

# **Glangwili Hospital Women & Children's Development Phase 2**

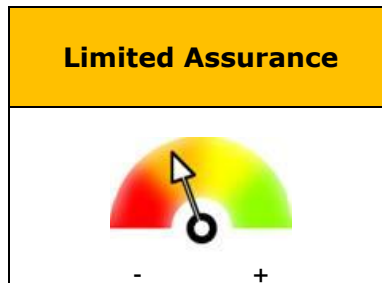
## **Draft Audit Report**

**2019/20**

**Hywel Dda University Health Board**

**NHS Wales Shared Services Partnership**

**Audit and Assurance Services**



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### **ACKNOWLEDGEMENT**

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

#### **Please note:**

This audit report has been prepared for internal use only. Audit & Assurance Services reports are prepared, in accordance with the Service Strategy and Terms of Reference, approved by the Audit Committee.

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## 1. Introduction and Background

The audit was undertaken to evaluate the processes and procedures established to support the management and control of the Women and Children's project (Phase 2) at Glangwili Hospital.

The investment objectives for this development were identified as:

**Objective 1:** to support the delivery of safe, sustainable and accessible services, and facilitate high standards of patient care.

**Objective 2:** to promote the maximum efficient use of assets and improve asset condition and performance.

**Objective 3:** to promote the use of innovation to improve the quality of care, to reduce costs and deliver the necessary service change.

Following the completion of Phase 1 of the development, this second phase will provide additional refurbishment and extension at the Glangwili site to address accommodation requirements for Neonatal, Labour Wards, Obstetric Theatres, and Higher Dependency patients.

Works comprise:

- Obstetric Labour Ward development including a second Obstetric Theatre;
- A Higher Dependency Obstetric Unit;
- A Neonatal Unit;
- External cladding; and
- Additional car parking.

The Full Business Case was submitted to Welsh Government in September 2017, with approval provided in April 2018 in the sum of £25.277m. In October 2018, a further £0.81m additional funding was provided to enhance cladding, providing total funding of £26.087m.

Original programme requirements envisaged a 110-week contract programme, with completion on the 13<sup>th</sup> November 2020.

## 2. Scope and Objectives

The review was undertaken to determine the adequacy of, and operational compliance with, the systems and procedures of the UHB, taking account of relevant NHS and other supporting regulatory and procedural requirements, as appropriate.

The audit evaluated the systems and controls in place within the UHB with a view to delivering assurance to the Audit Committee that risks material to the objectives of the areas covered were appropriately managed.

Accordingly, the scope and remit of the audit was directed to the following areas:

- **Previously Agreed Audit Recommendations:** All but one recommendation, from the previous audit, have been separately followed up and closed (April 2019). The status of the remaining recommendation will be confirmed at this review.
- **Project Governance:** To ensure that appropriate organisational and governance arrangements have been maintained, reflective of the current phase of the Project.
- **Cost Monitoring & Reporting:** Assurance that costs have been reasonably budgeted, contractually agreed and controlled.
- **Change Management:** To confirm the adequacy and application of the change management processes applied to the project.
- **Risk Management:** An assessment of the arrangements to oversee the management of project risks, including the action taken by management to mitigate/ manage key risks.
- **Other** - Any other issues identified at the project affecting project delivery.

## 3. Associated Risks

We sought to confirm the mitigation and management of potential negative impacts to time, cost and quality of the delivered projects.

## OPINION AND KEY FINDINGS

### 4. Overall Assurance Opinion

We are required to provide an opinion as to the adequacy and effectiveness of the system of internal control under review. The opinion is based on the work performed as set out in the scope and objectives within this report.

An overall assurance rating is provided describing the effectiveness of the system of internal control in place to manage the identified risks associated with the objectives covered in this audit.

It is acknowledged that this is a highly-complex, multi-phased refurbishment project, impacting the service delivery and operating within a live acute setting.

The key issues for management attention are:

### **Governance**

- The project may benefit from a review of the allocation of project roles to ensure effective control. (see **recommendation 1**).
- Defined responsibilities are required for the SRO, Project Director and Project Board (see **recommendation 2 & 3**).

### **Cost**

- Whilst the cost position is reported as within the revised budget, cost savings (£1.049m) and an allocation of discretionary funding (£446k) have been required.
- Included within the cost savings, is the assumption that £540k VAT recovery can be retained by the UHB. In accordance with NHS Wales Infrastructure Investment Guidance, the UHB should gain WG approval to the same (see **recommendation 5**).
- The cost control arrangements at the project would be significantly improved with the production of an activity schedule (a requirement of the NEC form of contract adopted). This would allow monitoring of performance against individual activities per phase (see **recommendation 6**).
- The intention of the contract was for the project to be delivered on a sectional completion basis (option X5 of the NEC contract). To date, the project has been managed as a single phased contract. Systems and reporting should therefore be re-aligned with the intended contract strategy (see **recommendation 7**).

### **Change Management**


- The project has seen significant delays, of which, 12.3 weeks had been agreed and a further 18.7 weeks remained to be assessed (at the time of the review). The Supply Chain Partner had also benefited from earlier access to phases, elongated programmes per phase, and increased overlapping of phases. If similar time pressure occurs in the second half of the contract, without additional ability to over-lap phases, then the project will be at increased risk of further slippage. The Project Manager should therefore produce an evaluation report either accepting or rejecting each of the assumptions above for each phase (see **recommendation 8**).

- The delay damages at the contract were insufficient (£1 per week) to compensate the UHB for non-delivery. Whilst this cannot be addressed at this project, it is important that the UHB is able to demonstrate lessons-learnt at future projects (see **recommendation 9**).
- Effective management of the project requires understanding and control of the on-going delays. Key to this is the need for site based client advice. Accordingly, we have recommended that the technical duties of the site Supervisor be more fully utilised in accordance with their contract to provide the same (**Recommendation 11**).

**Risk Management**

- Residual contingency has not been monitored and/ or reported against residual risk to date. Accordingly, we cannot appropriately assess the cost position of the project (see **recommendation 12**).

Recognising this is a particularly complex project within a live hospital environment, the level of assurance given as to the effectiveness of the system of internal control in place to manage the risks associated with the project is assessed as **Limited Assurance**.

RATING	INDICATOR	DEFINITION
<p style="text-align: center;"><b>Limited Assurance</b></p>		<p>The Board can take <b>limited assurance</b> that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with <b>moderate impact on residual risk</b> exposure until resolved.</p>

The overall level of assurance that can be assigned to an audit is dependent on the severity of the findings as applied against the specific audit objectives and should therefore be considered in that context.

## 5. Assurance Summary

The summary of assurance given against the individual objectives is described in the table below:

Assurance Summary					
1	Previously agreed audit recommendations				✓
2	Governance		✓		
3	Cost Reporting		✓		
4	Change management		✓		
5	Risk Management		✓		

\* The above ratings are not necessarily given equal weighting when generating the audit opinion.

## Design of Systems/Controls

The findings from the review have highlighted **2** issues that were classified as weaknesses in the system control/design

## Operation of System/Controls

The findings from the review have highlighted **10** issues that were classified as weaknesses in the operation of the designed system/control.

## 6. Summary of Audit Findings

The key findings are reported within the Management Action Plan (**Appendix A**).

### Previously agreed management actions



*To assess the status of previously agreed management actions.*

All but one recommendation, from the previous audit, had been separately followed up and closed (April 2019). The status of the remaining recommendation was additionally confirmed as actioned (**Appendix E**).

Accordingly, a **substantial assurance** is determined in this area.



## Governance



***To affirm that appropriate organisational and governance arrangements have been maintained, reflective of the current phase of the Project.***

The Chief Executive Officer was designated as the Senior Responsible Owner (SRO). However, this role was not defined at the latest (October 2019), Project Execution Plan (PEP). The SRO has not attended the Project Board to date, accordingly consideration should be given to re-assigning the role to a nominated lead executive (**Recommendation 1**).

Similarly, the operational project lead, i.e. the Project Director role, was not defined to ensure appropriate communication and accountability (**Recommendation 2**).

The Project Board was established in accordance with the governance arrangements documented within the Project Execution Plan. This met with appropriate frequency and attendance, and was supported by a Project Team, and other project related bodies (e.g. equipping groups). However, excepting values of delegated authority, the role and functioning of the Project Board was similarly un-defined (**Recommendation 3**).

While the Project Board was generally well informed relating to key decisions, it was not adequately informed in relation to the administration of phased completion and the implications of the delay damages (see **Recommendations 7** and **9**).

Noting the above, a **limited assurance** is determined in relation to governance.

## Cost Monitoring and Reporting



***Assurance that costs have been reasonably budgeted, contractually agreed and controlled.***

Detailed cost reports were provided and presented to the Project Board by the UHB's Project Manager and Cost Adviser, including concise cost summaries (e.g. **Appendix C**). These were supplemented by internal (UHB authored) "Highlight Reports" (utilising information provided from existing cost reports).

The UHB additionally provided regular cost reporting to the Welsh Government via project dashboard reports.

### Overall Project Cost Position

As noted previously, the Full Business Case was submitted in September 2017, with approval provided by Welsh Government in April 2018 in the

originally requested sum. However, contractor quotations only remained valid for 90 days, and accordingly, fresh market quotations were obtained. This increased project costs by c. £1.169m (4.6%) providing an un-funded cost pressure at the project.

The Cost Adviser provided a formal evaluation report of the revised target cost and attributed the cost increases to:

- changes in regulations – c. £200k additional quoted for Mechanical and Electrical works;
- upgrade to BREEAM excellent (sustainability), including a maintenance provision and additional risk allowances;
- increase in certain key price indices, notably steel, aluminium and bitumen in this period; these included:
  - 12% steel
  - 7 – 10% aluminium (a three year high);
  - 10% fall in the pound against the Euro; and
  - fuel price increases.

An associated increase in adviser fees (noting the increased target cost), and design development in the period to FBC approval also adversely impacted on project costs.

Accordingly the UHB has sought to identify cost savings and additional funding to address the £1.169m projected funding shortfall. However, a shortfall of £120k remains (see **Appendix C** – funding).

Accordingly the latest out-turn position is reported as (see **appendix C**):

	<u>£</u>	<u>£</u>
Original WG Business Case Funding	25,277,000	
Additional WG Funding	810,000	
Discretionary Capital Funding	<u>446,000</u>	
	26,533,000	
Forecast Total Project Cost		<u>26,653,786*</u>
Balance of Mitigating Action		<u>(120,375)</u>
		<u>26,533,000**</u>

\* Inclusive of additional £0.81m Cladding Costs and £1.049m savings achieved to date

\*\* Note minor rounding error.

Overall project costs are therefore currently projected to be within the revised project budget, assuming the remaining £120k of saving can be achieved (see **Appendix C** for further details).

However:

- Within the savings achieved to date is the assumption that VAT recovery (targeted at £540k) will be fully retained by the UHB. In accordance with

NHS Wales Infrastructure Investment Guidance, confirmation of WG approval is required to utilise the same (**recommendation 5**).

- The cost forecast includes only known (current) issues. There is need therefore to assess remaining risks against remaining contingency (see **change control** section below).

#### Monitoring – activity schedules

An activity schedule is a key project control within the contract. While costs were time profiled, these were not derived from costed activities. An activity schedule informs both the expected payment profile, and acts as a pricing basis for additional or extended activities. A recommendation has therefore been made for utilisation of a more robust Activity Schedule to monitor project costs. This should be regularly updated to reflect changes to programme and/ or cost plans (**Recommendation 6**).

#### Sectional completion

The NEC option C contract adopted at the project also includes clause X5 for sectional completion (see **Change Management** section below for sectional completion dates).

To date, the contract has not been administered as a sectional completion project, but rather as a single phased contract. Accordingly, the costs of each Phase were not separately monitored, or contractually controlled (i.e. costs were managed only against the overall budget – see **recommendation 7**).

Noting the need for more effective cost control in accordance with the provisions of the contract, a **limited assurance** has been determined for this area.

*The Assessment of the reporting of delay changes is separately assessed at the Change Management section below.*

## **Change Management**



***Confirm the adequacy and application of the change management processes applied to the project.***

#### General

Change control was seen to be appropriately approved and advised at project reports, and compensation events appropriately signed/authorised.

#### Programme implications

Changes to the project should recognise the potential implications on the programme on a progressive basis.

As noted at the **Cost Monitoring and Reporting** section above, to date, the contract has not been administered as a sectional completion project, but rather as a single phased contract. This approach has potentially been to the benefit of the Supply Chain Partner, allowing delays to be absorbed through earlier start dates and longer delivery programmes at each phase – i.e. without significantly impacting the overall start/ completion dates (**recommendation 8 & 9**).

The programme has been subject to significant delays to date as follows:

Phase	Contract Completion Dates	Anticipated Completion Dates	Delay Weeks
1 - Labour ward	16/08/2019	30/01/2020	23.9
2 - Neo natal	10/02/2020	04/11/2020	38.3
3 - Theatres 1 & 2	17/08/2020	11/03/2021	29.4
4 - Changing rooms	06/11/2020	04/06/2021	30.0
<b>Overall contract</b>	<b>13/11/2020</b>	<b>18/06/2021</b>	<b>31.0</b>

The current forecast is an overall delay of 31 weeks against the original (110 week) programme as follows:

- 12.3 weeks agreed; and
- 18.7 weeks unassessed.

*(A further breakdown of delays per phase is provide at **Appendix D**).*

Whilst delay issues were provisionally reported within the Project Manager’s report, reasons for the current delay were not fully concluded, and retrospective analysis was not evidenced. If similar time pressure occurs in the second half of the contract, without the additional ability to over-lap phases, then the project will be at additional slippage risk. Formal reports should therefore be prepared by the Project Manager confirming whether the SCP programme is accepted/ rejected for each phase.

Delay damages

Delay damages are provided within the NEC form of contract in the event of the Supply Chain Partner failing to achieve the completion date. They should not be seen as a penalty, but rather a fair assessment of the resultant cost incurred by the UHB of the delay.

The relevant clause at this project (clause X7) included delay damages set at £1 / week for end-date delay (and £0 for any phase delay).

Noting the currently reported 18.7 weeks unassessed delay, this would equate to recovery of only £18.70. However, at similar framework projects, equivalent delays would incur delay damages of circa £7k per week (**Recommendation 9**).

### Site assessment

Effective management of the project requires understanding and control of the on-going delays. Key to this is the need for site based client advice. Accordingly, we have recommended that the technical duties of the site supervisor be more fully utilised in accordance with their contract to provide the same. This should include Supervisor assessment of technical and programme implications of contract changes, and inform the Project Manager’s assessment of revised programmes etc. (see **recommendation 11**).

Noting the above, **limited assurance** has been determined in respect of change management.



### **Risk Management**

***An assessment of the arrangements to oversee the management of project risks, including the action taken by management to mitigate/ manage key risks.***

A risk register of appropriate format was maintained at the project. At the time of the current review, it awaited re-appraisal pending review of (the delayed) Phase I completion.

Project reports had not assessed and reported residual risks against residual contingency. The Project Board was not therefore informed in this regard (**Recommendation 12**).

However, noting that the forecast of remaining risks compared to remaining funds is fundamental to project control, a **limited assurance** has been determined in respect of risk management.

### **7. Summary of Recommendations**

The audit findings, recommendations are detailed in **Appendix A** together with the management action plan and implementation timetable.

A summary of these recommendations by priority is outlined below:

<b>Priority</b>	<b>H</b>	<b>M</b>	<b>L</b>	<b>Total</b>
<b>Number of recommendations</b>	6	6	0	<b>12</b>

*Note – Management agreement has been provided to all of the recommendations arising at this report. The target implementation dates will be reviewed on an ongoing basis recognising current operational pressures.*

## Governance

<b>Finding 1, 2 &amp; 3: Roles and responsibilities</b>	<b>Risks</b>
<p>Excepting delegated change control sums, duties of the various groups and individuals within the project structure lacked definition.</p> <p>Additionally, roles and responsibilities of key in-house parties were not accepted by signed certificates in accordance with best practice e.g.:</p> <ul style="list-style-type: none"> <li>• the Chief Executive Officer was designated as the Senior Responsible Owner (SRO) e.g. as per the August 2019 Welsh Government Dashboard return. However, this role was not defined at the Project Execution Plan (PEP) of October 2019. The SRO did not attend the Project Board, and was therefore reliant on an effective chain of communication. However, the Project Director, did not attend the various capital and planning committees of the UHB.</li> <li>• the operational project lead, the Project Director role was not defined.</li> <li>• the Project Board role was similarly undefined.</li> </ul>	<p>The project is not appropriately governed.</p> <p>Officers do not fulfil / act beyond their remit.</p> <p>Project groups do not fulfil their remit.</p>
<b>Recommendation 1, 2 &amp; 3</b>	<b>Priority level</b>
<p>1. The allocation of project roles at the current stage of the project should be reviewed to ensure effective control. (O)</p>	<p><b>Medium</b></p>

2. Duties of the Project Director should be formally determined and agreed (utilising an appointment certificate) (D).	<b>Medium</b>
3. The role of the Project Board should be formally defined. (D)	<b>Medium</b>
<b>Management Response 1, 2 &amp; 3</b>	<b>Responsible Officer/ Deadline</b>
	Project Director May 2020

## Cost Monitoring and Reporting

<b>Finding 4: Contracts</b>						<b>Risk</b>
<u>Contract Completion</u>						<p>Longer-term liabilities may not be adequately addressed until the main contract is finalised and executed.</p> <p>The UHB may be exposed to increased risk/liabilities.</p>
<p>National capital guidance (WHC 2018-043) states that there should be a formal contract in place in advance of any works / duties.</p> <p>Stage 4 (construction) commenced on 17/7/18 (noting associated commencement of advisory duties). No key contracts were in place at the time of commencement of their duties i.e.</p>						
	<b>Contract Value</b>	<b>External signature requested</b>	<b>Signed by contractor</b>	<b>Signed by UHB</b>	<b>Comments</b>	
Contractor	£16,718,156	-	Not dated	12/2/19	19 months late	
Project Manager	£53,000	16/10/19	-	-	To be completed	
Cost Advisor	£41,455	16/10/19	-	-	To be completed	
Supervisor	£17,502	-	-	-	To be completed	
<p>There is currently dispute with the Cost Adviser, who are refusing to sign the contract in the sum and rates offered – noting the significant increase in overall project cost.</p>						



<b>Recommendation 4</b>	<b>Priority level</b>
Contract documentation for the various parties should be appropriately completed prior to commencement of duties. (O)	<b>High</b>
<b>Management Response 4</b>	<b>Responsible Officer/ Deadline</b>
	Project Director May 2020

**Finding 5: VAT Funding**

**Risk**

Welsh Health Circular 2018 (043) (NHS Wales Infrastructure Investment Guidance) states:

Costs are not appropriately forecast.

*Where organisations are in receipt of a VAT reclaim, there is potential for this to be recycled. Organisations need to notify the Deputy Director of NHS Capital, Estates and Facilities Division so that appropriate consideration can be given to the treatment of any VAT refund and whether the resource can be added to the CRL/CEL subject to Ministerial approval.*

At FBC there was a shortfall of c.£1.169m between the forecast project out-turn cost and the current WG funding allocation. Good practice was noted in that the UHB determined a funding mitigation plan, the current status of the same is summarised as follows:

	<b>Propose (£)</b>	<b>Achieved (£)</b>	<b>Remaining (£)</b>
VAT Recovery	540,000	407,625	132,375
Utilisation of 5-facet survey budget from non-works	300,000	300,000	-
Review of risk register	329,000	-	329,000
DCP draw-down	-	341,000	-341,000
	<b>1,169,000</b>	<b>1,048,625</b>	<b>120,375</b>

Confirmation of WG approval to utilise the VAT recovery is required.

<b>Recommendation 5</b>	<b>Priority level</b>
The UHB will gain formal approval from WG to utilise the VAT recovered (O).	<b>High</b>
<b>Management Response 5</b>	<b>Responsible Officer/ Deadline</b>

Findings 6 & 7: Activity schedule	Risk
<p>The formal NEC contract applied at this scheme states:</p> <p><i>"the contractor provides information which shows how each activity on the Activity Schedule relates to the operations on each programme which he submits for acceptance."</i></p> <p>An Activity Schedule is a key project control, informing both the expected payment profile, and acting as a pricing basis where activities are extended / added. It is a matrix showing weekly activities by trade and the associated monthly cost.</p> <p>In this case, while costs were time profiled by trade, these were not derived from costed activities.</p> <p><u>Sectional Completion</u></p> <p>As per clause X5 of the NEC Contract adopted, the contract assumes sectional completion dates (see <b>findings 8 &amp; 9</b>) below. To date, the contract has not been administered as a sectional completion project, but rather as a single phased contract. Accordingly, the costs of each Phase were not separately monitored, or contractually controlled (i.e. costs were managed against the overall budget).</p> <p>This may have contributed to a lack of contract control i.e. the contractor could otherwise have been monitored and held to account for both cost and time performance of Phase 1, with lessons learnt review etc. (contrasting with a position where reasons for over-run had not been concluded – see <b>findings 8 &amp; 9</b>).</p>	<p>Ineffective implementation of contractual controls (of time and cost).</p>

<b>Recommendations 6 &amp; 7</b>	<b>Priority level</b>
<p><b>6.</b> The contractor should provide an activity schedule assigning the costs of each trade / sub-contract to detailed activities, regularly updated in accordance with the programme and cost profile throughout the duration of the project. (O)</p>	<b>High</b>
<p><b>7.</b> The project should be administered on a sectional completion basis as outlined within the contract adopted (O).</p>	<b>High</b>
<b>Management Responses 6 &amp; 7</b>	<b>Responsible Officer/ Deadline</b>
	Project Director May 2020

## Change management

Finding 8: Delay reporting	Risk																		
<p>As per clause X5 of the NEC Contract adopted, the contract assumes sectional completion dates as follows:</p> <table data-bbox="448 558 1075 750"> <tr> <td>1 - Labour ward</td> <td>16/08/2019</td> </tr> <tr> <td>2 - Neo natal</td> <td>10/02/2020</td> </tr> <tr> <td>3 - Theatres 1 &amp; 2</td> <td>17/08/2020</td> </tr> <tr> <td>4 - Changing rooms</td> <td>06/11/2020</td> </tr> <tr> <td><b>Overall contract</b></td> <td><b>13/11/2020</b></td> </tr> </table> <p>However, it is evident that the delays to date have been considered against the overall completion date, rather than the sectional completion as intended.</p> <p>The following was observed:</p> <table data-bbox="291 1021 1366 1165"> <tr> <td>Original Completion Date</td> <td>13/11/2020</td> </tr> <tr> <td>Extended Completion Date - 12.3 weeks</td> <td>07/02/2021</td> </tr> <tr> <td>SCP Planned Completion Date</td> <td>18/06/2021</td> </tr> <tr> <td colspan="2">(represents 18.7 weeks beyond the revised contract completion date)</td> </tr> </table> <p>Reporting was provided to the Project Board of incremental delay, and individual task analysis. However, these did not summarise or analyse changes to the critical path (end-time) with reference to agreed Compensation Events. Changes to Phase timings (over-lap) were similarly not referenced. In summary, additional time included within the programme to date has been:</p>	1 - Labour ward	16/08/2019	2 - Neo natal	10/02/2020	3 - Theatres 1 & 2	17/08/2020	4 - Changing rooms	06/11/2020	<b>Overall contract</b>	<b>13/11/2020</b>	Original Completion Date	13/11/2020	Extended Completion Date - 12.3 weeks	07/02/2021	SCP Planned Completion Date	18/06/2021	(represents 18.7 weeks beyond the revised contract completion date)		<p>Management are not appropriately informed.</p>
1 - Labour ward	16/08/2019																		
2 - Neo natal	10/02/2020																		
3 - Theatres 1 & 2	17/08/2020																		
4 - Changing rooms	06/11/2020																		
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SCP Planned Completion Date	18/06/2021																		
(represents 18.7 weeks beyond the revised contract completion date)																			

<ul style="list-style-type: none"> <li>• 12.3 weeks agreed;</li> <li>• 18.7 weeks yet to be assessed.</li> </ul> <p>In addition to the above, the SCP has benefited from earlier access to phases, overlapping of phases and extended duration of phases (between 5 and 25 weeks across each phase). (see <b>Appendix D</b> for further details).</p> <p>In accordance with the NEC form of contract, the Project Manager/ Cost Adviser should provide a report on the delays at each phase, referencing compensation events as appropriate, and confirming whether each delay is accepted/ rejected. The report should also be cognisant of the additional time awarded to the Supply Chain Partner from early access to phases, overlapping of phases, and extended duration of phases.</p>	
<p><b>Recommendation 8</b></p>	<p><b>Priority level</b></p>
<p>The project manager should produce a report recommending/ rejecting the latest SCP programme, commenting upon, for each phase individually:</p> <ul style="list-style-type: none"> <li>• whether delays are accepted/ rejected;</li> <li>• mitigating factors e.g. compensation events;</li> <li>• early access to phases;</li> <li>• extended programmes for individual phases;</li> <li>• economies generated from overlapping phases;</li> <li>• the impact of delays from prior phases and forward impact on remaining phases;</li> <li>• remaining potential for phase over-lap; and</li> <li>• delay damages arising (○).</li> </ul>	<p><b>High</b></p>

<b>Management Response 8</b>	<b>Responsible Officer/ Deadline</b>
<p>We were able to complete the new office building and decant existing offices from the Phase 2 work area ahead of programme. The critical path changed as a result of this.</p> <p>A summary report of project changes is currently being compiled for the Capital, Estates, Information Management and Technology committee.</p>	<p>Project Director</p> <p>May 2020</p>



Finding 9: Delay damages	Risk
<p>Delay damages are paid by the contractor if he fails to complete the works by the specified completion date. They may also be applied to sectional completion if key dates are specified.</p> <p>Delay damages of only £1 per week were specified at the contract (and £0 for late phase completion). This contrasts to comparable damages of £7k per week at similar projects.</p> <p>The project currently has 18.7 weeks delay that have yet to be assessed, i.e. if approved, forecast damages recoverable of £18.70 to date.</p> <p><b>Note:</b> conversely, any delay attributed to the UHB results in the Supply Chain Partner recovering £30k per week in prelims.</p>	<p>The UHB is not compensated appropriately for SCP failure to meet contractual obligations.</p>
Recommendation 9	Priority level
<p><i>Future</i></p> <p>Management should include commercially assessed delay damages within contracts. (O)</p>	<p><b>High</b></p>
Management Response 9	Responsible Officer/ Deadline
	<p>Project Director</p> <p>At future projects</p>

<b>Finding 10: Project Manager Instructions</b>	<b>Risk</b>
<p>Change control was seen to be appropriately approved and advised at project reports and compensation events appropriately signed/authorised.</p> <p>Provisional contract changes were instructed in accordance with the contract via Project Manager Instructions with an assessed cost advised at project reports. Such works were instructed prior to costs being agreed, which can provide potential for later dispute.</p> <p>This decision was taken given the minor nature of many of these works and to avoid potential delay and associated preliminary costs at £30,000 per week. Only two such costs remain to be agreed, being the:</p> <ul style="list-style-type: none"> <li>• relocation of switch room (£100,000) (<i>quote raised 11/4/19</i>) - <i>cost of original build not netted from contractor claim</i>); and</li> <li>• roof walkway (£61,637) (<i>quote raised 30/11/19 - and under review</i>).</li> </ul>	<p>Costs are not appropriately controlled.</p>
<b>Recommendation 10</b>	<b>Priority level</b>
<p>Costs will be agreed as a matter of priority for the remaining change costs to be agreed. (O)</p>	<p><b>Medium</b></p>

<b>Management Response 10</b>	<b>Responsible Officer/ Deadline</b>
	Project Director May 2020

Finding 11: Supervisor Input	Risk
<p>The Supervisor contact requires in respect of Compensation Events that they:</p> <p><i>"confirm...whether there are any risks of adverse impacts on cost and / or programme", ensuring the "proposal is...supported by valid data" and "a technically adequate response".</i></p> <p>Program delays to date have been substantially attributed to mechanical and electrical works and roof leakage (stated to be ingress from an adjacent UHB building). The project manager (at Exception Report 3) has reported:</p> <p><i>"constant delays/changes/revision to the programme."</i></p> <p>In the report (published to examine revisions at programme v15), the Project Manager commented that:</p> <p><i>"further investigating whether the time added into the programme is correct or whether the contractor is now adding time into activities because it is available."</i></p> <p>Support from the Supervisor in relation to time delay or liabilities was not evidenced. The only advice relating to ingress being a UHB liability evidenced originated from the cladding fitter (being a sub-contractor to the main contractor). The on-site presence of the Supervisor inspecting task performance would be invaluable to advise the Project Manager in these circumstances.</p> <p>For such technical matters, at minimum, the client should require assurance that appropriate technical advice had been obtained.</p>	<p>Costs are not appropriately controlled.</p>

<b>Recommendation 11</b>	<b>Priority level</b>
The client should require assurance that the supervisor's opinion has been sought in respect of technical and programme implications of project changes at the contract. (O)	<b>Medium</b>
<b>Management Response 11</b>	<b>Responsible Officer/ Deadline</b>
	Project Director May 2020

## Risk management

Finding 12: Residual risk v residual contingency	Risk															
<p>The NHS Wales Infrastructure Investment Guidance states:</p> <p><i>"Risk registers for each individual project/programme must be completed, shared and monitored, with reference not only to time, cost and quality but also operational/service impacts, functionality and benefits realisation. It is therefore important that NHS bodies not only consider construction risks, but wider operational/implementation risks which have to be managed and mitigated over the lifespan of a scheme. Where necessary, scheme risk registers should also be submitted to Welsh Government in addition to the reports referenced at Section 4.2 above".</i></p> <p>As work is carried out, and commitments become firmer, so the risks in future works and commitments are reduced, the contingency estimate should be periodically updated to reflect this.</p> <p>Use of contingency to date has been:</p> <table data-bbox="421 1086 1142 1326"> <tr> <td></td> <td>Original contingency</td> <td>£930</td> </tr> <tr> <td>Less</td> <td>Compensation Events</td> <td><u>£864</u></td> </tr> <tr> <td></td> <td>Remaining contingency (at project mid-point)</td> <td>£66</td> </tr> <tr> <td>Plus</td> <td>top up discretionary funding</td> <td><u>£341</u></td> </tr> <tr> <td>=</td> <td>Replenished contingency</td> <td><b><u>£407</u></b></td> </tr> </table>		Original contingency	£930	Less	Compensation Events	<u>£864</u>		Remaining contingency (at project mid-point)	£66	Plus	top up discretionary funding	<u>£341</u>	=	Replenished contingency	<b><u>£407</u></b>	<p>Management are not appropriately informed.</p> <p>The project delivery to budget is not appropriately monitored.</p>
	Original contingency	£930														
Less	Compensation Events	<u>£864</u>														
	Remaining contingency (at project mid-point)	£66														
Plus	top up discretionary funding	<u>£341</u>														
=	Replenished contingency	<b><u>£407</u></b>														

<p>The corresponding impact on the discretionary programme is reported at the various capital forums.</p> <p>At the time of reporting, an assessment of identified/remaining project risks and the available contingency was not reported to the Project Board.</p> <p>Noting the same, the associated cost implication of risks materialising at the project through to completion may not be fully considered.</p>	
<p><b>Recommendation 12</b></p>	<p><b>Priority level</b></p>
<p>A reconciliation should be undertaken of identified/remaining project risks, affirming both the programme and available contingency, and reported to the Project Board through to project completion. (O)</p>	<p><b>Medium</b></p>
<p><b>Management Response 12</b></p>	<p><b>Responsible Officer/ Deadline</b></p>
	<p>Project Director                  May 2020</p>

## Audit Assurance Ratings



**Substantial assurance** - The Board can take **substantial assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with **low impact on residual risk** exposure.



**Reasonable assurance** - The Board can take **reasonable assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with **low to moderate impact on residual risk** exposure until resolved.



**Limited assurance** - The Board can take **limited assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **moderate impact on residual risk** exposure until resolved.



**No Assurance** - The Board has **no assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with **high impact on residual risk** exposure until resolved.

## Prioritisation of Recommendations


In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows.

Priority Level	Explanation	Management action
<b>High</b>	Poor key control design OR widespread non-compliance with key controls. PLUS Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement.	Immediate*
<b>Medium</b>	Minor weakness in control design OR limited non-compliance with established controls. PLUS Some risk to achievement of a system objective.	Within One Month*
<b>Low</b>	Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration.	Within Three Months*

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



## Appendix C - Project Cost Adviser Report – January 2020

This Financial Report covers the period from 3rd December 2019 to 6th January 2020						
Project Wide Cost Summary					Project	
	BUDGET					
	INITIAL PROJECT FUNDING				£25,277,000	
	ADDITIONAL FUNDING APPROVALS				£810,000	
	DISCRETIONARY CAPITAL FUNDING 2019/20				£446,000	
	CURRENT PROJECT FUNDING				£26,533,000	
	TOTAL APPROVALS				£26,533,000	
FORECAST COSTS TO BUDGET RECONCILIATION		Funding	Forecast Outturn	Forecast Variance	Mitigating Action	Provisional Outturn
<b>Works Cost</b>						
	SCP Target Price	£17,690,213	£17,519,813	(£170,400)		£17,519,813
	Approved Changes - CENS		£892,765	£892,765		£892,765
	Anticipated Changes (to be funded from HB Risk)		£423,552	£423,552		£423,552
	Early Warnings (to be funded from HB Risk)		£35,386	£35,386		£35,386
	Works Cost Gain Share (SCP current forecast is Nil)		£0	£0		£0
<b>Health Board</b>						
	Fees	£954,324	£989,263	£34,939		£989,263
	Non-Works	£850,388	£603,388	(£247,000)		£603,388
	Equipment	£1,844,273	£1,844,273	£0		£1,844,273
	Risk	£930,928	£407,614	(£523,314)		£407,614
						£0
<b>VAT</b>						
	Standard Rate	£4,262,874	£4,345,358	£82,484		£4,345,358
	VAT Recovery on SCP Costs	£0	(£407,625)	(£407,625)		(£407,625)
	Balance on Mitigating Actions (Current Overspend)				£120,375	(£120,786)
<b>FORECAST TOTAL PROJECT COSTS</b>		<b>£26,533,000</b>	<b>£26,653,786</b>	<b>£120,786</b>	<b>£120,375</b>	<b>£26,533,000</b>
Current remaining Health Board Risk Pot provision			£407,614			
Current overspend in Forecast Outturn over Budget - if remaining risk is fully expended			£120,786			

## Appendix C (Contd.) - Project Cost Adviser Report – January 2020 – Supporting commentary

Cost Commentary	
1	The current level of Approved Welsh Government funding is £26.087m. An additional top-up of £466k has been authorised from the Health Board DCP, so that the current budget is now reported as £26.533m. <i>Refer to Section 2 of this Report.</i>
2	The cost report reflects a forecast out-turn project cost of £26.653m ( <i>assumes all remaining Health Board Risk Pot is expended</i> )
3	There is a current reported shortfall of c£120k between the forecast project out-turn cost and the current Budget allocation. The initial Funding shortfall of £1.169m has been mitigated from the following sources:  (i) Indicative VAT Recovery on SCP Costs - <i>Health Board has received an agreement at 10.8% which currently equates to c£407k. This is below the original figure expected of £540k</i> (ii) Utilisation of survey costs included in the FBC to contribute to the inflationary increase - <i>mitigation measure confirmed by HB and included in reported costs above</i> (iii) Additional items to be provisionally funded from the risk / contingency allocation. <i>Risk Register reviews continue, but no monies have been confirmed for release by the Health Board to date.</i> (iv) should the shortfall not be fully met through the mitigating actions highlighted in (i) to (iii) above, then a request to draw down funding from the Discretionary Capital Programme, in line with the paper sent to CE&IM&T Sub Committee in July 2018, will be made. <i>To date a sum of £341k has been transferred from the Health Board DCP for 2019/20 financial year.</i>
4	The total forecast cost of instructed changes to the Stage 4 works to date is £892,765, an increase of c£13k in the period. <i>Refer to CE's under Section 4 of this Report</i>
5	The forecast value of anticipated (pipeline) and early warning items is c£459k, an increase of c£35k in the reporting period. <i>These represent budget figures subject to confirmation as CEs. Refer to sections 5 and 6 of this Report</i>
6	The forecast gain share allocation reported by the SCP is currently nil. <i>Refer to Section 7 of this Report</i>
7	The current remaining value of the Health Board Risk Pot is £407,614, a reduction of c£48k in the reporting period to fund then additional instructed and anticipated changes. <i>Refer to Section 8 of this Report</i>

## 2A FUNDING MITIGATION

At FBC there was a shortfall of c€1.169m between the forecast project out-turn cost and the current WG funding allocation. The Health Board have identified an approach to deal with this shortfall from other allocation sources as follows:

- (i) Indicative VAT Recovery on SCP Costs
- (ii) Utilisation of survey costs included in the FBC to contribute to the inflationary increase
- (iii) Additional items to be provisionally funded from the risk / contingency allocation

Should the shortfall not be fully met through the mitigating actions highlighted in (i) to (iii) above, then a request to draw down funding from the Discretionary Capital Programme, in line with the paper sent to CE&IM&T Sub Committee in July 2018, will be made.

The following table reports the status of the funding mitigation realised to date:

PROPOSED FUNDING MITIGATION SOURCE	PROPOSED SAVING	SAVING ACHIEVED TO DATE	REMAINING SAVING REQUIRED
<b>1.0 <u>VAT Recovery</u></b>	£540,000	£407,625	£132,375
1.1 <i>No reported VAT Recovery Agreement to date</i>			
<b>2.0 <u>Utilisation of 5-Facet Survey Budget from Non-Works</u></b>	£300,000	£300,000	£0
2.1 <i>Confirmed by Health Board 20th November 2018 that these works will not proceed. Sum included in Non-works to be omitted</i>			
<b>3.0 <u>Review of Risk Register Items</u></b>	£329,000		£329,000
3.1 <i>No current release of Risk Register monies against the Initial Funding Shortfall Mitigation</i>			
<b>4.0 <u>Discretionary Capital Programme Funding Draw-down</u></b>		£341,000	-£341,000
4.1 <i>Top -Up from Health Board DCP Funding - confirmed by Health Board 19th November 2019</i>			
	<b>£1,169,000</b>	<b>£1,048,625</b>	<b>£120,375</b>


**CURRENT SHORTFALL IN FUNDING MITIGATION £120,375**

## Appendix D - Phasing

As per clause X5 of the NEC Contract adopted the contractual sectional completion dates have been agreed as below. We have further assessed the contractors programme to determine the duration of each section under the revised programme:

Phase	Contract Dates			Latest Reported			Audit Comments	
	Sectional Start	Sectional Completion	Programme Duration Weeks	Sectional Start	Sectional Completion	Programme Duration Weeks	Extensions Granted Weeks	Unassessed delays Weeks
1 - Labour ward	01/10/2018	16/08/2019	45.6	01/10/2018	30/01/2020	69.4	12.3	11.6
2 - Neo natal	02/07/2019	10/02/2020	31.9	12/08/2019	04/11/2020	64.3	12.3	26.0
3 - Theatres 1 & 2	31/03/2020	17/08/2020	19.9	04/08/2020	11/03/2021	31.3	12.3	17.1
4 - Changing rooms	02/09/2020	06/11/2020	9.3	30/11/2020	04/06/2021	26.6	12.3	17.7
<b>Overall contract</b>	<b>01/10/2018</b>	<b>13/11/2020</b>	<b>110.6</b>	<b>01/10/2018</b>	<b>18/06/2021</b>	<b>141.6</b>	<b>12.3</b>	<b>18.7</b>

### Appendix E - Status of previously agreed management actions

Women and Childrens Development Phase II (May 2018)				Previously providing 
Ref	Recommendation	Responsibility & Timescale	Current Status	Updated responsibility, timescale & rating
11	The cost per meter squared of the target cost adjusted for abnormal will be provided for scrutiny.	Project Director to request of Cost Adviser Immediately	<b>Actioned</b>	N/A