

Internal Audit Report

Globe Project Assurance

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Executive Summary

The project to restore the Globe theatre commenced in 2011 and was being led by the owner of the property with support from the council. From 2016 the council has taken the lead on the project as progress had stalled and the restoration was considered a key project in terms of delivering economic growth within the borough.

It is a complex project because of a number of factors.

- Ownership of the building does not sit with SBC and as such changes to the building require agreement from the building owner.
- Heritage Lottery Funding has been obtained on the basis that historical features will be retained and preservation of such features requires specialist processes during any construction work.
- The building itself is complex and in an extremely poor condition. Many of the condition issues were only identifiable as the project progressed, building was stripped back and as enabling works were undertaken.
- The construction industry and subsequent standards have changed considerably since it was first built requiring significant modernisation plus an element of correcting what had previously been done.
- Access is restrictive with the main auditorium being below ground level and the proximity of surrounding buildings.
- The venue will be operated by a third party who have requirements around the design of the venue.

In 2017 the scope of the scheme needed to evolve to ensure it supports the requirements of the delivery partner.

A report was presented to members in June 2019 requesting an increase in budget. The difference between the final price and the estimate in December was identified as being due to the need for complex design solutions and complex programming of works. Both these issues and the delay in programme have resulted in significant cost increases.

This review commenced as final costs became more certain and required a significant increase in budget. The scope of the review was to establish and evaluate the level of project assurance in place to manage the project and the accuracy of recent reports to members. The audit has not considered decisions in relation to scale of the restoration, choice of operator, or evaluate the value for money of the project as a whole.

Summary of Conclusions

The points identified during audit testing can be summarised as follows:

- The project has been managed and overseen at the most senior level possible within the organisation.
- Appropriate use has been made of external independent specialists.
- The project has been managed by Chief Officers using a defined set of roles and responsibilities which mirror those contained within the project delivery framework however, elements of the management and monitoring have been outside of the framework.
- Decisions made regarding the continuation of on-site enabling works and the type of contract appear reasonable given the information available at the time.
- Cost information has been maintained and updated throughout the project.
- Costs have been independently verified and challenged using appropriate expertise and comparisons where possible.
- Members have been kept apprised of the current known position at regular intervals.
- Additional budget approvals have been sought as and when known costs were going to exceed the agreed budget to enable on-site works to continue and to avoid the shock of overspending at scheme completion.
- At the time the report was presented to Members in December 2018, evidence supported the financial position. However, the report should have included the caveat that design was being finalised, the supply chain had only partially been involved up to that point, a full verification exercise was still to be undertaken and so the final Agreed Maximum Price (AMP) had not been agreed.

- Once the supply chain was consulted further changes to the design to support the 'buildability' of the project was required which in some areas (e.g. Mechanical & Electrical) were significant.

Audit Opinion:

SUBSTANTIAL ASSURANCE - Overall there is a sound system of internal controls that are operating effectively. The system should achieve its objectives but there are areas where internal controls need to be improved.

Recommendations

The following recommendations have been made to management, all of which have been accepted and an action plan drawn up to implement.

- 1 All major capital projects should follow all aspects of the project delivery framework.
- 2 Where there are still risks and uncertainties, they should be clearly outlined in the reports to Members in the appropriate sections of the report e.g. Financial Implications and Risk Management.
- 3 The Managing Director reviews the capacity and governance around the Globe project to ensure it is appropriate to move the project forward to completion.
- 4 Managing Director consider the capacity and governance arrangements of all future major projects and ensure that arrangements fully reflect the Project Delivery Framework.

Detailed Findings:

Testing was undertaken on a sample basis of the controls in place to manage key risks. The full results of testing are detailed below and a conclusion on the overall management of the risk is provided.

Management of the Project

To ensure management oversight and assurance has been adequate to reduce the risks associated with the project.

- External independent advice has been sought to support the internal project management arrangements and has been provided by a cost consultant Driver Project Services (DPS) appointed by SBC, heritage advice provided by a company called Theatresearch appointed by SBC and additional specific elements of the design have been challenged by existing SBC framework partners for example structural engineering and mechanical and electrical.
- The council has in place a project delivery framework for this type of project. The framework includes a set of defined roles and responsibilities, processes for monitoring and reporting progress of all capital projects through the Executive Programme Board. The project has been led by a Chief Officer within the Council and aspects of the assurance framework for the Globe project are aligned to this project delivery framework specifically, roles and responsibilities being assigned to individuals and groups that mirror those within the project delivery framework. However, the overall management and monitoring of the project has been largely undertaken outside of the established project delivery framework. Because of this, greater responsibility has been borne by the Project Director reporting directly to the Chief Executive.

- The structure for managing the Globe project within SBC is as follows:
 - Management oversight was provided by the Project Sponsor (CEO), Project Lead (Project Director) and Project Assurance (Design Services Manager with additional support from other members of their team).
 - The project has a board which includes a senior representative from finance, however this board has met on a more ad-hoc informal basis. The board may have been more effective with a more structured formal approach which more closely mirrored the role of the Executive Programme Board in the project delivery framework. Given the level of change in the programme, there is no evidence that this would have made a difference on the overall financial position.
 - There is also an operations and co-ordination group which is more of a day to day management group with a wide range of representatives, this has generally met on a fortnightly basis and as a minimum has met at least on a monthly basis.
- In addition to oversight already identified the scheme has benefitted from Heritage Lottery Funding (HLF) which requires us to comply with specific monitoring requirements and as they have their own cost consultants this provides another layer of oversight.
- A key decision was made during 2018 that the contract would be let on a design and build basis rather than the planned traditional route of bill of quantities and tender for a main construction contractor. This decision was taken at the time to reduce the risk to the council of project overspend by gaining fixed prices on the final phase of construction through an agreed maximum price and introduce additional capacity to look for a buildable solution given the growing complexity of the project. Design and build contracts require more work upfront to ensure the design is appropriate and buildable and results in an Agreed Maximum Price (AMP) with the contractor bearing the risk of the design and price being insufficient. Whereas with a traditional contract the emphasis would have been on the Council to provide an accurate design and all detailed requirements for the contractor to price against, any variations to design or where issues are discovered (such as structural problems) would result in additional costs to the project during the construction phase.
- In simple terms:
 - traditional contract the project budget is agreed at the start on the understanding that there is a risk that there are unknowns which may increase the overall cost and this risk sits with SBC;
 - with design and build (AMP) the project cost is agreed after the unknowns have been understood and is fixed with any risk of variation borne by the contractor with the exception of some specific items not usually related to the actual construction work for example if SBC changed the specification of seats.
- The design and build process gives the Council a much more accurate idea of total project cost before any agreement is signed and significant expenditure incurred, the traditional method means the contract is varied as issues become known after being signed.
- Whilst the process has identified cost increases, this is before a contract is signed and has allowed the Council to make an informed decision on the progress of the scheme.
- The decision to continue enabling work on-site during the completion of the design phase, which included structural repair works and further demolition works identified following the completion of the initial enabling works, has resulted in a delay in completing the design work and subsequently the final programme as the overall design needed to be updated to reflect the actual site conditions and structural design solutions. This has however enabled a number of structural and design issues to be addressed during this period. Preliminary costs are likely to be higher than they may have been as a result, because the contractor has had to maintain a presence on-site and procuring smaller ad-hoc packages of work comes at a premium when compared to being able to develop an overall package for the supply chain. This decision appears reasonable at the time it was made in order to keep works progressing and to meet timescales for completion.

Conclusion

Oversight of the project has been with Chief Officers within the authority supported appropriately by external expertise appointed by SBC. Aspects of the assurance framework for the Globe project are aligned to this project delivery framework specifically, roles and responsibilities being assigned to individuals and groups that mirror those within the project delivery framework. However, the overall management and monitoring of the project has been largely undertaken outside of the established project delivery framework.

There is no evidence that the overall financial position of the scheme would have been any different if the project delivery framework had been followed in full.

The decision to use a design and build contract appears to be a prudent one in terms of being able to manage risk and the final cost particularly when we consider some of the design changes that have been required.

Cost Assurance

Appropriate arrangements are in place to verify cost information.

- As well as making use of SBC staff to manage and challenge cost information an external company has been appointed to provide independent advice regarding costs. DPS have been involved in the project from a very early stage with the same consultant being assigned to the project throughout this period.
- DPS have maintained a cost plan virtually from day one and as design changes were made the cost plan was updated to reflect any change. This has enabled the council to have a good understanding of where existing agreed budgets may not be sufficient and seek additional approval at the earliest opportunity.
- The accuracy of the cost plan is linked to the availability of current designs and the availability of quotes. During 2018 the architect developing designs was replaced due to shared concerns over capacity as the project grew in complexity and the designs were transferred over to the new architect. The new architect felt the designs in some respects were incomplete or had buildability issues requiring redesign work to be undertaken to some aspects. This was further impacted by the discovery of other structural problems with the condition of the building. Because of this a design freeze did not occur until 21 January 2019 when the contractor felt they had a buildable design to approach their sub-contractors for prices. Therefore, in the absence of an agreed AMP, the cost plan was based upon the design available in October 2018 with some additional costs identified during enabling works. Whilst this information was appropriately used in the development of the cabinet report in December 2018, appropriate caveats that an AMP had not been agreed were not included.
- DPS have undertaken additional verification work including but not limited to comparison with similar schemes where possible, all of which provide assurance over the figures in the various iterations of the cost plan. This additional verification work provides assurance that the figures provided for the December 2018 report were accurate based on the information known at the time.
- DPS continued to review and update cost information following the design freeze in readiness for the production of the AMP by Willmott Dixon, there were still a number of variables at this point specifically around the extent of value engineering that would be acceptable and the validation of quotes from the supply chain.
- Following receipt of the AMP DPS working alongside SBC officers have undertaken significant work to verify and challenge the figures contained within the AMP to ensure they are accurate, that they were in line with their expectations, that quotes have been obtained in line with requirements (e.g. 3 quotes where necessary). This process includes elements of value engineering which identified cost reductions without compromising the project.
- Key partners (Willmott Dixon, Ambassador Theatre Group, Heritage Lottery Fund) have been involved in discussions during this period and where appropriate concessions have been made to reduce the overall cost of the project.
- DPS produced a report in June 2019 on their findings following this review recommending that Willmott Dixon be appointed as the principle contractor subject to the submission of a final AMP reflecting any required adjustments.

Conclusion

The use of an independent cost consultant was prudent. Costs have been regularly updated as information became known as well as they could be without formal quotes and subsequent validation work being undertaken. The process in place for challenging costs through the use of an external consultant in addition to SBC staff can be demonstrated as being robust.

Reporting to Members

Ensure formal reports presented to members have been appropriate and accurate.

- Members have been provided with regular updates using the most reliable information available at the time.
- Requests for additional funding have been made when it was clear the current budget was going to be insufficient. It would have been irresponsible to continue enabling work on-site on a project when it was identified with some degree of certainty that the current level of approved budget was insufficient even though the final costs would not be known until a later date.
- In respect of the update presented in December 2018. Additional funding of £2.5m was sought, the additional funding requirement related to known additional costs associated with structural and drainage issues. These costs were provided in October 2018 by our independent cost consultant based on the designs they had available to them at the time. In reality design work including the feasibility of some of the existing designs was still being reviewed and updated by Willmott Dixon alongside their chosen architect and supply chain as well as in response to issues identified and rectified during enabling works and as a result of surveys that were still being undertaken.
- Whilst it was appropriate to seek additional approval for funding as pressures became known, Members should have been provided with a caveat that full costs would not be certain until final designs were agreed, the supply chain had been consulted and quotes sought as appropriate. This would have helped their understanding of the process and mitigated against the perception that the project was "overspending".
- The reports to members in June 2019 followed the completion of validation work by DPS on the AMP from Willmott Dixon and the receipt of their report.

Conclusion

Whilst members have been kept up to date and additional budget approvals have been sought appropriately there were still a number of variables and so an appropriate caveat that final costs wouldn't be known until a full validated AMP had been received should have been included in these reports.

No	Recommendation	Priority	Risk & Implications	Action Plan	Expected Implementation Date	Responsible Officer	Current Status	Unique Reference
1	All major capital projects should follow all aspects of the project delivery framework.	High	Inconsistency in management of projects may mean the appropriate checks and balances may not be in place resulting in projects not achieving their outcomes.	Agreed	31/07/2019	Julie Danks (Managing Director)	Recommendation Agreed	7424
2	Where there are still risks and uncertainties, they should be clearly outlined in the reports to Members in the appropriate sections of the report e.g. Financial Implications and Risk Management.	Critical	Members may not be fully appraised of the situation when making decisions leading to decisions being made that are not appropriate and require revisiting in the future.	Agreed	31/07/2019	Julie Danks (Managing Director)	Recommendation Agreed	7425
3	The Managing Director reviews the capacity and governance around the Globe project to ensure it is appropriate to move the project forward to completion.	Critical	Failure to ensure there is sufficient capacity/governance may impact on the delivery of the project.	Agreed	31/07/2019	Julie Danks (Managing Director)	Recommendation Agreed	7429
4	Managing Director consider the capacity and governance arrangements of all future major projects and ensure that arrangements fully reflect the Project Delivery Framework.	High	The successful delivery of future projects may be impacted by inadequate governance	Agreed	31/07/2019	Julie Danks (Managing Director)	Recommendation Agreed	7430

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No	Recommendation	Priority	Risk & Implications	Action Plan	Expected Implementation Date	Responsible Officer	Current Status	Unique Reference
			arrangements.					

Priority	Definition
CRITICAL	Actions that must be taken immediately to manage significant risks that are likely to prevent the Authority achieving one or more of its corporate objectives.
HIGH	Actions that should be taken as a matter of priority due to the issues identified posing a substantial risk to the achievement of service/system objectives.
MEDIUM	Required actions to reduce the risk of systems failing to achieve their objectives.
LOW	Beneficial to the improvement of internal controls, which will support the achievement of objectives.