

Report of	Meeting	Date
Chief Finance Officer	Governance Committee	24 <sup>th</sup> Jan 2018

## **HOMES AND COMMUNITIES AGENCY (HCA) AUDIT OF THE COTSWOLD HOUSE PROJECT**

### **PURPOSE OF REPORT**

1. To provide the Governance Committee with an update on the HCA audit of the Cotswold House project as well as the lessons learnt and future actions, including the actions for the presumed audit of the Primrose Gardens projects.

### **RECOMMENDATION(S)**

2. To note the contents of this report and the actions identified for the future

### **EXECUTIVE SUMMARY OF REPORT**

3. Chorley Council received a £658k allocation from the HCA towards the £858k refurbishment and extension of Cotswold House, work began in August 2016.
4. The initial tenders for the work came in £200k under budget and in February 2017 Chorley Council received telephone confirmation that the project could carry out further works to the building using the grant allocation. The second phase of the work completed in June 2017.
5. In June 2017 Chorley Council received notification from the HCA that it has been selected from a list of projects in the North West of England to be subject to an audit. Grant Thornton were appointed as the auditors.
6. The audit findings gave 'No' answers to eight questions. Different questions have different severity ratings and the profile of the 'Nos' Chorley received are 4 highs, 3 mediums and 1 low.
7. The Council has the opportunity to respond and if these responses are taken into account and agreed the revised outcome is likely to be
  - HIGH – final claim prior to completion
  - MEDIUM – not meeting pre-commencement conditions
  - LOW – IMS not updated with key data
8. In either case the Council is likely to receive a red grade for this audit. It should be noted that red grades are common for a Local Authority undergoing its first audit.

9. It should be noted that there has been no money expended on the project that does not meet the criteria outlined in the grant agreement. The red grade that is likely to be received by the council is the result of the timing at which funds were claimed. As highlighted earlier in the report, funds were claimed through the HCA's investment management system on the advice of the HCA's Grant Manager.
10. The Council will receive confirmation of the audit results in May 2018 and it is proposed that they are signed off by the Governance Committee. The assumed red rating will result in a guaranteed audit of the Primrose Gardens project in September 2018 however there is no indication that the red rating will result in funds being returned to the HCA.
11. Lessons learnt from this audit are tabulated in this report. These relate to lessons learnt for the next audit of the Primrose Gardens project and lessons learnt in general for processes within the Council.

<b>Confidential report</b> Please bold as appropriate	Yes	<b>No</b>
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<b>Key Decision?</b> Please bold as appropriate	Yes	<b>No</b>
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## **REASONS FOR RECOMMENDATION(S)**

### **(If the recommendations are accepted)**

12. To provide the Governance Committee with an update on the HCA audit of the Cotswold House project as well as the lessons learnt and future actions, including the actions for the presumed audit of the Primrose Gardens projects.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

13. Not applicable

## **CORPORATE PRIORITIES**

14. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

## **BACKGROUND**

### Cotswold House Funding Application

15. A bid was placed to the HCA in June 2016 for funding towards the renovation of Cotswold House. The renovation involved:
  - works to the car park
  - the modernisation of 15 flats

- additional CCTV
  - an extension
  - installation of a lift and stairwell
16. The total estimated cost of the project was £858k. £658k of HCA funding was applied for with the remainder of the project costs to be funded by the Council.
17. The HCA announced that the bid had been successful in December 2016 and the project and grant agreement were approved by Executive Cabinet on 17th March 2016. The grant would be paid to the Council
- 75% Start on site
  - 25% Practical completion
18. There were various conditions on the funding with the most stringent being that practical completion must be by the end of March 2017.

### Cotswold House Project

19. The design and project management of the project was managed in-house by Property Services. The funding allowed the Council to charge 10% of the value of the build for these professional fees.
20. The project was tendered in two parts:
- Works to the car park –awarded to O’Callaghans
  - Modernisation of building – awarded to PJ Services Ltd
21. Works to the car park began on 31<sup>st</sup> Aug 2016 and works to the building began on 20<sup>th</sup> October 2016.
22. It was clear that as a result of receiving very competitive quotes that the project would underspend. Officers contacted the HCA Grant Manager to outline a plan of action. The following items were discussed and agreed:
- The project was going to underspend as the winning tender for the main building works was £200k lower than originally budgeted for.
  - A proposal was put to the HCA Grant Manager that CBC would finish off the original works outlined in the bid in 2016/17 and then carry out additional works to Cotswold House to bring spend closer to the £858k total. The HCA Grant Manager was happy with this proposal.
  - There was no indication that the underspend would require a change in the agreed funding levels. The HCA Grant Manager indicated that as long as the underspend was being re-invested in Cotswold and that the cost per room as per the bid was not exceeded then funding could be retained.
  - There was no indication from the HCA Grant Manager that the HCA’s Investment Management System (IMS) would require updating
23. As a result of these discussions an Executive Member Decision was approved on 14th February 2017 for the additional works to Cotswold House to be carried out, the supplementary works commenced 28th February 2017.

24. On 21<sup>st</sup> March 2016 the HCA Grant Manager rang the Council and strongly encouraged the Council's grant manager to enter the completion of the project in the IMS. The HCA Grant Manager guided officers through the system and it was noted as practically complete. The final tranche of funding was released and received on 31<sup>st</sup> March 2017.
25. The project as a whole completed in June 2017 with the important dates summarised below:

<b>Milestone</b>	<b>Date</b>
Planning permission approved	9 <sup>th</sup> Jun 2016
Start on site – car park	31 <sup>st</sup> Aug 2016
Start on site - IMS	21 <sup>st</sup> Sept 2016
Start on site – building modernisation	20 <sup>th</sup> Oct 2016
Start on site – additional works	28 <sup>th</sup> Feb 2017
Practical Completion entered into IMS	21 <sup>st</sup> Mar 2017
Building Practical Completion Certificate	22 <sup>nd</sup> Jun 2017
Building Control Certificate	21 <sup>st</sup> Jul 2017

26. Total expenditure including 10% charge for Property Services was £830k against a budget of £858k. As per advice from HCA the IMS has been updated to reflect the project underspend, the next steps from the HCA have not been communicated to the Council.

### HCA Audit

27. The Council were contacted by the HCA Audit Team in June 2017 and informed that HCA would be conducting an audit of one of its projects. As Primrose Gardens had only just started it was clear the audit would be for Cotswold House. The HCA grant managers and audit team are independent of each other and it should be noted that the HCA grant team never briefed Council officers regarding the potential audit and what works this could involve.

28. The HCA's audit process is unusually complicated but can be summarised as:

- The Council must recruit their own external independent auditor at a cost to the Council
- That the recruitment must be done immediately as the auditor would have to attend a HCA audit training session that was scheduled approximately 10 days later
- The appointed auditor has to be ACCA/ACA accredited
- The auditor should be appointed by Sep 2016 and set up on the HCA Audit System
- The audit should be complete by 3<sup>rd</sup> November
- The Council then had 10 working days to respond to the audit queries
- The findings would be moderated by the HCA
- The Final Compliance Audit Report will issued in May 2018 and must be signed off by Cabinet Members (likely to be Governance Committee in the case of Chorley Council)

29. The Council's audit was undertaken by Grant Thornton. The audit is essentially a checklist exercise whereby up to 31 questions are posed and Yes or No responses from auditors were given based on evidence provided by the Council. The list of questions given to the Council is provided at the end of this report, it should be noted that many of the questions weren't relevant to this project, these have been removed from the table.

## **AUDIT FINDINGS**

30. The auditors gave answers of 'No' to the questions tabulated below.

31. Receiving a 'No' to a question means the question has breached the level of compliance expected by the HCA. These breaches are given different severity ratings dependent on how important the HCA deem compliance to the relevant question. The table below also outlines what severity rating each question is likely to receive.

	<b>Question</b>	<b>Council Response</b>	<b>Severity</b>
7	<p>Have both of the following been achieved</p> <p>a. the main building contract has been signed and dated,</p> <p>b. contractual possession of the site has passed to the contractor prior to the first grant claim?</p>	<p>Further correspondence with the initial contractor O'Callaghan Ltd provides evidence that works on the site had begun prior to 21st Sep 2016. This work relates to the car park resurfacing that was included in the original bid. Chorley Council is therefore satisfied that:</p> <ul style="list-style-type: none"> <li>• All contracts were signed and dated</li> <li>• Contractual possession of the site has passed to the contractor O'Callaghan Ltd prior to the first grant claim</li> </ul>	HIGH
8	<p>Taking into account agreed extensions of time in line with building contract provisions, was the completion certificate/independent certification issued before the date of final PCF grant claim?</p>	<p>As evidence by the contractor PJ Services the main building works were practically complete by the end of March with just the veranda to complete. The veranda was not integral to the functioning of the building.</p> <p>The authority received a level of pressure from the HCA grant manager to mark the project as complete in the IMS in order to release the final tranche of cash within the financial year.</p> <p>Chorley Council recognise that the practical completion certificate is 3 months after the IMS date however the practical completion certificate was only granted on completion of the phase 2 works. Chorley Council, in agreement with the main contractor, understand that the phase 1 works were practically complete by the end of the 2016/17 financial year.</p>	HIGH
9	<p>Has Provider's group insurance been updated to include new scheme(s) during development and thereafter for its Full Replacement Value?</p>	<p>The nature of this question is whether or not the asset is insured. As outlined in the audit response the works to the asset as well as the enhanced asset after completion are covered by the Council's insurance policy under 'Inadvertent Omissions'. The Council therefore feels comfortable that this asset was and is insured.</p> <p>The estimated additional costs of the works, £850k, will be included in the renewed insurance policy ready for January 2018. The asset will be valued by the end of February 2018 as part of the 2017/18 closure of accounts</p>	MEDIUM

10	Does key cost data entered in 'Schemes' area of IMS ('capital details', 'scheme milestones' and 'scheme development code' screens) along with any updates in the Profile line, match scheme file evidence?	<p>There are many facets to this question:</p> <ul style="list-style-type: none"> <li>• Check IMS final cost information against supporting filed evidence to confirm accuracy of data entry – the Council has requested guidance from HCA regarding how the final outturn is uploaded into IMS. The Council will upload this information when guidance is provided.</li> <li>• Check IMS final cost information against supporting filed evidence to confirm eligibility of costs –it is difficult to confirm eligibility through IMS however the Council has provided evidence of all expenditure that confirms that <u>none of this expenditure is ineligible</u> as described in Part 4 of the HCA grant funding agreement.</li> <li>• IMS should match the cost figures known at time of scheme handover/final claim; and the evidence on file should support the figures entered into IMS. There was no way for the Council to have the final expenditure figures at the time of the final claim as the project was split into two phases. However the Council did not update IMS in March when the final claim was made for phase 1 works.</li> </ul>	LOW
12	Interim payment (SOS)/final cost (PCF) claims – were IMS scheme details submitted in accordance with published guidelines set out in the relevant Contract and CFG?	Chorley Council recognise that the practical completion certificate is 3 months after the IMS date however the practical completion certificate was only granted on completion of the phase 2 works. Chorley Council, in agreement with the main contractor, understand that the phase 1 works were practically complete by the end of the 2016/17 financial year.	HIGH
13	Are IMS rent figures the same as the actual rents charged?	<p>The Council feels this question should be answered YES because:</p> <ul style="list-style-type: none"> <li>• the evidence provided does reconcile back to IMS and</li> <li>• these were the rent figures included and accepted in the original bid</li> </ul>	MEDIUM
14	Were all necessary Planning Consents obtained by Practical Completion	<p>Chorley Council cannot evidence it met the following pre commencement conditions</p> <p>Prior to the commencement of development samples of all external facing and roofing materials (notwithstanding any details shown on previously submitted plan(s) and specification) shall be submitted to and approved in writing by the Local Planning Authority. All works shall be undertaken strictly in accordance with the details as approved</p>	MEDIUM
15	Was the final certification required under building regulations obtained prior to	Chorley Council recognise that the building control completion certificate is 4 months after the date of completion in IMS however the building control certificate was only granted on completion of the phase 2 works. Chorley Council, in agreement with the main contractor, understands that the phase 1 works	HIGH

	development completion?	were practically complete by the end of the 2016/17 financial year.	
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32. If the audit findings are accepted the Council will receive 4 HIGHS, 3 MEDIUMS and 1 LOW. If the Council's responses are taken into account the revised figures are likely to be:
- HIGH – final claim prior to completion
  - MEDIUM – not meeting pre-commencement conditions
  - LOW – IMS not updated with key data
33. In either case the Council is likely to receive a red grade for this audit. The precise definition is
- RED grade: serious failure to meet Programme requirements – high risk of misapplication of public funds
34. It should be noted that there has been no money expended on the project that does not meet the criteria outlined in the grant agreement. The red grade that is likely to be received by the council is the result of the timing at which funds were claimed. As highlighted earlier in the report, funds were claimed through the HCA's investment management system on the advice of the HCA's Grant Manager. It should also be noted that it is common for a local authority to receive a red rating on its first HCA audit.
35. The Council will receive confirmation of the audit results in May 2018 and it is proposed that the findings are signed off by the Governance Committee. The assumed red rating will result in a guaranteed audit of the Primrose Gardens project however there is no indication that the red rating will result in funds being returned to the HCA.

### Lessons Learnt and Future Actions

36. The lessons learnt and future actions are tabulated below. Two tables have been used, the first gives the actions that apply to the assumed 2018 Primrose Gardens audit. The second table gives the more general actions that have been recognised for the council.

Primrose Gardens Project

Lesson/Condition	Action	SRO
IMS not updated regularly	HCA require a Quarterly Certification to be submitted. Clarification should be sought with the HCA grant manager as to what is expected in these updates	Zoe Whiteside
IMS not updated regularly	Update IMS through the Quarterly Certification	Zoe Whiteside
Planning conditions not met	Ensure all pre-commencement conditions have been either discharged or met	Zoe Whiteside
Document key dates	Save documents in the project's shared folder that give key project dates including: <ul style="list-style-type: none"> <li>• Site acquisition – legal interest obtained</li> <li>• Contract signatory dates</li> <li>• Start on site</li> </ul>	Zoe Whiteside
Ensure the site is valued regularly	It is proposed that the District Valuer value the site in Jan/Feb 2018	James Thomson
Ensure the Council's insurance is updated with the works to date at the site	Check with insurance services how the current site is insured whether through the contractor or through the Council's policy. Document the response in the shared folder.  The site will be valued in Jan/Feb 2018 and this value will be communicated to insurance services and changes documented.	Zoe Whiteside  James Thomson
Title of Land	Ensure the title of the land is at least 'good'	Chris Moister
Land Registry	Register a restriction on title with Land Registry, indicating a requirement to gain HCA consent to dispose.	Zoe Whiteside
Signed grant agreement	Save a signed copy of the agreement in the project's shared folder	Zoe Whiteside



Chorley Council

<b>Lesson/Condition</b>	<b>Action</b>	<b>SRO</b>
The HCA's Investment Management System was not updated regularly	A final update on the Cotswold Project should be uploaded to IMS	Fiona Hepburn/James Thomson
The signed copy of the contract for the modernisation work could not be found	Ensure all signed contracts are immediately copied and stored with legal services.	Chris Moister
Final Compliance Audit Report will issued in May 2018 and will be signed off by Governance Committee	Add this item to the May agenda	James Thomson

## IMPLICATIONS OF REPORT

37. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal	✓	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	✓

## COMMENTS OF THE STATUTORY FINANCE OFFICER

38. The Cotswold House project has been successful in refurbishing the site to a high standard. The project has spent £829k on the refurbishments, including approximately £77k expenditure in kind such as the work carried out by the Council's building surveyor. This underspend has been communicated to the HCA and the £30k grant income will be held until the HCA decide whether it should be returned or reinvested. Despite the red rating the council is likely to receive, it should be noted that there has been no money expended on the project that does not meet the criteria outlined in the grant agreement

39. It is proposed that the final audit findings, due to be received in May 2018, are signed off by the Governance Committee.

## COMMENTS OF THE MONITORING OFFICER

40. It is recognised that whilst the audit felt there were areas of non-compliance this view is challenged by the Council. Despite this there are areas of accepted lessons to be learnt and the Council will take steps to implement these going forward.

GARY HALL  
CHIEF FINANCE OFFICER

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
James Thomson	5025	16/01/18	

## Appendix 1: List of HCA Audit Questions for Cotswold House and Severity Rating

	Questions	Breach Severity
1	Were the conditions within the relevant contract complied with?	MEDIUM
2	Has a comprehensive scheme file been provided, containing all relevant documents as set out in the CA Web page?	MEDIUM
4	For affordable and social rent properties – do rents being charged meet the requirements set out in the CFG?	MEDIUM
5	For owned and leased properties, has the provider obtained a secure legal interest, as defined in the Contract/CFG, prior to the first grant claim?	HIGH
6	Does the land/property have 'good title'	HIGH
7	Have both of the following been achieved a. the main building contract has been signed and dated, and b. contractual possession of the site has passed to the contractor prior to the first grant claim?	HIGH
8	Taking into account agreed extensions of time in line with building contract provisions, was the completion certificate/independent certification issued before the date of final PCF grant claim?	HIGH
9	Has Provider's group insurance been updated to include new scheme(s) during development and thereafter for its Full Replacement Value?	MEDIUM
10	Does key cost data entered in 'Schemes' area of IMS ('capital details', 'scheme milestones' and 'scheme development code' screens) along with any updates in the Profile line, match scheme file evidence?	LOW
11	Is evidence available to confirm that submitted scheme details of number of persons, homes, scheme types, tenancies, size, needs categories, occupancy and location accord with the approved scheme details and those held on file?	MEDIUM
12	Interim payment (SOS)/final cost (PCF) claims – were IMS scheme details submitted in accordance with published guidelines set out in the relevant Contract and CFG?	HIGH
13	Are IMS rent figures the same as the actual rents charged?	MEDIUM
14	Were all necessary Planning Consents obtained by Practical Completion	MEDIUM
15	Was the final certification required under building regulations obtained prior to development completion?	HIGH
16	Where required, were other specified consents obtained for the relevant works?	MEDIUM
21	Supported housing/housing for older people - Do the client groups housed reflect the published group definitions?	MEDIUM
22	Has the contractual requirement to register a restriction on title with Land Registry, indicating a requirement to gain HCA consent to dispose, been met?	MEDIUM