

## Report of the Head of Financial Services

Audit Committee – 24 April 2014

### COASTAL PROJECT

<b>Purpose:</b>	This report provides details of an investigation completed by the Internal Audit Section into the Coastal Project following a change in the terms and conditions of the grant by the Welsh European Funding Office in August 2013. An update is also provided regarding the current situation with the Project.
<b>Policy Framework:</b>	None
<b>Reason for Decision:</b>	To allow the Audit Committee to review the investigation completed by the Internal Audit Section and the management action taken and planned in response
<b>Consultation:</b>	Legal, Finance, Access to Services
<b>Recommendation:</b>	It is recommended that: the Committee notes the report
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#### 1. Introduction

- 1.1 The Coastal Project is an ESF funded project which commenced in June 2009 covering 6 local authorities in South West Wales. The original total cost of the Project exceeded £51m with £27m being provided as grant funding via the Welsh European Funding Office (WEFO)
- 1.2 The primary aim of the Project was to prepare vulnerable adults for employment through a range of training and support measures and to secure employment for them.

- 1.3 In August 2013, WEFO imposed a retention on the grant which would be permanently withheld if the Project failed to achieve its employment target. The reason for the retention by WEFO was the perceived poor performance of the Project against the employment target. The maximum retention was 20% of the grant funding which is equivalent to £4.55m.
- 1.4 The imposition of the retention posed a significant financial risk to the Project and to the City and County of Swansea in particular. As a result of this risk, an Internal Audit review of the Coastal Project was requested by the Head of Finance and Delivery.

## **2. Coastal Project**

- 2.1 A copy of the Internal Audit report relating to the Coastal Project is attached in Appendix 1
- 2.2 The report has been considered by the Executive Board who have accepted all recommendations made in full and have already acted on the recommendations.
- 2.3 The Head of Finance and Delivery has also arranged a review of all other grants and projects that the Council is involved in to ensure that the situation that arose with the Coastal Project is not repeated. This review found that there are no significant financial risks with any of the other grants or projects.
- 2.4 A 'lessons learnt' session was also held at a recent Top Managers Group meeting which is attended by all Corporate Directors, Chief Officers and Heads of Service. The session identified the lessons from this Project to apply to other areas.
- 2.5 The audit report was written in October 2013 so fails to fully take account of the actions which have been taken both by the Project's Regional Management Team (RMT) and specifically by the City and County of Swansea to address performance against the Project's targets.
- 2.6 Following the action taken by WEFO in August 2013, it was quickly recognised by all parties involved in Coastal that positive action was required to avoid the financial risk of the retention.
- 2.7 The Coastal Project's RMT have taken the following action across all joint sponsors involved in Coastal to encourage and support the sponsors to achieve the employment target
  - RMT staff have spent significant amounts of time meeting and monitoring partners across the region to ensure that progress is made in achieving the Project's targets and in particular the employment target

- The Regional Operational Group now meets monthly and the Regional Project Board now meet every alternate month to keep senior staff in each partner authority informed of progress and to allow them to take action where required
- A more rigorous monthly progress reporting process has been put in place to record the outcomes reported to WEFO and also the underlying position regarding overall progress. Copies of the monthly report are circulated to Project Board members and Project Managers in each authority. A copy is also sent to the Head of Finance and Delivery
- All 'closed' files have been checked to ensure that any outcomes which may be claimed against the Project's targets have not been missed and also to ensure the relevant evidence is on file to support the claim.
- Proposals have been submitted to WEFO to extend the end date of the Project to from 30<sup>th</sup> June 2014 to 31<sup>st</sup> December 2014. The proposals have been agreed by WEFO at a time where it is understood that requests for extensions by other projects have been refused.

2.8 The Social Services Directorate, supported by other Services Areas across the Council, has also responded positively to the challenge of ensuring the Swansea service delivery contract delivers the required outcomes. This has included the following

- Drafting in a principal officer to provide additional management capacity
- Creating additional governance and scrutiny by the weekly reporting of actions taken to the Social Services Directorate Management Team and the Principal Officers Group (Adult Services)
- Weekly meetings of the managerial leads to review performance against targets
- Creation of a single employment team replacing the previous arrangement under separate service lead officers.
- Creation of corporate work placement initiatives through the Council's Top Managers Group. This initiative has created opportunities for employment for over 40 Coastal participants.
- Better 'buy in' and understanding of Coastal by managers and staff especially match funded staff to ensure appropriate contributions
- Monthly reports to the Executive Board identifying progress against targets both locally and regionally. The report also highlights any identified risks.

2.9 In terms of impact on the performance of the Project against targets, the actions taken have been extremely positive and as at the end of February 2014, the Project has placed 644 participants into employment against a profile of 617 participants by the end of March 2014.

2.10 For Swansea, performance against the employment target has increased significantly and as at the end of February 2014, the number of participants placed into employment by Swansea exceeded the profile to the end of March 2014.

2.11 Overall, the financial risk created by the retention imposed by WEFO now appears to have been overcome and the Project is in a healthy position measured against the targets it is required to achieve by the end of the Project.

### **3. Equality and Engagement Implications**

3.1 There are no equality and engagement implications associated with this report.

### **4. Financial Implications**

4.1 There are no financial implications associated with this report.

### **5. Legal Implications**

5.1 There are no legal implications associated with this report.

**Background Papers:** None

**Appendices:** Appendix 1 – Internal Audit Report 2013/14 Coastal Project

**CITY AND COUNTY OF SWANSEA  
INTERNAL AUDIT REPORT 2013/14  
COASTAL PROJECT**

**1. Introduction**

- 1.1 An Internal Audit investigation has been undertaken of the Coastal Project which is an ESF funded project which commenced in June 2009. The Project covers 6 local authorities i.e. Bridgend, Neath Port Talbot, Swansea, Carmarthenshire, Pembrokeshire and Ceredigion. Swansea is the lead sponsor of the Project with the other authorities being joint sponsors
- 1.2 The primary aim of the Project is to prepare vulnerable people for employment through a range of training and support measures and to secure employment for them. It was recognised at the outset that the Project would be working with participants who were significantly removed from employment due to illness, disability, substance misuse or serious social disadvantage associated with the transition from long term care to adulthood.
- 1.3 This review has been requested as a result of WEFO invoking a significant retention under the terms of the ESF grant due to the slow progress being made by the Project in placing participants into employment. The WEFO retention would be either 10% or 20% based on the final number placed into employment at the end of the Project.
- 1.4 The brief for the investigation is shown below
- What risks were identified at the outset and who, corporately and politically were aware of the risks?
  - Who re-negotiated the reduction in targets and who, corporately and politically were aware of the reductions?
  - Who was aware that the Project was performing poorly on a regional basis and who was it reported to? What action was taken to improve performance?
  - Why was poor performance not linked to the financial risk of retention by WEFO?
  - Who was aware that the Swansea contract was performing particularly poorly and who was it reported to? What action was taken to improve performance by Swansea?
- 1.5 The investigation has included a review of documentation relating to the Coastal Project and interviews with Social Services management

as well as staff involved in the Coastal Project and the delivery of services to the Project by the City and County of Swansea.

## 2. Background

- 2.1 As the lead sponsor, Swansea employed a Regional Management Team (RMT) to co-ordinate the Project. The RMT undertook an open procurement exercise to let contracts for the delivery of the Project's services in each local authority area.
- 2.2 The Project had 6 objectives at the outset, each objective had a specific target which had to be achieved under the terms of the ESF grant. The targets have been revised twice during the course of the Project with the agreement of WEFO. The original and amended targets are shown in the following table

Objective	Original	Nov 2011	Dec 2012
Engage with economically inactive and unemployed participants	9,020	8,500	7,500
Participants into sustainable employment	2,870	1,500	750
Participants gaining a qualification	5,412	6,500	4,500
Participants entering further education	1,763	2,750	1,875
Participants gaining other positive outcomes	6,724	8,100	4,500
Employers adopting or improving equality and diversity strategies and monitoring systems	20	10	10

- 2.3 The first change to the targets arose as a result of the DWP's Work Programme which significantly reduced the number of participants that Coastal could work with while the second change was a result of the recognition that the economic climate at the time made the targets unrealistic.
- 2.4 The changes to the targets were agreed with WEFO however on 6<sup>th</sup> August 2013 WEFO wrote to Swansea as the lead sponsor invoking paragraph 55 of the grant offer which allows WEFO to unilaterally amend the terms and conditions at any time subject to reasonable notice.
- 2.5 The grant was subject to the standard 10% project closure retention which applies to all WEFO grants to ensure satisfactory project closure. The special conditions imposed by WEFO increased the retention rate to 20% and also linked the retention to the achievement

of the employment target as WEFO considered that Coastal was performing poorly against this target although this was based on project claims to December 2012 so did not reflect the up to date position at the time the retention was increased.

- 2.6 The special conditions stated that the 20% retention will be permanently retained if the number of participants entering employment falls below 600 with the permanent retention being 10% if the numbers entering employment fall below 675.
- 2.7 A 10% retention is equivalent to £2.275m and a 20% retention is equivalent to £4.550m.
- 2.8 Each joint sponsor has signed an SLA and contract for the delivery of the Coastal services but none of the documents contain provision for the allocation of a retention amongst the Project sponsors. This situation is further complicated as it is likely that some joint sponsors will meet their employment targets while others, in particular Swansea, may not. It would be difficult to withhold grant from sponsors who have achieved their targets making the potential financial risk to Swansea even greater.
- 2.9 A further complication is that some service delivery contracts are with third sector organisations where a retention would have a significant impact on their financial viability meaning that any retention for third sector organisations may have to be picked up by the joint sponsors.
- 2.10 The financial risk of the retention imposed by WEFO to Swansea is difficult to quantify at this stage as ultimately it depends on the achievement of the employment target across the Project. However one possible scenario is that Swansea is the only joint sponsor who does not meet the employment target and the number entering employment falls below 600 then the full 20% retention i.e. £4.55m may have to be borne by Swansea.
- 2.11 The current end date for Coastal is 30<sup>th</sup> June 2014 but the RMT are in negotiations with WEFO to allow service delivery to continue until 30<sup>th</sup> June 2014 with the Project closure process running until 31<sup>st</sup> December 2014.

### **3. Governance**

- 3.1 The Coastal Project was approved by Swansea's Cabinet on 11<sup>th</sup> December 2008. The Cabinet report contained details of 'project governance' including the role of the RMT, the use of SLA's with joint sponsors, the service delivery and procurement arrangements.
- 3.2 However, the report makes no mention of governance arrangements within the City and County of Swansea for Coastal.

- 3.3 Following the award of the Coastal delivery contract to Swansea, a separation was established between the RMT and the services delivering the contract. Internal Audit were informed that a 'Chinese Wall' was established by the Social Services Directorate Management Team but it has not been possible to confirm this arrangement was in place in subsequent interviews with senior Social Services Management although the need for a separation was confirmed.
- 3.4 Interviews held during this review confirmed that Coastal would have been discussed as part of routine supervision meetings involving staff employed on the Project and the Social Services Directorate Management Team but otherwise it was stated that Social Services Management had little involvement in the Project.
- 3.5 A lead officer in Social Services was appointed to put together the Swansea bid for the procurement exercise who was subsequently given the lead role for the Swansea service delivery contract. However the lead role was in addition to existing duties which still had to be delivered.
- 3.6 From the review of documents and interviews, it is clear that the RMT established governance arrangements for the Coastal Project including a quarterly Regional Project Board meeting, a monthly Operational Group meeting and monthly meetings between senior RMT staff and service delivery staff in each joint sponsor. A detailed audit regime for quarterly claims was also established.
- 3.7 The Regional Project Board papers and minutes were circulated to the relevant members of the Social Services Directorate Management Team throughout the course of the Project and from August 2013, the lead officer for the Swansea service delivery contract was added to the circulation list due to attendance at all previous meetings in the absence of members of the Social Services Directorate Management Team.
- 3.8 Interviews have confirmed that copies of the Regional Project Board papers were received by the relevant member of the Social Services Directorate Management Team but that due to the volume of e-mails etc received, they were not always read and reliance was placed on staff to raise issues directly. It was confirmed that the RMT had raised issues regarding the Swansea service delivery contract and that meetings had been convened to resolve the issues. However the issues raised did not relate to the achievement of targets or any of the other current issues surrounding Coastal.
- 3.9 Minutes of all meetings held have been provided and reviewed as part of this investigation.



- 3.10 It was also found that governance arrangements had been established for the Swansea service delivery contract including a series of minuted officer meetings.
- 3.11 Although governance was in place for the Project and the Swansea service delivery contract, it appears from interviews that there were no further governance arrangements within the City and County of Swansea
- 3.12 Interviews with senior staff involved in the RMT and the Swansea service delivery contract have identified that concerns relating to the Coastal Project were raised with the relevant members of the Social Services Directorate Management Team during supervision meetings but it appears that those concerns were not escalated elsewhere e.g. to the Social Services monthly PFM meeting, Corporate Management Team, Finance, Cabinet Member, Cabinet.
- 3.13 The review of the minutes for both regional project meetings and Swansea contract meetings has shown that issues with the achievement of targets have been raised from quite early in the Project. The agenda papers and minutes of the Regional Project Board were circulated to the relevant members of the Social Services Directorate Management Team but the issues regarding the achievement of targets, which were included in the papers, were not escalated.
- 3.14 As noted above, the targets for Coastal have been re-profiled with WEFO on 2 occasions. The re-profile and the subsequent agreement of WEFO to the revised targets was reported to and agreed by the Regional Project Board and were reported within the Swansea service delivery contract. However, the re-profile of targets was not formally reported within the City and County of Swansea although the WEFO variation letters were signed by the authorised signatory for grants in the Finance Department.

#### **4. Risks**

- 4.1 Risks and the management of risk formed part of the Coastal Business Plan submitted to WEFO as part of the grant application process.
- 4.2 The risks included in the Business Plan appeared under the following headings
- Operational/Market
  - Compliance with Legislation/Delivery
  - Procurement
  - Organisational
  - Match Funding and Financial
  - Timescale Slippage
  - State Aid

- 4.3 The risks identified in the Business Plan did not use the Council's RAG status to score the risks but from the descriptions of the risks, it is clear that none were considered to be significant risks.
- 4.4 The risk of the Project not achieving its targets and the potential for a grant retention by WEFO was not identified as a risk at this stage which is not really surprising at the application stage.
- 4.5 The only reference to risks in the report to Cabinet on 11<sup>th</sup> December 2008 relates to the completion of SLA's with the other joint sponsors. As Coastal was a regional project extending over a 4 year period, it is felt that a far greater emphasis should have been given to risks in the Cabinet report.
- 4.6 The RMT introduced a Risk/Issue Log in January 2010 which was initially circulated with the agenda papers for each Regional Project Board meeting. The Log was formally reported at each Board meeting from January 2011 as evidenced by a review of the minutes of the Board meetings.
- 4.7 A review of the Risk/Issue Log has shown that the risk of not achieving targets potentially leading to financial penalties was identified in October 2010.
- 4.8 Although the use of a Risk/Issue Log by the RMT has been identified, there is no evidence of the risks being formally escalated within Swansea other than by being reported in the Regional Project Board minutes.
- 4.9 The Coastal Project and any associated risks have never appeared in the Social Services Directorate Risk Register and consequently have not been escalated to the Council's Corporate Risk Register.
- 4.10 Interviews with senior RMT staff has identified that meetings were held with the authorised signatory for grants in the Finance Department prior to the signing of the original grant acceptance letter and the first variation letter with project risks forming a significant part of the discussion. However, this can't be verified at the present time.

## **5. Targets**

- 5.1 The review of the meeting minutes has shown that some people, particularly those linked to the Swansea contract, felt that the original targets for Coastal were unrealistic. The employment target appeared to cause the most concern as the participants in the Project were those furthest away from employment in the labour market.
- 5.2 As identified above, the agreed targets have been varied twice during the course of the Project. Firstly due to the introduction of the Work Programme

by the DWP which significantly reduced the number of participants who could be helped by Coastal. Negotiations with WEFO led to the employment target being reduced from 2,870 to 1,500. Changes were also made to the other targets at this time.

- 5.3 The second re-profile of targets arose from the recognition that the economic climate made the achievement of the targets unrealistic. On this occasion, the employment target was further reduced to 750. Again changes were also made to the other targets at this time.
- 5.4 On both occasions, the setting of the revised targets was based on information provided by the Project teams within each joint sponsor and the third sector partners.
- 5.5 The review has shown that the re-profile of the targets was reported throughout the Project's and the Swansea contract's governance arrangements. The final approval to submit the revised Business Plan to WEFO was given by the Regional Project Board on both occasions.
- 5.6 Interviews have confirmed that the relevant members of the Social Services Directorate Management Team were aware of the re-profiling of the targets as a result of supervision meetings with staff but were not involved in the process and did not know the full details.
- 5.7 However there was no formal reporting of the re-profile on the targets within the City and County of Swansea. Those linked with the delivery of the Swansea contract were aware of the changes but they were not reported to the Cabinet, Cabinet Member or Social Services PFM meetings.
- 5.8 The authorised signatory for grants in the Finance Department would have been aware of the changes due to the requirement to sign the grant amendment letters.

## **6. Performance**

- 6.1 The RMT is responsible for the quarterly submission of claims to WEFO including each joint sponsor's progress towards meeting each target.
- 6.2 As the participants in the Project were those furthest away from employment, it has always been recognised that the achievement of the employment target would be biased towards the end of the Project due to the need to work with the participants before they were able to enter employment.
- 6.3 The interviews held with staff as part of the investigation and the review of the minutes from the various regional meetings held over the course of the Project has shown that the monitoring and achievement of targets has been discussed since very early in the Project.

- 6.4 The discussions around performance initiated the re-profiling of the targets which were agreed by WEFO. Clear evidence has been identified of the RMT reporting the need to meet agreed targets and in particular the employment target which has been given a particular emphasis on numerous occasions at the Regional Project Board since early 2012
- 6.5 The process of re-profiling the targets for the second time in December 2012 included each joint sponsor completing an Action Plan identifying how they were going to achieve the re-profiled targets. The Action Plans have been monitored at each Regional meeting since January 2013.
- 6.6 It has also been noted that performance and the meeting of targets has been raised and discussed at the Swansea Steering Group throughout the Project again with an emphasis on the employment target since 2011.
- 6.7 It can be seen that it was recognised both regionally and in Swansea that the Swansea contract was performing poorly for some time. The review of the Steering Group minutes has shown that there was a degree of reluctance on the part of some of the teams involved in delivering the services under the Swansea contract to concentrate on the employment target. The minutes clearly show that efforts have been made to ensure that the teams do concentrate on services which are likely to deliver an employment outcome.
- 6.8 The relevant member of the Social Services Directorate Management Team has indicated that it was known from fairly early on in the Project that Swansea was not achieving its employment target but that the other targets were felt to be more important in the early stages of the Project.
- 6.9 The poor performance of the Swansea contract in terms of the employment target which as at 31<sup>st</sup> August 2013 showed that 19 participants had gained employment out of a target of 142 seems to be due to the way the delivery of the Swansea contract was established.
- 6.10 The other joint sponsors all set up dedicated teams for the delivery of services to Coastal including contract monitoring services. However, in Swansea, the Coastal funding was used to support teams that already existed under the previous Objective 1 funded schemes.
- 6.11 The lead officer for the Swansea service delivery contract did not have line management responsibility for each of the separate teams which delivered services to Coastal and as previously mentioned also had responsibility for other services not linked to Coastal.
- 6.12 Some tension between the RMT and the Swansea service delivery contract has also been identified during this investigation which did not create the ideal conditions for the achievement of the targets.
- 6.13 Senior RMT staff have stated that issues regarding performance were raised with the relevant members of the Social Services Directorate

Management Team in supervision meetings. It has been confirmed that performance issues were discussed at supervision meetings but it was considered that the issues had not been raised as significant risks to the Project.

- 6.14 The current situation regarding performance is that since the imposition of the retention by WEFO, increased efforts have been made across the Project to ensure that the employment target is given added importance. In Swansea, a more robust Action Plan has been developed with weekly and monthly progress meetings being held including the monthly reporting of progress to the Executive Board.
- 6.15 The general feeling within the Project is that as WEFO based the imposition of the retention on the December 2012 figures and the additional work that has arisen since early August 2013 that the achievement of targets is now close to the projected profile.

## **7. Conclusion**

- 7.1 A governance structure was established for Coastal on a regional basis and also for the Swansea service delivery contract. However, there was no formal governance structure within the City and County of Swansea to report or escalate any issues arising from the Project. The progress of Coastal in the achievement of its targets on which the ESF grant was based was never reported higher than supervision meetings within Social Services e.g. to the Social Services PFM meetings.
- 7.2 A good attempt at identifying the Project risks was included in the Business Plan submitted to WEFO with the grant bid but the risks were not included in the Cabinet report where approval was given for the Project to proceed. This means that there was no political awareness of the risks associated with the Project. Given that the Project was arranged on a regional basis and extended over 4 years, it is felt that risks should have been given greater emphasis in the Cabinet report.
- 7.3 The risks identified in the Business Plan did not include the failure to achieve targets or the possibility of grant being withheld by WEFO. This is not surprising at the outset of the Project but it has been seen that some staff felt that the initial employment target was unrealistic.
- 7.4 A Risk/Issue Log was maintained regionally but the risks associated with Coastal never appeared in the Social Services Directorate Risk Register meaning that there was no visibility of any Coastal risks corporately within Swansea.
- 7.5 The re-profiling of the targets for Coastal was dealt within the governance structure established for the Project but there was no reporting of the re-profiling outside of the Project. In particular the significant reduction in the employment target from 2,870 to 750 over the course of the Project was not reported to Cabinet or the Cabinet Member.

- 7.6 It can be seen that regionally there was an awareness that the Project was performing poorly against its targets. This gave rise to the re-profiling of targets with WEFO and the introduction of Action Plans to improve performance. Regional Project Board minutes where performance against targets was regularly discussed were provided to the relevant members of the Social Services Directorate Management Team and Project performance was discussed at supervision meetings but it appears that the poor performance of the Project was not escalated.
- 7.7 It can also be seen that the poor performance of the Swansea service delivery contract in achieving its targets was known regionally and within the structure set up in Swansea to manage the contract. Again it is understood that the performance of the Swansea contract was discussed in supervision meetings but not escalated.
- 7.8 The most significant question arising from this investigation is whether anyone could have linked poor performance to the financial risk which arose when WEFO imposed the retention as a special condition.
- 7.9 Whilst it is clear that WEFO did not raise the possibility of a retention based on performance prior to the letter on 6<sup>th</sup> August 2013, it was known that the targets were the ultimate aim of the grant being provided. So it could be argued that the financial risk should have been foreseen especially in view of the ESF funding for the Genesis Project being terminated early by WEFO due to poor performance.
- 7.10 This investigation has shown that there is not much more that could have been done by the RMT or the staff managing the Swansea service delivery contract to raise and address the issues regarding performance. It can be seen that relevant members of the Social Services Directorate Management Team had the opportunity to identify poor performance from the Regional Project Board papers and it is felt that the issues should have been escalated prior to August 2013.
- 7.11 It could be argued that the imposition of the performance related retention by WEFO has had the desired effect on the Project as a whole. The impact of the potential financial risk has concentrated minds on addressing performance and in particular ensuring that every effort is made to place participants into employment.

## **8 Recommendations**

- 8.1 As the Coastal Project is now largely complete, the following recommendations are intended to ensure that any future projects of a similar nature have sufficient controls in place to safeguard the Council's position.
- 8.2 The project governance arrangements should include an escalation route for any significant events or changes that occur during the course of the project. This should include e.g. reporting to the monthly Directorate Performance

and Financial Monitoring (PFM) meetings where issues are identified with performance or targets for the project.

- 8.3 The project governance arrangements including any escalation routes should be detailed in the report to Cabinet requesting approval for the project. Any significant changes which occur during the course of the project should be reported to Cabinet.
- 8.4 A full assessment of risk for the project should be completed at the application stage using the Council's Corporate Risk Strategy and Framework and detailed in any reports requesting approval of the project.
- 8.5 The assessment of project risks should include any risks arising from Swansea being the lead sponsor if this is the case and the involvement of third sector partners where their financial viability may mean that additional risk has to be carried by the local government partners in the project.
- 8.6 Risks should be monitored during the course of the project and where necessary escalated to the Directorate Risk Register and Corporate Risk Register.