North Norfolk District Council

Position Statement – Sheringham Leisure Centre Project

2019/20 (NN/20/18)

February 2020

Contents

Position Statement – Sheringham Leisure Centre Project

Executive Summary

INTRODUCTION

1. This review was carried out in October and November 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 first of those two reviews. This relates to replacing the existing Splash facility by building a new, state of the art leisure centre in Sheringham.

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 original budget for the project, as approved by Full Council in December 2017, was £10.67m. However, in July 2019, the budget was increased by £2.03m to £12.70m.

KEY FINDINGS

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

AUDIT OBSERVATIONS

5. The audit has concluded with a number of Suggested Actions / Improvements presented to management for consideration. These will help management to learn lessons from this project and improve the financial and governance arrangements for future projects.

Key Suggested Actions / Improvements include:

1. For Members to be fully briefed with the proposed funding arrangements for a project, including secured and unsecured funding and the associated risks with unsecured funding not being received or being delayed, thus allowing Members to be better informed for making such key decisions. If funding sources are not certain, clarity is required regarding:
   - When a decision is likely to be known about external funding, e.g. a grant
   - How much expenditure will need to be committed to get to that stage, regardless of whether the project ultimately goes ahead
   - The worst case scenario e.g. if the Council has to fund the whole project itself.
2. Risks relating to budget increases be included in reports to Members, along with mitigating actions, so that Members are kept informed of any such potential increases and therefore are better informed of the likely outcomes, including any further decisions that they may be required to consider.
3. Consider introducing an 'optimism bias' into budgets for major projects, to reduce the likelihood of the project exceeding its budget. This should be determined on a case-by-case basis, as informed by the risks to the budget.

   It is noted that adding to the budget will tie up more of the Council's resources and reduce opportunities to undertake other projects. As a result, it is important that any additions to the budget are not excessive, to prevent the opportunity costs exceeding the benefits obtained.
4. Project objectives and milestones are defined at the beginning of the project and progress against these is regularly reported on. (Originally raised in Project Management audit report NN/20/01 but restated here for information purposes).

Suggested Actions / Improvements

Controls/Areas	Observations	Suggested Actions/Improvements
1. A detailed business case for the project was prepared.	The initial report regarding the redevelopment of the Splash leisure centre in Sheringham was presented to Cabinet in June 2017. This report highlighted the benefits of providing sport and leisure facilities and how this would help the Council to achieve its corporate objectives, in particular: ‘The Council’s Corporate Plan reflects the known health benefits of sport and leisure, and Health and Wellbeing is one of the Council’s five main priorities; “A district with vibrant communities and where healthy lifestyles are accessible to all”. It is therefore important for the Council to have accessible leisure facilities that provide a variety of opportunities, in order to maintain a fit and active lifestyle.’ The report also references the fact that the protection of at least the existing level of facilities on the Splash site in Sheringham was highlighted in the Indoor Leisure Facilities Strategy as a high priority recommendation. At the June 2017 meeting, Cabinet approved in principle the redevelopment of the Splash leisure centre in Sheringham. Following this approval from Cabinet, FMG Consulting was appointed to produce a feasibility study for the redevelopment of the leisure centre. FMG is a small organisation, which specialises in the sport and leisure industry and has experience working with local authorities on their leisure provision. FMG was recommended to the Council by Sport England, based on their previous experience. The feasibility study and business case produced by FMG was presented to Cabinet in December 2017. The business case included the strategic need for the new facility, the proposed facility mix,	N/A

Controls/Areas	Observations	Suggested Actions/Improvements
	preliminary designs, financial implications (capital and revenue), a high-level delivery plan and a risk assessment. Following Cabinet approval to proceed, approval for the capital expenditure of £10.67m was granted by Full Council in December 2017.	
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.	The feasibility study included cost estimates for the proposed options (two different designs for rebuild and one for refurbishment), based on a design by the architects (Saunders Boston) and construction estimates from a quantity surveyor (Real Consulting). The estimated cost for option 1 (the option that was approved) was £10.34m, which supports the overall value of the project budget being £10.67m. A financial sensitivity analysis was provided as a confidential appendix, showing the revenue impact of increases to the overall project budget, which could be caused by higher than expected contract costs or lack of grant funding. The proposed funding mix was also approved with the initial budget, consisting of £1m grant funding from Sport England, £0.75m from disposal of part of the site, £4m from reserves and the remaining £4.9m from borrowing. At the time the budget was approved, none of the external funding had been confirmed. This was noted as a risk in the initial risk assessment included in the business case produced by FMG, although only referred to in an appendix to the officer report to Cabinet and Full Council and not highlighted in the main body of the report. The grant of £1m from Sport England has since been received. However, the land disposal remains uncertain and there is a risk that the Council is unable to sell the land at the expected price or within the required timescales, in which case alternative funding will be required in order for the project to continue. **Action Point 1.**	1. For Members to be fully briefed with the proposed funding arrangements for a project, including secured and unsecured funding and the associated risks with unsecured funding not being received or being delayed, thus allowing Members to be better informed for making such key decisions. If funding sources are not certain, clarity is required regarding: • When a decision is likely to be known about external funding, e.g. a grant • How much expenditure will need to be committed to get to that stage, regardless of whether the project ultimately goes ahead • The worst case scenario e.g. if the Council has to fund the whole project itself. **Management Response** It is accepted that the consequences of

Controls/Areas	Observations	Suggested Actions/Improvements
	In the previous review of Project Management (NN/20/01), it was recommended that the Council ensures that funding is formally confirmed and in place for all projects prior to approval and commencement (Action Point 6). This may not be possible for all projects, as in this case some design work was necessary as part of the grant application process.	funding decisions were not explicitly explained or understood by all Members in their decision making. **Agreed action**: Proposed improvements to include a high level one-page summary of the key financial information/key risks to be presented at the front of all reports as part of an Executive Summary for all projects over a certain sum (to be agreed by SLT but suggested to be £100k, the threshold for key decisions). The summary should specifically include the following where external funding (grants etc.) form part of the overall funding package: • the anticipated timing of any funding decision (including any initial consideration/processes prior to a final award); • the evidence/work required in order to support the funding application; • the estimated cost of the work/evidence collection required to support the bid, how this is to be obtained and the likely timescales for doing so; • the potential risks associated with the funding (the likelihood of success and the certainty of the

Controls/Areas	Observations	Suggested Actions/Improvements
		value); and • consideration of options and possible alternative proposals, funding/financial considerations should the external funding not be awarded at the value anticipated (to include aborting the project). **Suggested owner:** Finance **Completion date**: 31st March 2020
Continued	The business case produced by FMG included a section on risk. This identified 17 risks relating to the delivery of the project, mostly focused on the cost and the delivery of the project. In particular, the following risks were identified and assessed as having a high impact: - currently unknown constraints on the site increase the capital cost - market forces (e.g. Brexit) negatively impact on construction prices - the impact of project changes on both capital and revenue estimates As with the risks relating to the external funding, although these risks were identified in the FMG business case, which was provided to members (Cabinet in December 2017) as an appendix to the report about the project, they were not restated in the risk section of the covering report to Cabinet and Full Council. **Action Point 2.**	2. Risks relating to budget increases be included in reports to Members, along with mitigating actions, so that Members are kept informed of any such potential increases and therefore are better informed of the likely outcomes, including any further decisions that they may be required to consider. **Management Response** Risks relating to budget increases be included in reports to Members, along with mitigating actions, so that Members are kept informed of any such potential increases and therefore are better informed of the likely outcomes, including any further decisions that they may be required to consider.

Controls/Areas	Observations	Suggested Actions/Improvements
		The Council had obtained a feasibility report, which contained the initial detailed risk assessment, and the appendix was cross-referenced; however, it is accepted that with hindsight, given the value of this project, reference to this in the body of the report to Members could have been more explicit (specifically in the report's risk section). Similarly, it should have been carried forward and updated in future meetings. Some uncertainty and misunderstandings may have arisen due to the governance arrangements in place at the time; the Project Boards are no longer in place and the new more arrangements for regular reporting through to Cabinet and O&S for this project will now help mitigate the issue in relation to this project's implementation. It is accepted, however, that risk reporting should be more explicit at the inception and development of projects, which is covered by the new project management arrangements resulting from the prior audit report. **Agreed action:** Risk section of reports to be strengthened and improved for all reports, not just major projects, to include a high level initial risk matrix assessment to include the risk, likelihood, impact and any mitigating actions/risk management. To be carried forward between reports and

Controls/Areas	Observations	Suggested Actions/Improvements
		updated as required and to cover budget challenges/pressures where appropriate. Risk training to be provided to members so they are better able to understand the factors relating to risk and how they should be interpreted in decision making. **Suggested owner**: Finance **Completion date**: 31st March 2020
Continued	In July 2019, members were asked to increase the project budget by £2.03m and this was approved by Full Council. The report requesting the increase identified three key areas where costs had exceeded the budget: additional works due to site conditions, design changes and tender price returns being higher than expected. **Action Point 3.**	3. Consider introducing an 'optimism bias' into budgets for major projects, to reduce the likelihood of the project exceeding its budget. This should be determined on a case-by-case basis, as informed by the risks to the budget. It is noted that adding to the budget will tie up more of the Council's resources and reduce opportunities to undertake other projects. As a result, it is important that any additions to the budget are not excessive, to prevent the opportunity costs exceeding the benefits obtained. **Management Response** Optimism bias (OB) is a complex concept and needs to be better understood prior to its inclusion across the board in project decision making and project management. It is not the same thing as financial

Controls/Areas	Observations	Suggested Actions/Improvements
		contingency; it is a method of ensuring that a balanced, objective decision as to how/ whether to proceed with a project is reached, drawing sufficient attention to the negative aspects/consequences/costs of a project during its gestation, as well as the benefits. It could be applied at the conception and early development stages of a project but caution should be exercised so as not to lead to undue project cost inflation (particularly in procurement) and 'double counting' with project contingency costs. The level of OB may be revised and reduced as a project moves forward (and may potentially be eliminated once the final decision to proceed has been made). Reports relating to major projects – at the early stage - could provide Members with a range of options to consider in order to counterbalance the natural eagerness to proceed with a project, i.e. 2%, 5%, 10%, 20% etc. of project costs, depending upon the associated risks, with an assessment of the factors that should influence this level (e.g. the magnitude of the matters that remain uncertain). Members can then make the decision based on the evidence provided in the knowledge of the potential impact of a higher figure. This could be brought into all new capital schemes as part of the capital bid template (e.g. at a

Controls/Areas	Observations	Suggested Actions/Improvements
		standard 10%). **Agreed action.** As part of future reports for key projects, optimism bias be factored in and realistic figures be provided to Members for consideration with a range of options depending upon the associated risks/uncertainty levels, further supported by an officer recommendation as to the appropriate level (from zero upwards). Further training and development should be undertaking by managers of major projects in the understanding and application of this concept. Members should be apprised of the application of optimism bias and its consequences in reports relating to the inception/ development of major projects. An agreed optimism bias factor (e.g. of 10%) to be added to the assessment template for all new capital projects but subject refinement based on risk analysis for significant projects as outlined above. **Suggested owner:** Finance **Completion date**: 31st March 2020
3. A project team and supporting governance arrangements, such as project boards, have been created to manage the project.	As part of the business case approval by Cabinet, delegated authority was granted to the Corporate Director to commission the necessary external support to manage the project and to commence procurement of the construction contract. It was also agreed that an	Refer to Action Points 1 and 2 above.

Controls/Areas	Observations	Suggested Actions/Improvements
	operational Project Group and a joint member/office Project Board would be set up to manage and oversee the project. The Project Board included senior officers involved in the project and six members, representing the main political groups at the time, as confirmed by the Board's terms of reference. It is evident from the Board meeting minutes that the financial pressures on the project were known significantly before July 2019, although it was agreed to delay making a request to increase the budget until all of the additional costs were known. The meeting minutes from September 2018 state: 'The budget moves on a daily basis but costs are £1.5m more than initial thoughts. The financial package needs to be accurate before going to Full Council in December to approve build contract.' A review of the minutes from the July 2019 Full Council meeting established that Members were requested to increase the project's budget and that Members were previously unaware of the additional costs relating to the project. The governance arrangements were revised following the July 2019 Council meeting. Under the new arrangements, the Project Board has been disbanded. Officers continue to lead on the delivery and implementation and provide status updates to the Portfolio Holder and monthly updates to Cabinet and Overview and Scrutiny Committee. The officer project management group has delegated powers to make decisions within the approved project budget; any changes to the budget require a decision from Cabinet and Full Council. As the issues identified in this area have already been addressed – the new governance arrangements have clear, formal reporting lines to Members on finances, progress, risk and issues – no Action Point	

Controls/Areas	Observations	Suggested Actions/Improvements
	has been raised.	
4. All key legal and regulatory requirements were considered before project commencement, including procurement and planning permission.	The need to procure a construction contractor and to apply for planning permission were included in the report to Cabinet and Full Council in December 2017. Delegated authority to procure the contract and submit a planning application was granted to the Corporate Director, by Cabinet. The planning application for the new leisure centre was submitted on 30th July 2018 and approved the by Development Committee on 23rd November 2018. Procurement of the main construction contractor commenced on 18th November 2018, with the deadline for tender submission being 18th January 2019. An open tender process was conducted as the value of the contract was over the OJEU threshold. Seven expressions of interest were received and three tenders were ultimately submitted. Real Consulting analysed the tenders and two of the tenderers were invited to interview on 24th April 2019. Both tenders were considered to meet the Council's requirements. Metnor Construction was chosen as they submitted the most financially beneficial tender. The appointment was approved by Full Council in July 2019.	N/A
5. A detailed project plan has been developed covering each stage of the project, is broken down into milestones and includes performance measures.	A high-level timetable was included in the initial business case, with a more detailed plan included as an appendix to the business case. An updated plan was included in the project initiation document (PID) and, once the contractor had been appointed, a detailed plan was produced for the construction phase of the project. The construction phase commenced in October 2019 and is scheduled to be completed in May 2021, with the new centre opening in September 2021. There are no clear milestones defined and reported against. This was identified as a common issue with projects in the previous audit of	4. Project objectives and milestones are defined at the beginning of the project and progress against these is regularly reported on. (Originally raised in Project Management audit report NN/20/01) **Management Response** Clarity about project objectives and the key aspects of the project plan, e.g. timescales

Controls/Areas	Observations	Suggested Actions/Improvements
	project management (NN/20/01) and an action point was 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 is restated for information only.	and milestones is indeed important in order to maintain focus, prevent 'mission creep', and prevent drift. These should remain the point of reference for progress reporting and evaluation of performance/outcomes. **Agreed action**: clear objectives and project milestones will be specified as part of the ongoing improvements to the project management and governance frameworks. A summary of these will be provided as part of committee reporting. **Suggested owner**: Project management **Completion date**: 31st March 2020
6. The project has been subject to a formal risk assessment, which is continually monitored and reported on for the duration of the project.	As stated in section 2 above, the business case produced by FMG initially identified 17 risks relating to the delivery of the project. An ongoing risk log is maintained, which includes details of the risk ownership, scoring and mitigation required. Risks are reviewed at the operational Project Group meetings and are added to/removed from the risk log as appropriate.	N/A
7. Budgets are subject to regular, detailed monitoring.	Budgets are monitored at the monthly internal project group meetings, which have Finance representation from the Head of Finance and Assets or the Chief Technical Accountant. Any changes or additional expenditure that may affect the overall budget are discussed at these meetings. The project is also subject to the Council's standard capital budget monitoring processes: the responsible manager receives a budget report of expenditure against budget on a monthly basis, which shows a detailed breakdown of all the expenditure that has been incurred to date and the remaining	N/A

Controls/Areas	Observations	Suggested Actions/Improvements
	budget for the project. The Splash project is currently on budget, based on the revised budget approved in July 2019. The current position with funding is that the £0.75m receipt for development land remains uncertain, and the report to Full Council in July 2019 recommended that any shortfall in this amount be made up from capital receipts, reserves or borrowing as required.	
8. Risks and performance measures/milestones are subject to regular update and review including by SLT and members.	As stated in section 3, the governance arrangements for the project have recently been revised. Monthly updates on the project are now provided to members through Overview and Scrutiny Committee and Cabinet, with the first of these updates in October 2019. This included the forecast position, current position and narrative against each of several strands: time, budget, issues log, risk log, project governance and communications. Updates are provided to Strategic Leadership Team (SLT) as part of the monthly project update.	N/A

APPENDIX 1 - AUDIT TIMETABLE

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

	Expected Date:	Actual Date:
Start of Fieldwork:	23rd October 2019	23rd October 2019
Debrief Meeting:	8th November 2019	6th November 2019
End of Fieldwork:	15th November 2019	15th November 2019
Draft Report Issued:	22nd November 2019	29th November 2019*
Final Report Issued:	5th December 2019	4th February 2020**

*Slight delay due to internal review process.

**Delay in receipt of 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:

- Rob Young, Head of Economic & Community Development
- Duncan Ellis, Head of Finance and Asset Management
- Kate Rawlings, Projects and Programme 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.