

Withybush General Hospital Wards 9 & 10 Lessons Learnt

**Advisory Review – Final Report
2020/21**

Hywel Dda University Health Board

**NHS Wales Shared Services Partnership
Audit and Assurance Services**



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Please note:

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1. INTRODUCTION AND BACKGROUND

1.1 Introduction

The Withybush General Hospital Wards 9 & 10 project addressed the modernisation of Ward 10 to improve safety, clinical quality and to provide a better environment for patients and staff. The former Ward 9 area was developed as decant area for Ward 10 patients during the refurbishment.

The Business Justification Case was submitted to the Welsh Government in September 2017, with funding approved in the sum of £3.153m in April 2018. The main project budget was enhanced by an additional funding provided from the Health Board's general charitable fund and discretionary programme i.e. bringing the total project budget to £3.458 i.e.

	Approved Budget £m
Works Cost:	
• Main contract	1.843
• Secondary Contract	0.195
Fees	0.340
Non-Works/IT	0.150
Equipment	0.353
Contingency	0.102
VAT	0.475
Total	3.458
<i>Source: WG return</i>	

Recognising the project budget outlined above, the key contract information was as follows:

Main Contract	Section 1 (Ward 9)	Section 2 (Ward 10)	Total
Contract Sums	£987,926.41	£842,337.09	£1,830,263.50
Possession	13/07/2018	15/04/2019	
Completion	18/01/2019	06/12/2019	

Practical completion was achieved on 6th March 2020.

As the project neared completion, the Cost Advisor reported an unanticipated overspend of £0.479m in relation to additional works instructed on the project.

The reported outturn position reported by the Cost Adviser at March 2020 was:

	Outturn Cost £m
Works Cost:	2.593
Fees:	0.352
Non-Works/IT:	0.100
Equipment:	0.329

Less: Recoverable VAT	(0.134)
Capital Support	0.133
Other Works and Equipment Costs	0.564
Total	3.937
<i>Source: UHB M12-20 report (Mar 2020)</i>	

1.2 Background

Contributing factors to the overspend

A paper was prepared for the 5th June 2020 meeting of the CEIM&T Sub Committee that outlined the key issues adversely impacting on the delivery of the project which identified:

- By March 2019, additional/ unforeseen work totalled £54k and unfunded cost indices increases of £46k were anticipated - to be funded from client contingency.
- Further additional costs relating to the discovery of water, asbestos, legionella and Firecode works were identified totalling circa £150k (including £20k of client change requests).

The addition costs were offset by additional discretionary capital/charitable funding.

A review was undertaken within Estates of current practices and reporting mechanisms and it was determined that there was a requirement to improve the level and regularity of information provided to Project Directors/Project Groups to ensure that informed decisions on approvals to proceed with additional works could be made.

2. EXECUTIVE SUMMARY

2.1 Conclusion

Recognising the above and given the concerns in respect of financial reporting, UHB management requested this review, to seek assurances that the UHB had identified the areas/issues that may have contributed to the late identification of the overspend at this project, and that lessons learnt were appropriately considered and embedded into UHB procedures/operational arrangements to aid the delivery of future projects.

Whilst recognising the actions taken by management to address the project overspend and the review and enhancement of operational procedures, this review identified other potential contributing factors relating to change management, approvals and reporting.

There is an opportunity to consider the priority considerations of this review (see below), as a part of a wider post project evaluation to inform future projects.

This may be particularly pertinent recognising the nature of upcoming capital projects/programmes.

A number of the issues arising from this advisory review suggest the need for increased oversight, direction and improved governance arrangements applied at the Project Director/Project Board and/or project team levels (particularly in respect of defining both project change control arrangements and delegated approval limits).

2.2 Priority Considerations for the Future

We have not assigned priority ratings to considerations, but we believe the following to be key priorities:

Change Management

- The project execution plan (PEP) applied at UHB projects should be reviewed by the Project Director and Project Board at individual schemes to ensure that the change control arrangements/guidance is adequately defined.
- The practice of batching unassociated items of amendment within Architects Instructions/ Progress - Cost Variation Approval forms should be discontinued.
- Verbal Instructions should be minimised and firmed up immediately via formal Architects Instructions.
- Variations to the contract should be issued on a timely basis e.g. prior to the progression of the works and only when time/cost implications are fully determined.

Approvals

- The delegated approval limits applied at UHB projects should be defined by the Project Director and Project Board at individual schemes. It is important that these are assessed on a project by project basis and agreed subject to the contract conditions and anticipated approval requirements.
- Delegated approval limits should be fully complied with at future projects.

Reporting

- Enhanced internal check/scrutiny arrangements should be introduced to ensure the consistency of internal reporting and reporting to Welsh Government.
- Quantity Surveyors reports should be subject to regular scrutiny and discussion at project progress meetings.
- Project Highlight reports should be submitted to all CEIM&T meetings.

- Supervising Officers should be provided with further guidance/direction on the completion/timeliness of cost reporting to avoid the issues identified at this project.

Other

- The post-project evaluation exercise for this scheme should be completed as a priority (led by the Project Director), incorporating a detailed review of the issues adversely impacting on the successful delivery of this project, including time, cost and quality issues alongside benefits realisation and end user satisfaction.

2.3 Management Response

The issues identified above are fully accepted by management and will be considered further at the post project evaluation undertaken on the project.

A number of the reporting issues identified from this review have been addressed through the enhanced reporting mechanisms implemented by the estates team since April 2020, resulting in improved monitoring, reporting and project governance arrangements.

Whilst this is an advisory review requested by management, it is recommended that the key priorities highlighted above should be included within the normal audit tracker system, ensuring appropriate management action and application at future UHB projects.

3. DETAILED REPORT

3.1 Change Control

The UHB Estates Department review determined that the additional costs arising at the project related primarily to additional works instructed (see Section 2).

It is important that robust change control arrangements are defined at all capital projects ensuring that cost and time implications are adequately considered prior to authorising and instructing changes.

A project execution plan (PEP) was developed for this project but provided inadequately defined change control arrangements/guidance i.e. the PEP format applied was designed for an alternative contract mechanism.

The Project Director/Project Board should define the internal change control mechanisms to be applied at individual projects.

Contract Changes should be appropriately authorised and issued as they arise ensuring that project delivery is not adversely affected and cost control is maintained. It was apparent that *Site Progress - Cost Variation Approval forms/Architects Instructions* were issued on a monthly basis and included the batching of unassociated items. The treatment of variations in this way can lead to delays in the costing and issue of instructions (incl. verbal instructions).

Time and cost implications may not be fully considered at the time of verbally instructing the additional works.

It was also evident that changes were being “mopped up” at month end to include all changes generated in the period i.e. variations issued monthly. This in itself contributes to timing differences between changes instructed verbally and confirmed in writing and at consequential cost reports.

It is recognised that the UHB’s introduction of weekly meeting should help to improve arrangements at future projects, however this is reliant on the timely application of sound change management controls.

3.2 Approvals

As noted previously the UHB has attributed cost increases to approved contract changes (See section 2).

The PEP provided for the following:

Financial Limits/Authority:

- *Monthly Limit £50,000.00*
- *Individual Item £50,000.00*
- *Overall Limit £50,000.00*

Key Personnel, Responsibilities and Authority:

- *Project Owner - Responsible to Project Owner for delivery of the proposed project.*

- *Project Director – Responsible to the Project Owner for the delivery of the proposed project.*
- *Supervising Officer - Responsible to the Project Director for the delivery of the proposed project*

Whilst noting the above, it is unclear whether:

- The limits apply to all individuals (or not);
- These are changes generated within the allocated funding e.g. client contingencies or additional approval sums; and
- Whether these align with Corporate delegated authority limits.

Management accept that the arrangements outlined above were not appropriate for this scheme and that “stepped” delegated limits should be assessed and applied at every project i.e. for approvals both within/outside of approved funding e.g. delegated limits for Project Board, Project Sponsor, Project Director, Director of Finance, Supervising officer and external agents.

As indicated above, the UHB utilised *Site Progress - Cost Variation Approval* forms and *Architects Instructions* to generate changes at the project.

Architects Instruction no9. issued in January 2019 and approved by the UHB’s Supervising Officer (together with all subsequent *Architects Instructions/ Site Progress - Cost Variation Approval* forms) indicated that the original contract sum for the works would be exceeded as a result of the variation. Project Director and/or Executive approval to the increase in the contract sum was not evidenced. Whilst noting the same, it is acknowledged that the UHB sought to manage the increases within the available contingencies and provisional sums.

A further six Approval Forms were issued during the period October 2019 – March 2020 effectively increasing the contract sum to £2,507,682.42 (see Appendix B). Five of the approval forms were in excess of the Monthly Limit of £50,000 and were approved by the Supervising Officer.

Three of the approvals were given at the time the project was reported as over budget (January 2020 Progress Meeting).

The UHB has subsequently introduced a “*Change Management - Significant Change To A Project*” proforma which would require Capital Monitoring Group Approval and/or Project Director’s approval in the event of project cost increases. However, further consideration should be given to the defined requirements and delegated approval limits provided at project execution plans.

3.3 Cost Reporting

Effective cost management is important to ensure project objectives are efficiently delivered.

This should involve appropriate data collation, evaluation and reporting. A principle aim is to ensure that the correct cost position is properly represented to inform decision makers at appropriate intervals.

As indicated above, management's key concern was the late identification of project cost increases as the project neared completion, i.e. the unanticipated overspend of £0.479m in relation to additional works instructed on the project.

The UHB has confirmed that additional costs incurred were associated with unforeseen works issues and fully due under the contract.

Project cost reporting was evidenced at the following:

- Welsh Government Dashboards;
- CEIM&T (Bi-Monthly Project Highlight Report);
- Monthly Cost Adviser Reports;
- UHB Site Progress Cost return; and
- UHB Variation Approvals.

However, the following issues were observed (see Appendix B):

- Inconsistent anticipated project outturn costs were reported throughout the period;
- It was not easy to reconcile the cost reporting over the period with UHB internal and Welsh Government reporting;
- Welsh Government Dashboard returns did not accurately reflect forecast project outturn costs;
- Quantity Surveyor's reports were not subject to scrutiny/discussion at any of the project progress meetings during the period.
- Omission of the Project Highlight report to the November 2019 CEIM&T;
- The issues highlighted at 4.1 and 4.2 contributed to the late confirmation of cost increases requiring reliance on forecast rather than agreed costs; and

Accordingly, the project suffered from deficiencies in cost reporting.

Acknowledging the same, the Estates Department review of existing reporting mechanisms resulted in the following changes implemented from April 2020:

- Weekly monitoring of Project Management and Financial position of schemes.
- From April 1st 2020 all Design Led Schemes will provide monthly dashboard reports which will be submitted to the Project Group meeting (on smaller schemes this will be sent to the Project Director. These reports will include:

- Cost Update including current anticipated outturn.
- Milestone summary.
- Key changes & issues.
- Top 5 risks with costs.
- Project actions for approval (with costs).

Whilst recognising the above changes, Supervising Officers will require further guidance/direction on the completion/timeliness of cost reporting to avoid the issues identified at this project.

3.4 Post Project Evaluation

Section 6.2 of the Welsh Infrastructure Investment Guidance (2018) states: "All appropriate programmes and projects will be subject to Design and Construction Post Project Evaluation in accordance with recognised best practice.

The Capital Governance Report presented to the Capital, Estates and Information Management & Technology Sub Committee meeting held on 5th June 2020 indicated that:

"The project was successfully completed and commissioned for use in April 2020. An overspend was reported late on in the project which will now be the subject of audit and 'lessons learnt' review. The project will be subject to Post Project Evaluation in April 2021."

To date, the formal Post Project Evaluation has not been completed. Whilst recognising the high-level issues identified as impacting delivery, and the estates review of existing practices and reporting mechanisms the completion of a robust and detailed post-project evaluation exercise for this scheme is still seen as a high priority. This should incorporate a detailed review of the issues adversely impacting on the successful delivery of this project, including time, cost and quality issues alongside benefits realisation and end user satisfaction.

It was reported to the Capital and Estates Information & Technology Sub-Committee meeting, held on 14th May 2021, that a post project evaluation of the scheme was targeted for January 2022.

Appendix A – Scope and Objectives

Scope of this Advisory Review

The advisory review sought to ensure that the UHB had identified the areas/issues that may have contributed to the late identification of the overspend at the project. It also sought to ensure that lessons learnt were considered and embedded into UHB procedures/operational arrangements to aid the delivery of future projects. We sought to provide additional proactive advice and support, as appropriate.

The areas of focus within this review were as follows:

- **Change Management** – to ensure each party has complied with the contract requirements in respect of notification and processing of changes.
- **External Cost Reporting** – that external cost reporting was appropriate, timely and reflective of the current position – recognising the status of approved and pending costs.
- **Internal Cost Reporting** – that internal cost reporting is reflective of external reporting and recognises the status of approved and pending costs.
- **Programme Management** – to review the arrangements in place to manage the programme/ timescales.
- **Any other factors** – any other factors that may have impacted on the project's delivery.

As this was an advisory review, in line with Public Sector Internal Audit Standards, we do not proffer an overall opinion. However, a basic aim is to provide proactive advice, identify good practice and relevant systems weaknesses for management consideration and, where appropriate, provide direction to existing guidance.

Appendix B: Cost reporting – Forecast Outturn

Source		Pre September 2019	September 2019	October 2019	November 2019	December 2019	January 2020	February 2020	March 2020
Welsh Government Dashboards	Budget		3,584,000	3,584,000	3,584,000	3,591,000	No return	3,458,000.00	3,851,000
	Works Cost		1,843,000	1,843,000	1,843,000	1,843,000	No Return	1,843,000	1,957,000
CEIM&T (Monthly Project Highlight Report)	Note: budget/forecast O/T not generally detailed at reports i.e. only anticipated annual expenditure		"Contract price has increased in cost by £38,374 due to inflationary pressures related to delay in awarding funding."		No Return		"Cost Advisor has flagged up an overspend of £0.250m"		No meeting (Covid)
Cost Adviser Report	Budget		3,458,000	3,458,000	3,458,000	3,458,000	3,458,000	3,458,000	3,458,000,
	Anticipated Total Project Cost		3,262,263	3,262,263	3,262,263	3,262,263	3,607,767	3,906,962	3,906,962
	Projected Final Account		1,843,263	1,843,263	1,843,263	1,843,263	2,186,351	2,485,546	2,485,546
UHB Site Progress Cost return	Projected Final Account		1,976,542.00	2,063,593.94	2,107,929.30	2,400,444.00	No Return	2,535,472.92	2,525,622.89
UHB Variation Approvals	Approximate adjusted total	AI 9 - 1,868,255.46 (07-01-19) AI 10 - 1,862,208.29 (25-01-19) AI11 - 1,905,516.07 (25-02-19) AI12 - 1,946,929.08 (15-03-19) AI13 - 1,965,846.34 (23-05-19) AI14 - 1,969,626.34 (25-06-19) AI15 - 2,011,423.34 (22-08-19)	AI16a - 2,049,945 (23-09-19) AI16b - 2,056,728.46 (23-09-19)	1,976,549.00 (AI 17)	2,103,863.26 (AI 18)	2,103,863.26 (AI 19)	2,161,947.21 (AI 20)	2,343,882,51 (AI 21)	2,507,682.42 (AI 22)