

Cross Hands Health & Wellbeing Centre

Final Internal Audit Report

March 2024

Hywel Dda University Health Board

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Audit and Assurance Services conform with all Public Sector Internal Audit Standards as validated through the external quality assessment undertaken by the Chartered Institute of Public Finance & Accountancy in April 2023.

Acknowledgement

NHS Wales Audit and Assurance Services would like to acknowledge the time and co-operation given by management and staff during the course of this review.

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Executive Summary

Purpose

The audit was undertaken to review the management arrangements established to progress the Cross Hands Health and Wellbeing Centre project. This reviewed both the progression of the business case process, and the overall delivery of the project, within the target parameters of time, cost, and scope.

Overall Audit Opinion and Overview

The Outline Business Case (OBC) was approved by Welsh Government in the sum of £37m (incl. VAT).

At the time of the audit, the Full Business Case (FBC) was being prepared in readiness for its submission to Welsh Government.

The FBC was originally targeted for submission to the Welsh Government for scrutiny in October 2023, following the completion of a market testing exercise.

In June 2023, in advance of the approach to the market, the Supply Chain Partner’s Pre-Tender Estimate had indicated a potential increase in works costs of circa £7.4m (excl. VAT).

However, at the conclusion of the audit, due to poor market responses to the Target Cost work packages, further tendering and a Value Engineering review were being undertaken to affirm value for money. These issues had effectively extended the FBC submission timetable to May 2024.

At the time of the audit, the Target Cost had yet to be concluded and remained subject to agreement confirmation. Accordingly, there was on-going delay and risk to the funding of the construction phase of the project. As a result, project reporting specified significant ongoing risks to time, cost, and quality, with project delivery seven months in delay.

Key matters arising are summarised overleaf and detailed within the body of the report.

The business case development process and associated fees have to date, been managed within the allocated funding parameters. Whilst noting the delays in the FBC delivery programme, and the potential increase in overall costs, an overall **reasonable** level of assurance has currently been determined.

The immediate focus should be to finalise the market testing to determine the extent of value engineering required – ongoing dialogue with Welsh Government is seen as essential to ensure that expectations are clearly understood.

Report Classification

Reasonable



Some matters require management attention in control design or compliance.

Low to moderate impact on residual risk exposure until resolved.

Assurance Summary ¹

Assurance objectives	Assurance
1 Project Performance	Limited
2 Governance	Reasonable
3 Project Management	Reasonable
4 Adviser Appointments	Substantial
5 Design Development	Reasonable
6 Financial Management	Reasonable
7 Stakeholders	Reasonable

¹ The objectives and associated assurance ratings are not necessarily given equal weighting when formulating the overall audit opinion

Key Matters Arising		Assurance Objective	Recommendation Priority
2.1	Project reporting should be enhanced to include contractual attribution of delay, funding, anticipated out-turn and associated variance commentary.	2, 3, 6	Medium
2.2	Errors and omissions at project reporting should be corrected at subsequent publication.	2, 3, 6	Medium
3	The Project Group will be provided with assurance of value for money attained in relation to the business case fees charged by the SCP at the Target Cost stage (e.g. by way of benchmarking and priced activity schedules).	2, 6	Medium
4.1	The Health Board should confirm that design sign-off has been appropriate recorded and records retained in the event of future user queries/design change requirements etc.	5	Medium
4.2	Agreements should be signed with tenants based on the final design to mitigate risk and confirm occupancy modelling and target benefits.	5, 7	Medium
5.1	The Project Group should be afforded the ability to scrutinise an appropriate range of lessons learnt reports (NHS and other) and their application to the Cross Hands development.	5	Medium
5.2	Management should consider how key project benchmarking data can be collated, retained and accessible to inform the design and development of future Health Board projects.	5	Medium

Future Assurance Matters		Assurance Objective	Recommendation Priority
6.1	The Full Business Case should demonstrate how the overall value of assessed risks, and design development allowances (e.g. benchmarked area allowances), have been managed down from the Outline Business Case in accordance with Welsh Government guidance.	5, 6	Medium

² Future assurance matters are for management action at future (appropriate) projects. Noting current action cannot be taken, the Audit Committee is requested to exclude from the audit tracker and the matters arising included in this report for management information. They have, however, been taken into consideration when determining the assurance rating at this report

1. Introduction

- 1.1 A Programme Business Case (PBC) to implement the Healthier Mid & West Wales Strategy was submitted to Welsh Government in February 2022. Supporting this was the vision for a Health & Wellbeing Centre in Cross Hands, replacing, consolidating, and enhancing prior provisions at Tumble, Penygroes, and Cross Hands. The project brings together key stakeholders in partnership working with the Health Board including, Carmarthenshire County Council; Cross Hands and Tumble Medical Partnership; and Meddygfa Penygroes Surgery.
- 1.2 This facility jointly:
- addresses deficiencies within the current facilities, such as deteriorating buildings, cramped working conditions, capacity constraints; and
 - enables transformational change and integration benefits.
- 1.3 Outline Business Case (OBC) costs for the Cross Hands Health & Wellbeing scheme were initially prepared in October 2019, and submitted to Welsh Government in November 2019. This coincided with the start of the Covid-19 Pandemic when the Health Board took the decision to stand the project team down.
- 1.4 Following re-commencement, the Health Board considered it beneficial (in liaison with advisers and the SCP) to progress additional design work typically undertaken at FBC stage. The Estates Annex to the approved OBC subsequently recorded:
- "After remobilising in October 2021 it was agreed that there was no benefit in recompleting RIBA Stage 2 design. Therefore, the revised OBC is based upon RIBA Stage 3 design detail (spatial co-ordination)".*
- 1.5 Welsh Government approved the refreshed OBC with a net cost of £31,258,181, as below:

Table 1

Item	Cost (£)
Works cost	22,521,919
Fees	3,455,788
Non-works cost	2,005,874
Equipment costs	944,800
Quantified risk contingency	2,329,790
Net capital cost	31,258,171
VAT	5,983,016
Total capital cost	37,241,187

- 1.6 At the time of the current review, the Full Business Case (FBC) was being prepared, supported by detailed designs. Construction was planned to commence on 20th August 2024, concluding on 29th April 2026.
- 1.7 The potential risks considered at the audit were as follows:
- significant time and cost escalations due to inadequate project controls;
 - inadequate project governance arrangements;
 - poor contract controls;
 - inadequate or inappropriate design solution;
 - inadequate project budget;
 - stakeholder needs may not be effectively represented; and
 - breach of Welsh Government funding stipulations, Standing Orders or Standing Financial Instructions.

2. Detailed Audit Findings

- 2.1 Our detailed audit findings are set out below. All matters arising and the related recommendations and management actions are detailed within **Appendix A**.

Project Performance: *Achievement of the project's key delivery objectives (time, cost, and quality).*

- 2.2 At a project audit, levels of assurance are determined on whether the project achieves its original key delivery objectives and that governance, risk management and internal control within the area under review are suitably designed and applied effectively.
- 2.3 At this audit, when assessing progress against the original delivery objectives, the following was evidenced:

Time

- 2.4 The FBC contract commenced on 16th January 2023 (i.e. following the OBC approval obtained on the 13th January 2023). Due to advanced design work at the OBC, only ten months were allocated to conclude the technical design.
- 2.5 The programme for delivery of the Full Business Case (FBC) as reported at the December 2023 Project Manager's report noted:

Table 2

	Base FBC Programme	Current Accepted Programme	Current Forecast
Delivery of all FBC information by the SCP	9 th October 2023	6 th February 2024	14 th May 2024
Start on site	22 nd April 2024	20 th August 2024	26 th November 2024

- 2.6 The final provision of FBC information to the University Health Board had therefore been delayed by 14 weeks (four months) from the original contracted dates

causing the agreed start on site to move forward from 22nd April 2024 to 20th August 2024.

- 2.7 The Cost Adviser subsequently advised that on-going delays are resultant from poor market responses to the Target Cost work packages, requiring further tender exercises and cost review.

Cost

- 2.8 The OBC was approved on 13th January 2023 in the sum of £31,258,171 excluding VAT.

- 2.9 The Target Cost was in the process of compilation at the time of audit, and therefore was not available for review. A works Pre-Tender Estimate was reported by the SCP of circa £29,958,707 (excl. VAT but including risk and inflation allowances) against the OBC approved works cost of £22,521,919 (see **financial management** section and **MA 6** below).

- 2.10 The fee cost position to date was confirmed to the audit as:

Table 3 – Cost Adviser confirmations (as at December 2023)

	Approved Welsh Government Funding	Actual reported Expenditure to December 2023	Anticipated final expenditure as @ December 2023 (as advised)	Anticipated Underspend as @ December 2023 (calculated)
	(£)	(£)	(£)	(£)
Combined OBC & FBC delivery	3,066,000	2,716,000	3,038,000	28,000

- 2.11 While there has been movement of tasks and funding between OBC and FBC to facilitate advanced design development, overall costs to develop the (OBC & FBC) business cases remain within budget (indeed forecasting an under-spend of circa 1%).

Quality

- 2.12 Key Performance Indicators presently indicated satisfactory quality of delivery of the FBC by the parties.

Overall performance

- 2.13 Fees to develop the business case have remained within approved funding. However, the December 2023 Project Manager report commented that *“the project currently faces several large risks”*, notably the need to finalise a works cost within agreed funding parameters. It concluded that ongoing review of the design and market pricing has *“the potential to delay the programme and FBC submission with increased costs in design, construction and management together with further inflationary cost increases”*. Accordingly, noting the on-

going delays, funding risks and the potential impact to project scope, **limited assurance** has been determined in respect of project performance.

- 2.14 At the conclusion of the audit, a Value Engineering exercise was being conducted which may impact time, cost, and quality to varying degrees (positively or negatively).
- 2.15 The following sections of the report further outline the key observations that have contributed to the above – matters which require management attention, with moderate impact on residual risk exposure until resolved.

Project Governance: *to obtain assurance that appropriate governance arrangements were in place for project progression including, supporting workstreams, and appropriate approvals.*

- 2.16 The project benefitted from a range of appropriate parties attending both a Project Group and Project Team (to direct the project and oversee operational management respectively).
- 2.17 A Senior Responsible Officer, Project Director and Project Manager were in place, with roles and responsibilities specified at a Project Execution Plan.
- 2.18 A Finance Sub-Group was also in place, reporting to the Project Team, in turn informing the Project Group.
- 2.19 The Project Group was defined as reporting to the Capital Sub-committee, and by exception to the Strategic Development and Operational Delivery Committee.
- 2.20 Accordingly, there was good reporting linkage to the Board and capital / financial management committees.
- 2.21 However, the effectiveness of decision making by the Project Group was constrained by reporting coverage. Issues have also been raised relating to:
- the effective reporting to the Project Group of time and cost issues (**MA 2**);
 - scrutiny and approval of the FBC fees (**MA 3**); and
 - lessons learnt (**MA 5**).

As further detailed and assessed at subsequent sections.

- 2.22 Noting the defined structures, remits and responsibilities **reasonable assurance** was determined in relation to project governance.

Project Management: *to obtain assurance that appropriate project management controls have been applied including appropriate monitoring and reporting, risk management, and contractor / adviser performance monitoring.*

- 2.23 A range of project management tools were applied to manage the FBC development process, including a detailed programme, key performance indicators and a risk register.
- 2.24 A Project Execution Plan and scheme of delegation also specified change control arrangements, including authorisation limits for project officers and the Project Group.

- 2.25 The Capital Review Meeting (a review forum between Welsh Government and Health Boards) regularly received time and cost information via capital programme updates and associated papers (including the Welsh Government OBC scrutiny paper).
- 2.26 However, neither the cost nor time position could be well discerned from project reporting (see also **Project Performance – Time** section). Issues included:
- adviser reports did not detail available project funding;
 - adviser reports did not contain an assessment of anticipated out-turn costs (only existing up-lifts to the contract price);
 - the need for variance commentary (between actual and budgeted out-turns); and
 - errors were identified at the published figures (**MA 2**).
- 2.27 Whilst noting the above, forecast fee expenditure remained within budgeted sums (see **Project Performance - Cost** section).
- 2.28 While recognising issues of project reporting, noting a range of project controls, including committee oversight, and control of fees within approved funding, **reasonable assurance** has been determined in relation to project management.

Adviser Appointments: *to obtain assurance of appropriate adviser appointments and contractual arrangements to assure value for money.*

- 2.29 The external Project Manager (at £79k) was appointed from the NHS Building for Wales framework, with appropriate contractual arrangements in place.
- 2.30 Other directly contracted parties included the Cost Adviser (at £68.5k) and business case writer (at £124k). Appropriate assessment and compliance with Standing Orders, was evidenced in relation to these appointments.
- 2.31 Signed contracts were in place for all parties at the time of audit (including on-going Confirmation Notices for the various project stages, and appropriately authorised agreed Compensation Events for changes e.g. inflation).
- 2.32 Accordingly, **substantial assurance** was determined in relation to adviser appointments.

Design Development: *to obtain assurance that a robust design was developed e.g., based on appropriate surveys and user input, to deliver agreed benefits, and with appropriate planning approvals.*

- 2.33 The OBC was informed by appropriate surveys including utility locations, topographical, ecological, and existing buildings surveys. The Project Manager confirmed that all required surveys due by FBC stage had now been completed.
- 2.34 At the time of the current audit, the full drawing specification had been finalised and passed to the Health Board. Management confirmed that there has been progressive user sign-off, minimising associated risk.
- 2.35 While potential tenants had provided letters of support at the OBC, occupancy agreements remained to be signed. Management stated that these would be pursued post agreement of the Target Cost, when rentals can be determined. It

was unclear whether any agreements for occupants that would not be paying rentals could be processed prior to agreement of the Target Cost to expedite matters (**MA 4**).

- 2.36 Noting the value of the development, the audit sought assurance that the various aspects of the proposed build had been appropriately benchmarked to best practice guidance (Health Technical Memoranda - HTM, which specify minimum size requirements for clinical and associated areas). Good practice was evidenced in these areas were appropriately assessed against HTM requirements.
- 2.37 However, there were no direct comparators for the non-clinical areas. The planning focus for these areas was therefore on anticipated occupancy. Accordingly, it was confirmed that there had been extensive review of local service needs to inform occupancy modelling (as scrutinised by NWSSP: Specialist Estates Services). Lessons learnt reviews had also been considered by key project officers. However, noting the criticality of this matter it has been recommended that the Health Board should confirm that an appropriate range of lessons learnt information, alongside such modelling have been presented to the Project Group to inform scrutiny (**MA 5**).
- 2.38 The SCP Pre-Tender Estimate for the Target Cost exceeded approved funding by circa £7m (see Project **Performance – Cost** section above). Accordingly, the audit sought assurance that significant re-design costs were not anticipated. At the time of the current review, the Cost Adviser confirmed that this had been appropriately assessed, and any such increases would not be material (circa £120k and within budget – being included in forecast out-turn at **Table 3**).
- 2.39 At the time of the audit, a detailed design was in place, providing a robust basis to inform users and mitigate against further cost escalation. Based on these requirements, full technical detail had also been passed to the Health Board. **Reasonable assurance** has therefore determined in relation to design development.

Financial Management: *to obtain assurance of the processes to evaluate and accept the Target Cost, and assurance that appropriate budgets were in place with appropriate cost control.*

- 2.40 While the Cost Adviser has stated that fees for the FBC benchmarked well, such benchmark reporting was not presented to the Project Group / Finance Sub-Group to provide value for money assurance and facilitate scrutiny (as the body responsible for project delivery) (**MA 3**).
- 2.41 As of December 2023, overall fees for development of the business cases remained within allocated funding (see **Table 3**). Payments relating to the development of the FBC were found to be appropriately detailed, reviewed and authorised.
- 2.42 However, as noted at the **project performance - cost** section, estimated build costs had significantly increased. While the Target Cost was in the process of compilation at the time of audit, the SCP had reported a works Pre-Tender Estimate of £29,958,707 i.e. a considerable uplift from the OBC estimated works cost of £22,521,919. While this estimate was notified at the SCP report, it was not

included within project reporting by the Project Manager or Cost Adviser (see **MA 2** re: enhancements to project reporting).

- 2.43 Welsh Government guidance requires the value of overall design and risk uncertainties to reduce as the design becomes more defined through the business case approval stages. Noting the potential for increased costs at the FBC, it has been recommended that the FBC should demonstrate how assessed risks, and design development allowances have been managed down from the OBC (**MA 6**).
- 2.44 While recognising the potential for the forecast outturn cost to exceed OBC funding approval, noting that fees for completing the FBC (and associated design) remained within approved funding, **reasonable assurance** has been determined in relation to financial management to date.

Stakeholders and Partners: *to obtain assurance of effective stakeholder engagement and partnership working.*

- 2.45 Stakeholder engagement is key to mitigating risks of design change (and associated escalation of time and cost). It is also a key requirement to ensure that benefits are maximised.
- 2.46 A comprehensive stakeholder engagement plan was operated, including formal presentations, extensive meetings, and logs of stakeholder feedback and associated actions.
- 2.47 Measurable benefits and baselines were also specified to ensure value delivered to stakeholders.
- 2.48 Letters of Support were also received relating to the outline design by the G.P.s, Early Years, and Library managers (as supported by Carmarthenshire Council); and the Police.
- 2.49 As previously stated, noting the intended conclusion of the FBC process at the time of audit, final user agreements remained to be put in place (**MA 4**).
- 2.50 Noting the above, **reasonable assurance** is determined in respect of stakeholder engagement.

Appendix A: Management Action Plan

Matter Arising 1: Sub-group scheduling (Design)		Impact
<p>Governance structures and responsibilities were outlined at the Project Execution Plan.</p> <p>However, supporting groups, such as "Digital" had yet to be integrated into a project plan with scheduled outputs for scrutiny and approval by the Project Team and Project Group (though the substantial conclusion of design is recognised at the current project stage).</p>		<p>Potential risk that:</p> <ul style="list-style-type: none"> The project is not appropriately controlled.
Recommendations		Priority
1	The project plan should include time-tabled outputs from sub-groups as part of their defined operation and accountabilities.	Low
Agreed Management Action		Target Date
1	Agreed. Stage plans and outputs will be defined at appropriate stages.	May 2024
		Responsible Officer
		Project Manager

Matter Arising 2: Cost & funding reporting (Operation)	Impact												
<p>Project reporting should inform the Project Group on all key project matters including funding.</p> <p>While the Project Group were in receipt of reports from the Project Manager, Cost Adviser, and SCP, NHS Wales Infrastructure Investment Guidance 2018-043, also requires that:</p> <p><i>“to inform Welsh Government... all schemes receiving funding are required to report on a monthly basis using the... Project Progress Report (PPR) templates... reconciled to the schedules included within the monthly Financial Monitoring Returns”.</i></p> <p>In this case, costs were supplied at the PPR forms by way of attached adviser reports.</p> <p>However, these did not show out-turn against contracted / budgeted costs with reconciling Compensation Events and variance narrative. Similarly, they did not explain time slippage of the revised programme (see Project Performance - “Time” section), and included errors i.e.</p> <table border="1" data-bbox="206 863 1619 1220"> <thead> <tr> <th>Reported data</th> <th>£</th> <th>Audit comment</th> </tr> </thead> <tbody> <tr> <td>August 2023 SCP estimated works out-turn</td> <td>1,067,594</td> <td></td> </tr> <tr> <td>August 2023 Project Manager estimated works out-turn</td> <td>851,810</td> <td>Materially different from above & stated to be in error upon query</td> </tr> <tr> <td>Cost Adviser estimate of works out-turn confirmed to audit provided to the audit as of December 2023</td> <td>1,061,381</td> <td>Confirmed in response to audit query</td> </tr> </tbody> </table> <p>No queries of discrepancies between SCP and Project Manager reporting were minuted at Project Group meetings.</p>	Reported data	£	Audit comment	August 2023 SCP estimated works out-turn	1,067,594		August 2023 Project Manager estimated works out-turn	851,810	Materially different from above & stated to be in error upon query	Cost Adviser estimate of works out-turn confirmed to audit provided to the audit as of December 2023	1,061,381	Confirmed in response to audit query	<p>Potential risk that:</p> <ul style="list-style-type: none"> • Management are not appropriately informed
Reported data	£	Audit comment											
August 2023 SCP estimated works out-turn	1,067,594												
August 2023 Project Manager estimated works out-turn	851,810	Materially different from above & stated to be in error upon query											
Cost Adviser estimate of works out-turn confirmed to audit provided to the audit as of December 2023	1,061,381	Confirmed in response to audit query											

Recommendations		Priority	
2.1	Project reporting should be enhanced to include contractual attribution of delay, funding, anticipated out-turn and associated variance commentary.	Medium	
2.2	Errors and omissions at project reporting should be corrected at subsequent publication.	Medium	
Agreed Management Action	Target Date	Responsible Officer	
2.1	Agreed. These matters will be addressed at future reporting.	September 2024	Project Manager
2.2	Actioned since audit fieldwork.	N/A Actioned since audit fieldwork.	N/A

Matter Arising 3: FBC Value for Money assurance – SCP Fees (Operation)		Impact
<p>Projects are designed and built with a Supply Chain Partner (SCP) selected with pre-tendered rates from the NHS Building for Wales framework. The SCP partners with the Health Board through the business case, design, and build stages.</p> <p>Noting advance design work undertaken at OBC stage, the Cost Adviser stated that the associated reduction in FBC fees benchmarked well. He concluded that overall fees for OBC and FBC were low, despite additional decarbonisation requirements at the FBC stage.</p> <p>Contracted SCP fees of £812,192 for delivery of the FBC were itemised with lump sums for each sub-adviser e.g. Architectural (£198,171); Civil & Structural Engineer (£129,640); and mechanical & electrical design (£160,213). These sums were not further reported by way of priced activities with durations, and framework rates to derive costs within the contract (though the Cost Adviser has confirmed that they were supported by detailed costings and benchmarked well to NHS comparators).</p> <p>However, a report to the Project Group demonstrating value for money in determination of the revised OBC and FBC fees was not observed.</p> <p>A more detailed break-down of fees can serve as a basis for the Project Group to scrutinise any subsequent increases e.g. as may arise from additional duties, prolonged programmes etc.</p>		<p>Potential risk that:</p> <ul style="list-style-type: none"> Value for money is not secured.
Recommendations		Priority
3	<p>The Project Group will be provided with assurance of value for money attained in relation to the business case fees charged by the SCP at the Target Cost stage (e.g. by way of benchmarking and priced activity schedules).</p>	<p>Medium</p>
Agreed Management Action		Target Date
		Responsible Officer

3	Agreed – to be actioned at future stages / projects.	At future stages / projects	Project Manager
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Matter Arising 4: User sign-off (Operation)	Impact
<p>As the FBC is finalised, it represents increasing investment of design and costing into the proposals and their defined occupancy.</p> <p>To avoid design changes and any associated impacts on time and cost at project delivery, it is important that the design is signed off by the Health Board and proposed occupants. While the OBC included detailed spatial designs, approved by both the Health Board, and key stakeholders, they did not represent the full technical proposals (as at the FBC). User sign-off was programmed for 7th July 2023 but was still outstanding at the conclusion of fieldwork.</p> <p>Proposed occupants included a number of key parties, such as Pharmacy (who would provide rental income), and the Police who were budgeted to make a capital contribution of £170k.</p> <p>These parties potentially included:</p> <ul style="list-style-type: none"> • GPs; • Pharmacy; • Community Police; • Community library (Carmarthenshire Council); and • Early years centre (Carmarthenshire Council). <p>While letters of support have been provided to outline plans from the Council, Police, and GP’s, these relate to provisional space allocations (and associated occupancy modelling), which were subject to confirmation at the time of audit.</p> <p>Accordingly, there remained a requirement for the various parties to formally agree final plans and any associated costs. This would reduce design development risk, cost escalation, and confirm target benefits.</p> <p>Management confirmed that:</p> <ul style="list-style-type: none"> • the Project Group had agreed designs at OBC; • they had additionally approved any subsequent design changes (which were minimal); • there was a log of user consultations, at which design (‘C’ Sheet) drawings were agreed; and • there has been progressive user sign-off. 	<p>Potential risk of:</p> <ul style="list-style-type: none"> • Increased design costs • Unrealised benefits.

<p>However, retained evidence of user agreement did not extend to signed drawings, or signed statements referencing drawing issue numbers etc.</p> <p>Management also advised that final user agreements were dependent upon confirmation of rentals, and that these could not be calculated until a Target Cost was agreed for the build.. However, it was unclear if parties not paying rental (such as the Family Centre), could potentially sign-off their occupancy agreements ahead of a Target Cost (reducing project risk uncertainty associated with agreed occupancy).</p> <p>It was acknowledged that, at the time of concluding the audit, Value Engineering meant that the design remained subject to further amendment (e.g. including potential reduction in library space).</p>			
Recommendations		Priority	
4.1	The Health Board should confirm that design sign-off has been appropriate recorded and records retained in the event of future user queries/design change requirements etc.	Medium	
4.2	Agreements should be signed with tenants based on the final design at the earliest opportunity to mitigate risk, and confirm design, occupancy modelling and target benefits.	Medium	
Agreed Management Action		Target Date	Responsible Officer
4.1	Agreed – Full user/tenant sign-off will be confirmed to the Project Board and retention arrangements determined.	September 2024	Project Manager
4.2	Agreed. – Tenancy agreements are currently being discussed, and will be agreed at the earliest opportunity.	September 2024	Project Manager

Matter Arising 5: Lessons learnt (Operation)	Impact
<p>NHS Wales Infrastructure Investment Guidance 2018-043 requires projects to:</p> <p><i>"draw on lessons from other similar schemes undertaken by the organisation itself or other public bodies whether in Wales or beyond."</i></p> <p>Management advised that the requirements for the Cross Hands development had been appropriately based on benchmarked and target data in liaison with the NWSSP: Specialist Estates Services review (stated to derive from detailed assessment of the local service needs).</p> <p>Noting the need for design / cost control and the value of the development, the audit sought assurance that the spatial provisions had been appropriately benchmarked to best practice guidance (Health Technical Memoranda - HTM), which specify minimum size requirements for clinical and associated areas. Good practice was evidenced in these areas were appropriately assessed against HTM requirements.</p> <p>However, it is acknowledged that a large proportion of the facility is to provide for non-clinical use, and therefore may not be subject to HTM guidance and spatial provisions. Assurance is required that these areas are appropriately assessed e.g. via lessons learnt at similar developments.</p> <p>Cardigan Primary Care Centre had been reviewed in 2021, with the lessons learnt report presented to an Estate Forum in May 2022. However, it's delivery had been impacted by Covid during the time of the review and it was only able to affirm that 8 of its 15 quantifiable objectives had been met with a further two to be further reviewed.</p> <p>While certain members of the Project Group would have been aware of this report, the report itself was not provided to the Cross Hands Project Group for consideration.</p> <p>It was also noted that data from other Health Centres (e.g. Aberaeron - opened in 2019), or from wider data sets could usefully be utilised to inform such lessons (though a lessons learnt exercise had not been completed at the Aberaeron project). Noting these matters, and acknowledging variances in service provision, benchmarking data from the Cross Hands project could be utilised to inform other projects .</p>	<p>Potential risk that:</p> <ul style="list-style-type: none"> • Lessons are not learnt; • Provisions are under-utilised; • Anticipated benefits are not obtained; or • Application of funding is not optimised.

Management confirmed that a range of lessons learnt reviews were informally considered though not formally presented to the Project Group.		
Recommendations		Priority
5.1	The Project Group should be afforded the ability to scrutinise an appropriate range of lessons learnt reports (NHS and other) and their application to the Cross Hands development.	Medium
5.2	Management should consider how key project benchmarking data can be collated, retained and accessible to inform the design and development of future Health Board projects.	Medium
Agreed Management Action	Target Date	Responsible Officer
5.1	Agreed. The Project Group will confirm that appropriate lessons learnt and benchmarking information has been appropriately applied in the Cross Hands development.	Project Manager
5.2	Agreed. We will look to collate and assess an appropriate range of available information to inform future developments and associated design requirements etc.	Project Manager

Matter Arising 6: Cost increases (Operation)	Impact
<p>Welsh Government business case approvals are progressive in nature, typically requiring a Strategic Outline Case (SOC), an Outline Business Case (OBC), and Full Business Case (FBC), as increased design certainty is obtained. Consequently, there is an expectation that adequate risk allowances are made at the SOC and OBC, which are progressively managed down to the contracted sums of the FBC.</p> <p>Noting a number of instances of cost increase across NHS Wales over the past 12 months, Welsh Government issued a Capital Guidance note to all Chief Executives, Directors of Finance, and Directors of Planning in September 2023. This emphasised the funding difficulties that such increases presented to Welsh Government, where progressive business case approvals resulted in increased commitments beyond those originally budgeted. This guidance requires NHS organisations to immediately notify Welsh Government of changes to cost and scope where:</p> <ul style="list-style-type: none"> • <i>For cost where we see an increase of +10% has occurred (which is not explained by cost inflation).</i> • <i>For scope where the original preferred option has changed significantly, such as a 25% increase in the footprint, or the inclusion of additional clinical and non-clinical services that results in sizeable increases in the infrastructure requirement(s) etc.</i> <p>Management advised that the project’s forecast cost escalation was primarily associated with material and labour inflationary uplifts and additional decarbonisation requirements i.e. there has been no significant change in project scope since Welsh Government approval of the OBC. However, this will require confirmation prior to the submission of the FBC. Noting the same, it may be considered that the cost escalation issues currently fall outside of the requirements of the Welsh Government guidance, however, best practice would be to advise Welsh Government of any (potential) material cost increases as soon as they become apparent.</p> <p>In respect of cost escalations, in June 2023, the SCP provided a works cost Pre Tender Estimate of £29.96m (i.e. an increase of over £7m from the £22.5m works cost provided at the OBC) in June 2023. Both internal project management and the Cost Adviser have commented that any comparison of the FBC build costs cannot be concluded until the Target Cost is finalised. Noting poor market engagement,</p>	<p>Potential risk that:</p> <ul style="list-style-type: none"> • Funding is not approved.

<p>additional market testing was therefore commissioned to ensure competitive pricing. At the time of concluding the audit, Value Engineering was also being applied to deliver an FBC proposal within OBC approval limits (a process involving design review).</p> <p>The build is an integrated design with medical and non-medical areas distributed throughout the building. However, the Cost Adviser confirmed to the audit that material re-design costs were not anticipated (providing a specific estimate of circa £122k for design revision – currently within WG approved funding for the business case development - Table 3). However, in the December 2023 Project Report, the Project Manager has cautioned, that more fundamental design review could pose a significant risk to time, cost, and scope.</p>			
Recommendations		Priority	
6.1	<p><i>Future Assurance</i></p> <p>The Full Business Case should demonstrate how the overall value of assessed risks, and design development allowances (e.g. benchmarked area allowances), have been managed down from the Outline Business Case in accordance with Welsh Government guidance.</p>	Medium	
6.2	<p>Given the current forecast of works costs by the SCP, Welsh Government should be advised as early as possible of any material cost increases.</p>	Low	
Agreed Management Action		Target Date	Responsible Officer
6.1	<p>Agreed. The FBC will apply Welsh Government guidance requirements.</p>	September 2024	Project Manager
6.2	<p>Actioned since audit fieldwork.</p>	N/A Actioned since audit fieldwork.	Project Manager

Appendix B: Assurance opinion and action plan risk rating

Audit Assurance Ratings

We define the following levels of assurance that the project achieves its key delivery objectives and that governance, risk management and internal control within the area under review are suitable designed and applied effectively:

	Substantial assurance	Few matters require attention and are compliance or advisory in nature. Low impact on residual risk exposure.
	Reasonable assurance	Some matters require management attention in control design or compliance. Low to moderate impact on residual risk exposure until resolved.
	Limited assurance	More significant matters require management attention. Moderate impact on residual risk exposure until resolved.
	Unsatisfactory assurance	Action is required to address the whole control framework in this area. High impact on residual risk exposure until resolved.
	Assurance not applicable	Given to reviews and support provided to management which form part of the internal audit plan, to which the assurance definitions are not appropriate. These reviews are still relevant to the evidence base upon which the overall opinion is formed.

Prioritisation of Recommendations

We categorise our recommendations according to their level of priority as follows:

Priority level	Explanation	Management action
High	Poor system design OR widespread non-compliance. Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement.	Immediate*
Medium	Minor weakness in system design OR limited non-compliance. Some risk to achievement of a system objective.	Within one month*
Low	Potential to enhance system design to improve efficiency or effectiveness of controls. Generally issues of good practice for management consideration.	Within three months*

* Unless a more appropriate timescale is identified/agreed at the assignment.



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