not reached. However, an outline plan could have been produced and objectives defined for the work that was undertaken. This was identified as a common issue with projects in the previous audit of project management (NN/20/01) and an action point was	Project objectives and milestones are defined at the beginning of the project and progress

Controls/Areas	Observations	Suggested Actions/Improvements
milestones and includes performance measures.	raised in that report: Action Point 9 – Project objectives and milestones are defined at the beginning of the project and progress against these is regularly reported on. Therefore, a new action will not be raised here, although the original action is restated for information only.	against these is regularly reported on. (Originally raised in Project Management audit report NN/20/01)
6. The project has been subject to a formal risk assessment, which is continually monitored and reported on for the duration of the project.	Options for how to proceed and the associated risks were reported to Members in reports at the various stages of approval for the project. A risk log was presented to Cabinet, and Internal Audit reviewed the version submitted with the September 2018 Cabinet report, as this was at the stage where the Council was in a position to commence the development. The log included seven funding and budget risks (section A), one legal and statutory authority risk (section B), one procurement risk (section D), two construction risk (section E), six third party and operational risks (section F), and three other risks (section G). There are also three closed risks on the log. The highest scored open risk is D01 Main tender exceeds budget (6000, red). Risk F01 of failure to sign a lease agreement with tenant for unit 1 was scored 2000, pink (low likelihood, high impact). While this seems low in highlight, it was arguably reasonable at the time given the interest shown by Tidal Transit. This risk scoring is not consistent with the Council's standard risk scoring methodology or with other projects. This was identified as a common issue with projects in the previous audit of project management (NN/20/01) and an action point was raised in that report: Action Point 8 – Initial risk assessments be completed consistently between projects, using a standard template and methodology. Therefore, a new action will not be raised here, although the original action is restated for information only.	Initial risk assessments be completed consistently between projects, using a standard template and methodology. (Originally raised in Project Management audit report NN/20/01)
7. Budgets are subject to regular, detailed monitoring.	Budget reports were produced and distributed to the budget holder on a monthly basis, in accordance with the Council's standard capital budget monitoring process. Evidence demonstrated the work undertaken to obtain external funding. Discussions were held with the New Anglia Local Enterprise Partnership (NALEP) regarding potential grant funding from the Enterprise Zone Accelerator Fund. However, due to the withdrawal of the potential anchor tenant in June 2019, there are no current finalised lease agreements in	None.

Controls/Areas	Observations	Suggested Actions/Improvements
	place with either an anchor tenant or the landowner. Having these agreements in place was a requirement of the funding application to NALEP; without this certainty it has not been possible to submit a bid due to the increased levels of risk for both the external funding partner and the Council. The report to Cabinet on 23rd September 2019 stated: “The current capital budget for the scheme stands at c£2.255m but assumes NNDC finance the project with a £0.450m contribution towards the infrastructure costs from the Norfolk Business Rates Pool (NBRP), giving a net cost to NNDC of just over £1.8m. Spend to date on the project has been c£170k, however the Council received £44k external funding from the NBRP during 2017/18, a further £36k in April 2019 and there is a further minor claim pending of £5k, which would take the net cost to the Council down to £85k.” In December 2019 the Estates and Asset Strategy Manager provided updated information for the audit showing a total cost of £175k, less £94k funding, leaving a total cost to the Council of £84k. It was clarified that these costs do not include recharges for Council staff time. The costs incurred were for consultancy and legal fees, mostly for producing the designs for the scheme. As these costs were incurred in progressing the project, the Council was able to reclaim part of them from the Norfolk Business Rates Pool, in accordance with the funding agreement.	
8. Risks and performance measures/milestones are subject to regular update and review including by SLT and members.	As stated in section 6, a risk log was produced as part of the Cabinet report in September 2018. As the project did not progress further, risks were not updated after this stage. No reports on this project were provided to the Council’s Strategic Leadership Team. This was identified as a common issue with projects in the previous audit of project management (NN/20/01) and an action point was raised in that report: Action Point 4 – Regular updates to senior management on project progress to be provided, including details of issues arising and remedial actions required. Therefore, a new action will not be raised here, although the original action is restated for information only.	Regular updates to senior management on project progress to be provided, including details of issues arising and remedial actions required. (Originally raised in Project Management audit report NN/20/01)

APPENDIX 1 - AUDIT TIMETABLE

1. The table below sets out the history of this report.

	Expected Date:	Actual Date:
Start of Fieldwork:	5th December 2019	5th December 2019
Debrief Meeting:	19th December 2019	19th December 2019
End of Fieldwork:	19th December 2019	19th December 2019
Draft Report Issued:	14th January 2020	17th January 2020*
Final Report Issued:	24th January 2020	13th March 2020**

*Delay due to review period / **Management responses

APPENDIX 2 - ACKNOWLEDGEMENTS

2. We would like to thank staff at North Norfolk District Council for their co-operation and assistance during the course of our work, in particular:

- Steve Blatch, Corporate Director and Head of Paid Service
- Emma Duncan, Head of Legal
- Duncan Ellis, Head of Finance and Asset Management
- Renata Garfoot, Estates and Asset Strategy Manager

APPENDIX 3 - DISCLAIMER

3. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.