DERSINGHAM VILLAGE CENTRE

Review of funding and management of project

Commissioned by Resolution of Dersingham Parish Council 26th November 2018

September 2019

BEN COLSON

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INTRODUCTION

1.1 Dersingham Parish Council resolved to establish a Review Group to consider the build project for the new Dersingham Village Centre in the light of a significant cost over-run, Minute 13027 of 10th September 2018 meeting and the need to seek a Public Works Loan to cover the overspend. It was subsequently resolved at the Dersingham Parish Council meeting of 24th September 2018 that it should seek an independent chairman.

1.2 The Chairman of Sandringham Parish Council was asked to chair the Review and agreed to do so. This was confirmed by resolution at the Dersingham Parish Council meeting on 26th November 2018.

1.3 Membership of the Review Group, in addition to the Chair, were:
Brian Anderson, Parish Councillor, Chairman of the Environment Committee until May 2019
Sarah Bristow, Clerk and Responsible Financial Officer to the Parish Council
John Houston, Parish Councillor
Coral Shepherd, Parish Councillor, Chairman of the Parish Council from May 2019
Mike Shepherd, Parish Councillor, Chairman of the Finance Committee from November 2018
It should be noted that the Parish Clerk was a full member of the Review Group, not a Minute-taker, and meeting notes were almost always taken by Cllr Coral Shepherd.

1.4 Terms of reference for the Group were set at the Parish Council meeting on 28th January 2019, as "***To undertake a full post project review to learn lessons for future projects and to produce a detailed report for councillors and parishioners to provide clarity around the financing of the project and to understand why a second public works loan became necessary. The review is intended to examine the governance of the project, its financial control and management and whether proper procedures and decision making were followed***."

1.5 The Review was undertaken in three distinct phases:
Phase 1 – document review
Phase 2 – interviews with key players, including the architect designer, the Parish Council quantity surveyor, main building contractor and his quantity surveyor, the two Contract Administrators as appointed by the Parish Council from within its own

ranks (councillors up to May 2019) the Parish Clerk, the Parish Council chairman (chairman up to May 2019), and other Parish Councillors. Some 25 hours of interview were conducted.
Phase 3 – further document review, discussions following interviews, agree format and write report.

1.6 Our report is presented in sections as below. Sections 2 to 5 give the summaries and headlines whilst 6 to 11 delve into greater detail. Section 12 covers the important issue of governance.

Section 2 – Executive Summary
Section 3 – Conclusions and Recommendations
Section 4 – Timeline of events
Section 5 – Financial Headlines
Section 6 – Project Management
Section 7 – Fundraising
Section 8 – The Planning Application
Section 9 – Tender, appointment of preferred bidder, post tender negotiations and Contingency
Section 10 – Control of the Build Process
Section 11 – Financial control
Section 12 - Governance

1.7 The evidence we gathered led us back to before the date set out in our terms of reference and this report additionally covers the earlier period. Throughout, we sought to reference our thinking to the time at which decisions were, or were not, made, rather than with the benefit of hindsight.

1.8 Our conclusions and recommendations are made in good faith, based on the information we had at our disposal at the time. Towards the end of the process further evidence came to our attention (see also paragraph 1.12) and we believe that there is probably nothing further to be gained from trawling for yet more details. We have therefore drawn a line under this on 31st August 2019 and worked with the information then available to us; we believe that further evidence would not now make a material difference to our conclusions and recommendations.

1.9 We acknowledge that, whatever we have concluded from this Review, the fact is that Dersingham wanted and needed a more modern community facility. It now has one, it is well used and appreciated by the people that use it. Without the hard work, determination and commitment of the main 'players' involved in this project, this would not have happened, and the village would have been a lesser place as a result.

1.10 We acknowledge with thanks the preparation time, effort and openness of those we interviewed without which this Review would have been more difficult to conduct and less thorough in its conclusions and recommendations.

1.11 As Chair of the Review Group I wish to record my sincerest thanks to the Review Group members who put a great deal of time and effort into this, and especially to single out Coral Shepherd for her sterling work as the note-taker for the Group.

1.12 Finally, we regret that we were not able to deliver our report on time in line with the advice we gave to the Parish Council in May 2019. This was because further important evidence came to our attention later which has necessitated a partial rewrite. We believe that the report is better for that delay.

Ben Colson
September 2019

GLOSSARY OF ABBREVIATIONS USED IN THIS REPORT

(at sections 5 to 12)

BLF	The National Lottery's Big Lottery Fund
BP	The Business Plan supplied by the Parish Council to the Big Lottery Fund
CA	Contract Administrators
CF	Contracts Finder, the portal for access to bid for publicly funded contracts
CPDP	The Capital Project Delivery Plan supplied by the Parish Council to the Big Lottery Fund
DCC	Dersingham Parish Council's Dersingham Centre Committee
DPC	Dersingham Parish Council (including meetings of the Full Council of the Parish Council)
DVCA	Dersingham Village Centre Association, a registered charity, separate from the Parish Council and responsible for the running of the Village Centre
FAC	Dersingham Parish Council's Finance and Administration Committee
FTG	Dersingham Parish Council's Financial Task Group established 9th January 2018 to review and monitor finances of the project
HE	Historic England
HMRC	Her Majesty's Revenue and Customs
ITT	Invitation to Tender for a contract
M & E	Mechanical and Electrical drawings
NALC	National Association of Local Councils
PM	Project Manager
PM1	Dersingham Parish Council's Project Manager
PM2	T M Browne's Project Manager
QS	Quantity Surveyor
RICS	Royal Institute of Chartered Surveyors
RFO	Responsible Financial Officer and the Parish Clerk
SA	The contractor's Site Agent
SLCC	Society of Local Council Clerks
TMB	T M Browne, the building contractor
VAT	Value Added Tax
VE	Value Engineering, the process of contractor and client agreeing changes to the original drawings and designs in order to effect cost reductions
VO	Variation Order

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EXECUTIVE SUMMARY

General and methodology

2.1 Terms of reference for the Group were set at the Parish Council meeting on 28th January 2019, as ***"To undertake a full post project review to learn lessons for future projects and to produce a detailed report for councillors and parishioners to provide clarity around the financing of the project and to understand why a second public works loan became necessary. The review is intended to examine the governance of the project, its financial control and management and whether proper procedures and decision making were followed."***

2.2 We have sought to improve clarity of the financing of the project and are confident that we have understood the sources of finance and project shortcomings which led to two public works loans being required and our findings are detailed in sections 9 to 11. We have examined governance, financial control and management, and our findings are detailed in sections 11 and 12. A summary of our conclusions, and our recommendations is in section 3.

2.3 Our approach has been to follow the evidence rather than hearsay or making assumptions. However, there are some issues on which we have not been able to draw conclusions because of lack of documents or audit trails. This particularly applies to decision making processes. Whilst unsatisfactory, we are satisfied that our conclusions and recommendations are valid.

2.4 There was wide support for a new village centre to enhance village community cohesion. The centre is well used. Those associated with the project were well-intentioned in their resolve and endeavours. There had been earlier attempts to get a village centre built for the village, notably in 2004-05, before the financial crash, and before the area, which included the Church Hall which was dated and in need of considerable repair and refurbishment, was designated a Conservation Area.

Project Management

2.5. Those who led the project were well-intentioned in their resolve and endeavours. That said, we found a lack of clear project leadership from the outset: nobody was able to tell us who the project leader was, which we found considerably concerning.

2.6. In 2011 the Big Lottery Fund published a best practice guide for applicants to help set up major capital schemes. There was a copy with the project papers, but we do not know when it was received, although believe it would have been with one of the grant application packs. A summary of the advice is listed in section 6.5, but there is no evidence to indicate if this advice was considered or discussed.

2.7. The parish council did not investigate or debate whether to outsource project management to an appropriate independent professional: instead it was managed from within. There is no evidence of a skills analysis being done before that decision was reached, and the project management team relied on volunteers rather than the required skills. Whilst the team did include civil engineering, architectural technician and building skills there was no one with appropriate financial expertise. There was a failure of judgement in not seeking the appropriate professional services at the appropriate time.

2.8. There is evidence that a Risk Register was produced for a grant application to the Big Lottery Fund. We have evidence that it was updated at least once during the build process. We cannot be clear that this was anything more than to satisfy the funder's requirements, rather than for sound project management reasons. A more detailed register would have assisted the team to more closely monitor and mitigate the inherent risks, and this could have lessened the cost overrun.

Fundraising

2.9. Initially the project was to demolish the existing Church Hall and to build a completely new village centre, at an estimated cost of £750k. Fundraising started with this figure in mind. However, the project cost increased due to the requirement to retain parts of the building as required by Historic England. The Quantity Surveyor costed the revised scheme, before tendering, at £1.2 million.

2.10. Tenders were received at £1.15 million and a grant of £550k was received from Big Lottery Fund, leaving a considerable shortfall. Attempts were made to bridge this gap through additional grants and an initial public works loan of £150k. However, no consideration seems to have been given to 'think big' fundraising. It was thought of at a more parochial level and there is no evidence that a professional fundraiser was considered. Adequate funds could not be found and the build cost was trimmed to meet the available funding.

The Planning Application

2.11. The submission of the Planning Application was not preceded by seeking pre-submission advice from the planning authority. Advice had been sought for an earlier possible application, but between then and this application the area had been designated as a Conservation Area, identifying the Church Hall as an important unlisted building. This made the scrutiny of the plan by the planning authority more rigorous and it required the retention of the front (South) elevation. This turned the project from demolish and build to renovate, which triggered potential VAT issues and extra costs. It also resulted in additional professional fees and delays to the project whilst the scheme was revised.

Tender, appointment of preferred bidder, post tender negotiations and Contingency

2.12. The parish council's Invitation to Tender process and selection of preferred building contractor were compliant, if not best practice. However, the drawings and documents used for the tender were for the scheme that had been costed at £1.2million. It is therefore unsurprising that both of the compliant bids received were priced close to that value.

2.13 Available funding was far short of this, which led to lengthy post tender negotiations with the preferred bidder. During this process some significant design elements were removed such as glulam beams, kitchen, first floor suite and store room and car park surfacing. Costs were reduced to broadly meet the secured funding of £850k, and work commenced. Additional funding was then secured to reinstate some elements including the kitchen and first floor suite. However, this additional funding did not fully cover the costs of the reinstated elements.

2.14 The parish's contingency fund was cut as part of these negotiations. The Big Lottery recommends 15% contingency, the parish council started at 10% but reduced it to just 5%. The change from new build to renovation brought two new risks of unforeseen additional costs and the possibility of VAT being incurred. The builder had also removed his contingency in order to secure the deal. Insufficient contingency meant that any increase to costs, the risk of which had increased, would lead to an inevitable cost overrun. We understand the need to reduce costs, but it was unwise to do so at the expense of an appropriate contingency fund.

Control of the Build Process

2.15. A largescale build project such as this requires some explanation. The client employs professionals to lead on their behalf, most notably the services of a Project Manager to look after the whole project, not just the build element, a Quantity Surveyor and a Contract Administrator. The builder employs a professional Project Manager, Site Agent, and Quantity Surveyor.

2.16 In the event, the parish council appointed two Contract Administrators from within its own ranks, believed to have the necessary skills and an external Quantity Surveyor. The primary job of the Contract Administrator is to administer the contract. Based on evidence, our conclusion is that this was not effective. The parish council resolved that any expenditure on variations (the formal agreement between the contract administrator and building contractor to vary the contracted drawings and documents) should not exceed £500 per item, without reference back to itself. In practice this limit was repeatedly and knowingly breached, but in reality was probably unworkable. The limit was subsequently removed on condition that a third councillor was to assist, but he was rarely allowed on site.

2.17 Administration of Variation Orders (the formal documentation to implement the variation) was frequently late, leading to concern expressed repeatedly in reports by the Quantity Surveyor and the builder. The evidence suggests that these concerns were not passed to all councillors. Late submission of Variation Orders led to the Quantity Surveyor not being able to do his job properly, which in turn led to the rapid cost overspend towards the end of the project.

2.18 Typical of the confusion surrounding this project concerns the underfloor heating. An analysis of this is included at the end of Section 10 as a case study. We were unable to conclusively decide whether the underfloor heating had been removed as a cost reduction measure and then reinstated as a variation (implicitly at a higher unit cost) or not.

2.19. We concluded that the first Public Works Loan was part of the planned funding of the project. However, the urgent need to raise a second loan arose from a combination of factors which included further funding shortfall, a failure of project management, and other factors.

Financial control

2.20 The skills required to manage a significant capital project are different from managing the finances of a Parish Council, not only regards quantum but also the management implications of different cash flows. The documents supporting the Big Lottery application showed that financial control was to be the joint responsibility of the parish council Chairman and Parish Clerk (the latter as the Responsible Financial Officer). In practice this appears to have not been the case. There were differing views between these two as to their roles and skillset required, but the Chairman gave no consideration as to whether the Clerk had sufficient time to carry out the additional work and the Clerk did not know what was involved and therefore whether she had the appropriate skills or time. Neither appear to have asked appropriate questions nor made appropriate comment to the other.

2.21 Insufficient prior consideration and attention was given to financial control and management of the project. This should have been part of the pre-planning stage before the build started. It was considered because it forms part of the submission to the Big Lottery Fund but appears to have been subsequently ignored.

2.22 By January 2018 there was growing concern at the inadequacy of available finance and the parish council set up a Financial Task Group to review it. A shortfall in funding was identified which resulted in a larger than planned increase in the precept in January 2018. The group continued to monitor the finances with financial information obtained from the Quantity Surveyor's reports and the RFO. Given that those responsible had not understood the complexity of the financial management required, the task group was the only real attempt to put proper financial monitoring in place. Finances appeared to remain on track until June 2018, but the shortfall rapidly increased in the next two months, as late processed Variation Orders were taken into account, resulting in the second public works loan application for £200k. This shows either a failure to understand the nature and extent of the problem engulfing the project, or as an attempt to cover it up. We do not make any conclusion as to which it was.

2.23 Whether VAT was chargeable because it became a renovation rather than new build, and the effect on VAT of Dersingham Parish Council intending to use of parts of the building was not understood. That is not surprising as this is a technical taxation issue and there is no evidence that appropriate specialist advice was taken before building works started. Some advice was sought during the build, but the questions asked and answers given were unclear, muddled and confused. The failure to properly provide for VAT could have left the parish council at considerable risk of action by HMRC. It has since been resolved favourably, but that outcome was not known at the time.

2.24 We concluded that the financial management of the project was inept and believe that professional support should have been sought and advice implemented rather than it being left for a parish clerk, used to managing a much smaller and simpler budget, to oversee.

Governance

2.25 Governance has been defined as the act and manner of governing. In the 21st century governing is required to be carried out fairly, and in an open, honest and transparent way. It needs to comply with legislation laid down by Parliament. It is not so much asking 'do we want it or not, rather are we doing it correctly?' This is set out in legislation and briefly translates into each parish councils Standing Orders and Financial Regulations and a plethora of advisory documents.

2.26 There was insufficient attention to general standards of governance in the management of this project. We have identified over twenty specific occasions on which governance standards were not kept or actually breached.

2.27 These are not solely related to the project but reflect the culture of the council and its practices. We concluded that the new Council and its Chairman should to resolve to change its culture and mode of operation and that appropriate training and support to achieve this should be sought.

3

CONCLUSIONS & RECOMMENDATIONS

3.1 In this section, our conclusions are shown in normal print and recommendations in heavy print. Relevant paragraph numbers are shown for reference.

Terms of reference

3.2 Terms of reference for the Group were set at the Parish Council meeting on 28th January 2019, as "*To undertake a full post project review to learn lessons for future projects and to produce a detailed report for councillors and parishioners to provide clarity around the financing of the project and to understand why a second public works loan became necessary. The review is intended to examine the governance of the project, its financial control and management and whether proper procedures and decision making were followed.*"

3.3 We were thus asked to:

3.3.1 Provide a basis for DPC to learn lessons for future projects

3.3.2 Provide clarity around the financing of the project

3.3.3 Provide explanations as to why a second public works loan became necessary

3.3.4 Examine governance, financial control and management with regard to procedures and decision making

We offer some general conclusions and then more specific ones, with recommendations, grouped around these four points, but some apply to more than one category.

General conclusions

3.4 Our research and interviews have led us to concluded that the building's design was valued at £1.2m by the Quantity Surveyor, and they suggested ways it could be reduced to £946k, although the designer was not happy about the design changes required, and no drawings appear to have been prepared to support this. The parish council went to tender with the original £1.2m design in the belief the cost would be reduced by the competitive process and subsequent value engineering. It is unclear who within the Parish Council took this decision, or indeed who knew of the £1.2m valuation, as we have found no evidence of any discussion by the parish council or its committees.

3.5 The winning tender was slightly lower at £1.15m, but still far in excess of available funding. Had the Parish Council managed to secure funds to cover this, or even £946k version, the project would probably have remained on track. That was not the case and further savings had to be made, eventually resulting in an agreed contract cost of £850k. During construction, further funding of £53k was obtained to put back some elements of the building that had been removed from the contract as cost savings, giving a total cost of £903k. The total cost of the build was actually £1.1m, thus overspending by £197k.

3.6 It could be said that a building estimated to cost £1.2m actually cost £1.1m, but this is too simplistic. The building as tendered at £1.15m had a number of features not eventually delivered, including feature beams and stage in the main hall, a paved car park and arguably a higher standard of detailing in some areas. The overall effect of taking elements out and putting them back in again combined with other failings identified in this report inevitably contributed to additional cost.

3.7 At the start of our review we were aware of a perception that information had been withheld from councillors. Our research has shown that much information was available through Minutes of committees and eventually through reports that were shared with all councillors. However, it is also clear that some vital information was not shared such as warnings about the contract administration, high number of variations and potential overspends. If this had been shared it may have enabled measures to be put in place, which would have resulted in at least a lesser overspend.

3.8 Our conclusion is that the first Public Works Loan was part of the planned funding of the project. However, there was too much optimism and not sufficient realism. The second loan arose from a combination of that as well as a lack of proper administration and financial control, so a combination of issues. We were surprised that the simple expedient of modelling best, medium and worst case scenarios in respect of both fundraising and project cost appears not to have been undertaken thereby to appropriately steer the management of the project.

Detailed conclusions and ***recommendations***

Provide a basis for DPC to learn lessons for future projects

3.9 There was wide support for a new village centre to enhance to the community cohesion in the village. The centre is well used. Those associated with the project were well-intentioned in their resolve and endeavours. There had been earlier attempts to get a village centre built for the village, notably in 2004-05, before the financial crash, and before the area which included the Church Hall was designated a Conservation Area (paras 8.2, 8.3). However, enthusiasm and being well-meaning was not sufficient basis on which to embark upon such a large project. **We recommend that proper advance project planning and an agreed management and oversight structure is put in place before any new project is begun.**

3.10 The Big Lottery Fund provided advice, as standard to all, to ensure that new applicants learned from earlier experience (paras 6.4, 6.5). It appeared that this detailed advice (para 6.5) was largely not followed nor was it distributed to councillors (para 6.4). **We recommend that the parish council follows Big Lottery or other principal funder advice in any future capital projects. This may include the appointment of a professionally competent and qualified, independent Project Manager. For large scale projects, the full Parish Council, not a committee or working group, should oversee, monitor and scrutinise the project.**

3.11 There was lack of clarity as to the fundraising objectives and responsibilities (paras 7.2, 7.3) and separating fundraising for the project from management of the project (7.2). The Big Lottery Fund refers to this (6.5.7) in recommending fundraising covers the full project cost. **We recommend that in future there is a clear fundraising objective, and separation of fundraising responsibility from project management.**

3.12 A planning application was submitted without pre-submission advice being sought from the local planning authority. Instead advice given for a previous application in 2004-05 was relied upon. This despite the area being designated a Conservation Area in 2013 which triggered greater scrutiny by the planners, including by statutory consultee Historic England (paras 8.3 to 8.5). The impact of Historic England's advice would be pivotal and add considerable cost, not only build cost but also the potential for VAT to be levied (para 8.6). **We recommend that in future the Parish Council ensures that necessary consultation and advice, e.g. project management, planning, legal, fund raising, financial and VAT, is sought at the earliest possible stage and acted upon.**

3.13 Whilst the above are grouped as providing lessons for future capital projects, as we were asked to do, the remainder of this section also provides lessons. In particular, there are clear messages concerning fundraising, project management, financial control and governance, all of which are set out below.

Provide clarity around the funding of the project

3.14 The value of funds needed in excess of the maximum Big Lottery Fund possible award was such that consideration should have been given to employing a professional fundraiser. There is no evidence that this, or a fundraising plan, was considered (paras 7.4, 7.5). Instead, it appears to have been approached in an ad hoc manner. **We recommend that there is always a clear fundraising plan to meet the total project cost (not just build cost) and a contingency fund and to either employ a fundraiser if necessary or nominate a specific person to be responsible for fund raising.**

3.15 To raise the necessary funds it is essential to have a clear indication of project cost. This was not so, with a price from the preferred construction bidder of £1.15m negotiated down to £850k to meet projected funds available, but with little regard for the requirement for adequate contingency funding, and non-build project costs.

However, fundraising shown to amount to £847.6k (para 7.12) was optimistic as it assumed that grants applied for would be awarded which was not the case. In fact, that was overoptimistic by £150k as only £697k was raised by the time of the application for the first Public Works Loan. **We recommend that much greater prudence is shown in income projections including best, medium and worst case scenarios.**

3.16 The shortfall in funding became ever more apparent between March and June 2017 (paras 7.11, 7.12). **We recommend that closer oversight of funding and financial control is undertaken by the full parish council including close monitoring against the best, medium and worst case scenario income projections.**

3.17 The need for an adequate contingency fund is vital, which fundraising must cover as with any other cost. Contingency offsets risk. The greater the contingency fund, the lower the risk to the project. The Big Lottery Fund advises a 15% contingency, the Dersingham project started with 10% which was cut to 5% as part of the post-tender negotiations. The building contractor told us that he negotiated out his own contingency in these negotiations. Thus, the need for the parish's contingency rose as it was being cut, doubly increasing risk to the project. This was a major failure to manage the project (paras 9.16 to 9.26). **We recommend that contingency funding is always included as a project cost at the full rate recommended by the Big Lottery Fund, other major funder or best practice for the type and scale of project.**

Provide explanations as to why a second public works loan became necessary

3.18 The Invitation to Tender was prepared by a Parish Councillor with professional input and placed on Contracts Finder, with the documents on Dropbox. There is nothing improper with this (paras 9.2 and 9.3). However, there was no statement confirming that post-tender negotiations would be conducted only with the preferred bidder and there was no evident attempt to ensure that proper processes for public sector procurement were followed. **We recommend that professional advice is always sought to ensure that the procurement process follows correct procedures for the type and scale of project.**

3.19 Despite submissions to the contrary, we found no evidence that the preferred contractor was appointed incorrectly (paras 9.6 to 9.11). We also concluded that post tender negotiations were conducted properly (paras 9.12 to 9.15). Whilst we appreciate that this was done because of lack of funds, we were concerned that the process for appointing key professional roles was undertaken without a proper skillset assessment being undertaken, either in respect of the skills required or the match between that and those of the candidates (paras 6.7, 6.9, 10.4 and 10.5). We believe that this failure created issues that would foreseeably add cost to the project. **We recommend that for any role a proper skillset analysis is always undertaken to assess whether it is better sourced externally or internally and then all candidates measured against it and adequate funding must be allocated in the project to cover**

these costs. We further recommend that for major capital projects, parish councillors should not be appointed as Contract Administrators or other similar roles. Indeed, we go further and recommend that a skills audit is carried out now for councillors and staff alike and that it is routinely updated annually.

3.20 We were especially concerned that the appointment of two Contract Administrators rather than one, as well as them being councillors, without a proper assessment procedure, led to evidential cost consequences associated with indecision and delays alleged by both the QS and Contractor (paras 10.29, 10.30 and 10.33). The role of Contract Administrator is complex and varied and it is clear that this was not fully appreciated by one or both of the appointees (para 10.25). The £500 limit of authority placed upon them was routinely breached (paras 10.20 and 10.21). This breached both the Parish Council's own Resolution (para 10.20) and also the Good Councillors' Guide recommendation (para 10.21). Too many variations were approved which would cost more than had they been included initial design (paras 10.37, 10.38 and 10.42). Further, the late submission of Variation Orders meant that the DPC QS was increasingly playing catch-up and therefore financial control and projected total cost assessments were undermined (para 10.42) and that this was the specific cause of cost overruns. **We recommend that in future a careful, costed comparison of internal and external appointment is carried out, with a clear skillset analysis undertaken first.**

3.21 The financial control of the project differed in fact from that outlined to the Big Lottery in the Capital Project Delivery Plan (paras 6.8 and11.1). The scale and complexity of financial planning and control for a project of this size was not understood, nor were the skill and capability of the Clerk to manage the process, or the time it would take her, properly assessed (paras 6.8, 11.6, 11.7 and 11.9). There was a failure to assess training need (paras 11.10 to 11.13). The loss of financial control led to cost overruns and this contributed to the higher total project cost. **We recommend that budgets, financial plans and cashflow forecasts are prepared at an early stage of a project and that detailed advance consideration is given to the skills required to manage the finances of a largescale project and whether they exist internally or not. If they do, then the impact on the officer's time, cost and availability must all be assessed in advance.**

3.22 It is clear that the possibility of VAT being levied on the project was not appreciated. Informal advice had been sought and given but after the build had started and it was not disseminated to Parish Councillors in a complete, consistent and accurate manner. We are not convinced that it covered all of the tax issues (para 11.38). This is further evidence of a failure to understand the impact of the need for financial management. This could have proved a major failure of the project (paras 11.24 to 11.44). **We recommend that for all major projects formal written VAT advice is sought at an early stage and that councillors should be responsible for the questions asked.**

Examine governance, financial control and management with regard procedures and decision making

3.23 There was a general failure to abide by the Resolution of the Parish Council, for example at its meeting on 22nd March 2017 - the building work should not start until the complete funding was in place. (paras 5.6 and 7.11) and 26th February 2018 – appointing of a third councillor to assist contract administrators (para 10.21). **We recommend that it should be the explicit responsibility of the clerk and councillors to ensure that all resolutions are complied with, and any non-compliance is brought back to the next available Council meeting.**

3.24 Councillors share collective responsibility for the financial management of the parish council and it is unlawful to make a decision, especially one to spend money, without sufficient (three clear days) warning as the councillors cannot be expected to make decisions on matters for which they are not prepared. There were repeated governance failures in this respect in the management of this project. There was a culture of giving incomplete information, often late and sometimes verbal, to parish councillors which inevitably led them to making decisions that were at best inappropriate and at worst severely detrimental to the progress and cost of the project (paras 6.6, 9.9, 10.7, 10.15, 10.35, 10.43, 11.8, 11.19, 11.23 and 12.7). Some Motions were put before the parish council without supporting papers presented in advance. Further, there was no attempt to harness expertise from councillors, which, if it had been, could have avoided some incorrect decisions (para 7.12). **We recommend that the parish council reviews and tightens its standard procedures, and, further, that no new capital projects of significance are started, until all parish councillors are trained in appropriate financial information and governance standards.**

3.25 We have received comment that when individual parish councillors sought to question the project team at parish council meetings, they have either been ignored or shouted down or both (paras 9.21, 12.7 and 12.8). There is nothing in the Minutes to suggest that this is so, but the extent of the allegations concerned us. **We recommend that all parish councillors are trained in how to conduct themselves at parish council meetings, especially when and how to contribute to debate, how to move amendments to Motions, and the process of voting on Motions and their implementation. This should be undertaken as soon as practicable, both for existing and new councillors.**

3.26 We are aware that the council's Standing Orders have been revised recently. There is a need for clear wording surrounding councillors' obligation to the notion of collective responsibility which is a pillar of good governance. **We recommend that the Standing Orders are reviewed to ensure that they will deliver good quality standards of governance and then for training to be given to all staff and councillors.**

3.27 We believe that there were multiple failures to comply with the Council's own Standing Orders and Financial Regulations (para 12.10). It is not appropriate for an organisation to fail to meet its own requirements**. We recommend that councillors and staff undertake training as described in paragraphs 3.23 to 3.25 above.**

3.28 **We have concluded that there has to be a significant cultural shift in the way in which the parish council functions for it to be credible and effective in the future. This will be achieved by a combination of a review of procedures and training councillors to work to those standards. With a new Council in place, we recommend that this process commences without delay.**

4

TIMELINE OF EVENTS

DATE	EVENT
Pre 2000	Search for site for new Village Hall begins
1999-2000	Millennium project, several sites examined
2005	4 sites examined; planning officer advised demolition of Church Hall unlikely to be acceptable. Note Atelier not advised of this advice.
2011	St Nicholas Church Hall offered to Parish Council
pre 2013	£50,000 allocated from Dersingham Parish Council funds for Dersingham Centre reserve
2013	Dersingham Conservation Area designated
2013/14	Village Survey to assess need for new Village Hall
2014	setting up of Dersingham Centre Working Group
04/11/2014	Dersingham Centre Working Group notes - work to begin on setting up charity, no evidence as to function.
June 2015	Big Lottery Grant application process begun Stage 1
June 2015	Cost of new build estimated to be £745,000
June 2015	Appointment of Atelier to take proposals through the planning process, note prior to this work was free of charge
04/08/2015	Dersingham Centre Working Group notes Trust Deed submitted for charitable body
18/09/2015	Dersingham Village Centre Working Group open meeting - election of a committee for Dersingham Centre Association which was being set up to oversee fund raising and take on management of new centre.
Sept 2015	Big Lottery Grant application process Stage 2
Dec 2015	Submission of planning application for demolition of Church Hall and erection of new building. 15/01685
22/12/2015	Historic England object to demolition of old Church Hall
18/01/2016	Full Council minute - increase in precept, £25,000 for Dersingham Centre
March 2016	Big Lottery Grant application process Stage 3

DATE	EVENT
01/03/2016	Dersingham Centre Working Group - DVCA wish to achieve charitable status and work to cease on original trust
21/03/2016	Full Council minute – councillor concerned that councillors were ill informed about the Dersingham Centre project and a detailed report was requested on Dersingham Centre business plan and funding – none forthcoming
03/05/2016	Dersingham Centre Working Group notes - Community Action Norfolk advised that DVCA would need "legal" interest in centre so funds could be handed over. Further advice sought on best way to achieve.
May 2016	Planning Application revised to renovation and extension following comments by Historic England
June 2016	Dersingham Centre Committee set up, taking over from Dersingham Centre working group
June 2016	Terms of reference for Dersingham Centre Committee written to take project to planning application stage, no evidence of any revision to include build phase.
June 2016	Appointment of Baxters, Quantity Surveyors to provide cost estimates for scheme that had submitted to the planning department
04/09/2016	Planning permission granted for renovation and extensions, subject to a number of conditions. 15/01685
October 2016	Baxter's report - project plans valued at £1.2 million including £109,000 contingency, also value engineered to £946,000 with £50,000 contingency. Note no evidence that this was ever reported to Dersingham Centre Committee or Full Council.
30/10/2016	Publication of Business Plan
03/11/2016	Publication of Capital Project Delivery Plan
January 2017	Tender placed on contracts finder
23/01/2017	Full Council minute - increase in precept, £34,000 for Dersingham Centre
22/02/2017	Tenders opened, 3 received - T.M. Browne, Walkers (Kent) and Suiters
22/03/2017	Dersingham Centre Committee minute 3 tenders received, recommendation to Full Council to appoint T.M. Browne as preferred contractor subject to savings and all monies being in place.
27/03/2017	Full Council minute - build contract to be awarded to T.M. Browne subject to all monies being in place. No written report presented, before or at meeting.

DATE	EVENT
March 2017	Award of Big Lottery Grant £550,000, six months allowed for build to start
Mar to Sept 2017	Negotiations with T.M. Browne to reduce price, no evidence that anything reported back to Dersingham Centre Committee or Full Council
07/04/2017	Dersingham Centre Committee minute - Big Lottery paperwork received, Sue Payne went through 4 other grants applied for, if awarded would be £205,000
May 2017	Appointment of Martyn Howe as Quantity Surveyor for Parish Council
02/05/2017	Dersingham Centre Committee minute - if shortfall in grants could consider option of parishioners investing money into project
06/06/2017	Dersingham Centre Committee minute - £5,000 grant awarded by Geoffrey Watling instead of £25,000 applied for
June 2017	Full Council minute - report concerning Public Works Loan, agreed to apply for £150,000 over 30 years. Total cost £955,000, Big Lottery grant £550,000, Parish Council funds £130,000, approved grants £85,000, non-approved grants - £70,000, fund raising - £12,600 = total funding £847,600
05/07/2017	Dersingham Centre Committee minute - Atelier appointed to do the following: 1 - prior to construction - revise and issue drawings, specify internal finishes, produce kitchen layout, liaise with QS and contractor prior to signing of contract, deal with discharge of planning conditions, and 2 - after construction started - 4 site meetings per month with QS and contractor, discharge of planning conditions, liaise with CD contractor. Atelier subsequently advised verbally they would not be doing this work.
25/07/2017	Dersingham Centre Committee minute - Leader funding not available, £875,000 funding confirmed. Would be applying to WREN for kitchen, first floor suite, flooring and pv cells
31/07/2017	Full Council minute - Skatepark reserve fund of £12,500 transferred to Dersingham Centre reserve, to be returned at beginning of April 2018 when precept received from Borough Council. Money subsequently returned to Skatepark reserve.
24/08/2017	Dersingham Centre Committee minute - funding still £875,000, including £10,000 from Dersingham Village Centre Association, agreed letter of intent to be sent to T.M. Browne
25/08/2017	Letter of intent to T.M. Browne, signed by Clerk - confirmed would place order, current secured build budget of £825,000, requested to procure resources to facilitate start date of 25.9.17

DATE	EVENT
September 2017	Submission of revised planning application - omission of 2 double door sets to front elevation, retention of existing windows, omit render to north and east elevations, provision of larch cladding, change in style of cladding and minor internal alterations. 17/01760
25/09/2017	Final meeting with T.M. Browne about build costs, agreed price of £850,000, note no report to Dersingham Centre Committee or Full Council about agreement for final price. T.M. Browne on site on or around this date.
03/10/2017	E Mail from Clerk to Big Lottery referring to attached paperwork (copy not available) confirming funds within Parish Council accounts, Public Works Loan and other grants in place.
03/10/2017	Dersingham Centre Committee minute – Councillors Davey and Judd would be keeping eye on site. Reported that general fund of Parish Council had picked up shortfall of £25,000, hoped would be covered by private donation. Tender valuation report sent to Big Lottery.
06/10/2017	Big Lottery gave permission to proceed with building work.
18/10/2017	Discharge of planning conditions 15/01685 for materials, archaeological survey, asbestos survey, drainage.
18/10/2017	TMB queried a lack of structural drawings, which was impacting on progress
30/10/2017	Full Council minutes - clerk to sign contract, Councillors Davey and Judd appointed as Contract Administrators, first bill from T.M. Browne, agreed to suspend committees and have 2 Full Council meetings a month
02/11/2017	Clerk approached SLCC for advice about VAT issues around build
06/11/2017	Finance and Administration Committee minute - Clerk read out an email that she had received that day from SLCC about VAT, no resolution for any action. Clerk also asked to check if building would be classed as new build or refurbishment. Clerk circulated email from SLCC to committee members immediately after the meeting.
06/11/2017	Clerk agreed to pay VAT on bills from TMB
07/11/2017	Dersingham Centre Committee minute - discussion of VAT issues, Clerk asked to write up. Councillor Hopkins queried impact on cashflow for VAT payments.
08/11/2017	Clerk asked BLF where she could obtain a VAT exemption certificate for HMRC in respect of build
13/11/2017	Contract signed by Clerk and T.M. Brownes
24/11/2017	Planning permission granted for revised planning application 17/01760

DATE	EVENT
24/11/2017	Booklet on Village Halls and VAT on Building Work received from Community Action Norfolk
27/11/2017	Clerk circulated a brief paper to DCC on VAT
02/12/2017	DPC QS alerted project team to lack of CA instructions for variations and lack of formal process in this respect
12/12/2017	DPC QS remains concerned about variations and lack of instructions. Requested meeting to discuss process
09/01/2018	Dersingham Centre Committee minutes - DVCA applied for Charitable Incorporated Organisation status. Sufficiency of funding discussed. Recommended to Full Council that task group look at finances (Councillors C Shepherd, Billard and Davey and Clerk)
15/01/2018	Full Council minute - Finance Task Group set up, continued working but outside Dersingham Centre Committee
29/01/2018	Finance Task Group first report to Full Council, shortfall in budget of £34,417, Chris Davey provided costs of £850,000 for build, £42,500 for contingency and £10,000 for fees.
29/01/2018	Full Council minute - further £25,000 added to precept on top of £34,000 already planned for Dersingham Centre.
February 2018	WREN grant of £88,250 awarded for kitchen, first floor suite, ground floor flooring and photo-voltaic cells
26/02/1018	Full Council minute - Councillor Billard appointed to assist Contract Administrators, dropping of £500 limit on variations. Note – the former was not implemented
28/02/2018	Letter from T.M. Browne warning of delays in building progress because awaiting a number of decisions
March 2018	Planning application submitted for overflow car park. 18/00513
09/03/2018	Extraordinary meeting of Parish Council called by Councillors Billard and C Shepherd, held at St Cecelia's Church Meeting Room. Agreed all reports from Contract Administrators, DPC Quantity Surveyor and T.M. Browne to be circulated/reported. Standing item to be added to every Full Council meeting for Dersingham Centre reports and to allow for questions.
16/04/2018	Full Council minute - concern that Councillor Judd only signatory on Variation Orders, agreed both would sign in future. (note no documentary evidence to support that this done, approved KLS as kitchen contractor

DATE	EVENT
21/05/2018	Dersingham Village Centre Association registered as charity with Charitable Incorporated Organisation status.
11/06/2018	Finance Task Group reported to Full Council that Dersingham Centre budget predicted overspend of £8,071
21/06/2018	Letter to BLF from DPC following a meeting with BLF officers. BLF had identified that the project was struggling to remain within budget, DPC denied this.
23/07/2018	Finance Task Group reported to Full Council that Dersingham Centre budget predicted overspend of £25,115
14/08/2018	Planning permission granted for overflow car park 18/00513
24/08/2018	Finance Task Group reported to Full Council that Dersingham Centre budget predicted overspend of £142,000
31/08/2018	Extraordinary meeting of Full Council, Finance Task Group reported Dersingham Centre budget overspend could be up to £194,000, agreed a second Public Works Loan of £200,000
04/09/2018	Dersingham Centre Committee chairman wound committee up. Note this was the responsibility of Full Council.
10/09/2018	Full Council minute - agreed to investigate overspend by setting up review group
03/10/2018	Discharge of condition for bike rack 15/01685
07/10/2018	Final payment to T.M. Browne, total build cost of £1.1 million against £850,000 budget plus £53,000 WREN funded work, build should have been £903,000
19/10//2018	Building work completed, T.M. Browne hand building over to Parish Council, Dersingham Village Centre Association take over running of building
26/11/2018	Full Council minute - Ben Colson appointed as independent chairman of Dersingham Centre Review Group, members of group confirmed – Councillors C Shepherd, M Shepherd, Anderson and Houston and the Clerk

5

FINANCE HEADLINES

5.1 In order to understand the extent of the financial crisis which the Project brought to the Parish Council (hereafter DPC) it is worthwhile recording the extent of the problem. The sums below relate only to costs associated with the Village Centre and do not include other ordinary business matters of DPC. We found that there was confusion at times between build cost and total project cost.

5.2 June 2015: The Parish Council's Dersingham Centre Committee (hereafter DCC) was advised that the estimated cost of the proposed new village centre was £745,000.

5.3 21st March 2016: first documented concern about the cost of the project surfaced. The DPC minute indicates a councillor felt that they were ill informed and requested a detailed report on the Business Plan and funding. There is no record that this was provided.

5.4 October 2016: Following grant of planning permission for renovation and extension of existing church hall, the council's Quantity Surveyor (hereafter QS) estimated cost of build at £1.2 million. They also indicated that through Value Engineering (hereafter VE) the cost could be reduced to £946,000. Both estimates were referred to in the Capital Project Delivery Plan (hereafter CPDP), the lower figure was used when considering funding whereas the drawings and design statement related to the higher figure.

5.5 22nd February 2017: Tenders were received at a total build cost of approximately £1.15m.

5.6 March 2017: DCC resolved to recommend to DPC that T M Browne (hereafter TMB) be appointed as preferred contractor subject to savings and all monies being in place. DPC agreed this one week later but, importantly, only subject to all monies being in place.

5.7 March 2017: Award of Big Lottery Grant of £550,000. This was an increase of £50,000 over the amount originally applied for.

5.8 June 2017: DPC asked to approve application for a Public Works Loan which, after discussion, was agreed at £150k to be repaid over 30 years. The Minute shows that a £80k Leader grant had been applied for, but one condition of this funder was that no more than 80% be publicly funded, so not compatible with the other major sources of finance. Further private funder grant applications totalling £56k subsequently not awarded. By this time, the build cost had been negotiated with TMB down to £915k and the total project cost was given as £955k. This was covered by funds as follows:

Big Lottery Fund	£550k
Other grants and funds	£297.6k*
Public Works Loan	£150k
Total	£997.6k

*This amount is made up of £130k on DPC reserves, £12.5k from community fundraising, £80k LEADER grant applied for, £50k DONG fund applied for, and £6.5k other funds applied for. Subsequently, the LEADER grant and others amounting in total to £136k were not awarded, meaning that the available funds were reduced to £861.6k leaving a shortfall of £93.4k on the total project cost of £955k.

5.9 July 2017: Total funds of £875k were confirmed to DCC, including £12,500 transferred from DPC's Skatepark reserve fund, which was later returned.

5.10 24th August 2017: This amount reconfirmed to DCC as available funding.

5.11 25th August 2017: Letter of intent sent to TMB confirming current secured build budget of £825k. By implication this suggests £875k was available to meet the total project cost including £50k for other costs not payable to TMB, such as professional fees and contingency. (para 7.14).

5.12 September 2017: Build cost of £850k agreed with TMB. Additional £25k initially would be met from DPC general fund but subsequently a private donation of £25k was received. It should be noted that this cost did not include items such as kitchen, first floor suite and high specification ground floor flooring. Subsequently part funded by a grant from WREN.

5.13 December 2017: In the first of its report to the Big Lottery Fund (hereafter BLF), which accompanied payment claims, DPC states *"…..the total contract price was reduced to £850,057 which was within the budget available…"* The cash flow forecast for January 2018, attached to the report, shows partnership funding of £352.5k, BLF grant £550k making total funds available £902.5k, and on the cost side £850k build cost, £10k professional fees and £42.5k contingency. By December £125.4k had been spent on construction, £1k on professional fees and £12k of contingency. Thus 28% of contingency was used up in the first round of expenditure.

5.14 January 2018: DPC met and set the Precept for the financial year 2018-19. This included an additional sum considered necessary to cover the shortfall described above. This was in excess of the increase recommended by the Parish Clerk as Responsible Finance Officer (hereafter RFO). The higher figure was as a result of a projected shortfall of the total project costs calculated by the then recently formed Financial Task Group (hereafter FTG). The additional funds raised through the higher Precept appeared, at that time, to put the funding back where it needed to be.

5.15 February 2018: WREN grant of £88,250 awarded subject to a third party payment of £9,486. Note this grant included £15,500 for PV cells and £19,750 for kitchen, which were not part of TMB contract. It should also be noted that the total estimated costs of the WREN funded work were £93,947. The net result was that the additional work added £15k to the shortfall.

5.16 February 2018: BLF report 2 shows that the £850k construction cost now estimated by QS to have risen to £874.2k but a warning is noted that the final value of the works could rise to an estimated £892.5k. No cash flow forecast attached to the copy of the report that we have seen, so there is no indication of professional fees paid or use of contingency funding, however professional fees were being reported internally as about £50k but externally to BLF as £10k (para 5.13).

5.17 April 2018: BLF report 3 QS estimates total build cost has risen modestly to £879.1k but the forecast final value of the works remains at £892.5k. No cash flow forecast attached to the report that we have seen, so there is no indication of professional fees paid or use of contingency funding.

5.18 June 2018: BLF report 4 (BLF report 5 was also issued in June, see below) shows that the £850k construction cost has now risen such that the QS's estimated final value of the works could rise to as much as £940k. The report states "*During these last two months some unexpected problems have arisen which have led to significant cost increases*" blaming HE's requirement to retain the original front wall, which ate into the contingency reserve (para 9.20). No cash flow forecast attached to the report that we have seen, so there is no indication of professional fees actually paid or use of contingency funding.

5.19 11th June 2018: FTG reported to DPC that the likely shortfall of the whole project was estimated to be £8k. This information appears at odds with reports 4 and 5 to BLF but the difference is due to the FTG looking at the entire project cost whilst the BLF reports relate to build cost only.

5.20 June 30th, 2018: BLF report 5 is the second that month as a second claim for payment was made. The QS's estimate of £940k remains, although a further invoice from TMB of £91.2k (certificate no 9) had been received. A cash flow forecast for June 2018 is attached to Report no 5 (note, issued on 30th June so either a historic record or a forecast for July not June). It shows total construction value at the end of June as £620.5k, professional fees as £12.5k, contingency as £38.5k. This is the last claim made to BLF, so the last such report issued, however BLF retained £27k until practical completion, and this was subsequently put through the parish accounts in February 2019.

5.21 23rd July 2018: FTG reported to DPC that projected shortfall grown to £25k.

5.22 7th August 2018: projected shortfall grown to a figure of between £58k (best case) and £164k (worst case scenario); the difference was between QS's calculation and that of the QS appointed by TMB. This suggests further worsening from the cash flow forecast issued to BLF with report no 5 (paras 5.20 and 10.14).

5.23 24th August 2018: special meeting of DPC received report that overspend would likely be £142k and that the only solution was to seek a second Public Works Loan.

5.24 31st August 2018: DPC meeting received report that the projected shortfall would likely be between £145k and £199k depending on differing QS expectations. It was agreed to seek a second Public Works Loan of £200k, but in the belief that this amount was higher than would actually be required. The difference between the July and August estimates arises from late processing of Variation Orders (hereafter VOs). In the event, the overspend was at the top end of this scale (see section 5.25).

5.25 October 2018: The final bill was paid to TMB giving a total build cost of £1.1m compared with the TMB base cost of £850k. To this has to be added £53k as additional works associated with the WREN granted work, making a total base cost of £903k, thus an overspend of £197k.

6

PROJECT MANAGEMENT

Project background

6.1 There is no doubt that there was a desire for a new Centre to serve a growing village. The Church Hall was dated and in considerable need of repair and refurbishment. Equally, there is no doubt that those who led the project were well-intentioned in their resolve and endeavours. That said, we found a lack of clear project leadership from the outset: nobody was able to tell us who the project leader was, which we found considerably concerning.

6.2 In the decade before the financial crash of 2008-09 consideration was given to several possible sites for such a development. For a variety of reasons the Church Hall presented the most suitable balance between available land space and likely cost.

6.3 This was not progressed, but by 2011 the Church of England offered the hall and negotiations began. As a result, in 2013-14 parishioners were surveyed as to what they would want from a village centre, and to what use they would put it. That survey was used as part of the evidence base for the funding application to BLF. The centre is well used and there is no evidence, therefore, that the survey result was skewed – possibly apart from the desire for a hall so big as to seat 200 people.

Big Lottery Fund advice

6.4 BLF is well-used to funding such developments and has produced a document entitled "*Designing and running a community building – reflections from our grant holders*". This was published June 2011; we know that a copy was held, whether by DPC, DCC or Dersingham Village Centre Association (hereafter DVCA) is unknown, nor when it was received from BLF. However, it is probable that it would have been received as part of the funding application pack in which event, by 2016, it was known by at least some Parish Councillors or others.

6.5 The BLF document includes comments and leads for those organising such a project, including, "*what would you do differently*" (my numbering):

1 Form a small focused project team with the appropriate range of skills and experience required to deliver a capital project.

2 Take time to develop the project team as a team, clearly highlighting early on where potential skill gaps exist. Developing a capital project is very different

from a revenue project and requires very different skills. Making sure that all the skills are covered provides a better chance of the project succeeding.

3 If funding allows, employ a professional project manager. They will have experienced all of the potential problems that could arise but will also plan to try and ensure they do not arise in the first place.

4 Employ the appropriate legal expertise early on to resolves issues before they get out-of-hand and increase costs.

5 Make sure other financial commitments from funders are secure from the start. Uncertainty around securing funding will always be a problem but try to ensure that other funders are committed before any work begins. Failure to do so may threaten the success of the project.

6 Allow for a contingency over and above the projected costs. This is normally a requirement and is vital as costs often exceed initial estimates due to unforeseen problems.

7 Make sure you request the true cost of the project from the outset. Trying to artificially reduce the cost of your project to secure funding will lead to significant problems later in the process, placing the project in severe jeopardy.

8 Take time to secure the most appropriate professionals from the start.

The impact of not following Big Lottery advice

6.6 No evidence has been found to indicate if this advice was considered or discussed. Had DPC followed this simple advice it is probable that much of the escalating overspend (section 5) could have been avoided. If the document was not available from BLF at the right time, it is regrettable, but if it was received as part of the funding application pack, then it raises the question why its recommendations were not followed. In short, why was it that Dersingham was different? Why did it want to 'reinvent the wheel'? Without evidence as to when it was received, we cannot draw any conclusion on responsibility for the failure to follow its recommendations.

6.7 We do know from answers to questions, mainly from the then DPC Chairman, that insufficient consideration was given to buying in professional project management (BLF 3 above), nor to select the project team with reference to their range of skills and experience (BLF 1 above), nor to consider and highlight where skill gaps exist in the team (BLF 2 above), nor to employ appropriate financial expertise early on (BLF 4 above). Irrespective of whether the BLF document had actually been received, it is surprising and concerning that project team members – the DCC was created for the purpose – were volunteers rather than chosen against an analysis of skills required of it. However, DCC did include a professional civil engineer, an architectural technician and someone with building experience, but no-one with a financial background nor anyone with recent experience in this type of project management. However, the Chairman did report to DPC that one Councillor had experience of managing multimillion pound engineering projects, so it is clear that some consideration was given to the range of available skills.

6.8 It also became clear from our evidence sessions that there was a failure to recognise the difference between managing a capital project and a revenue one (BLF 2 above) and indeed, further than that, a project with inevitable cash flow turbulence (inevitable because funds are being received progressively during the project as are payments being made, but there is no direct correlation between the two) compared with the normal operations of a parish council where precept funding is received in a single annual block and spent during the year. This failure to understand the cash flow management implications and the very different skill set required compared with that ordinarily of an RFO, to not either seek professional cash flow management support or buy in special training for the RFO all contributed to the near failure of the project (section 11).

6.9 These failings arose because the project was handled by well-intentioned but amateur councillors rather than professionals, and all emphasise the BLF's 2011 advice to employ a professional project manager and advisers. However, we have been told that at no time was there any attempt to harness expertise from councillors, even though it was evident that such expertise existed. If it had been, some incorrect decisions might have been avoided.

6.10 We have been told that DPC was acutely aware of the tightness of funding – actually it was a considerable shortfall at the outset of the project – and that it considered that professional support could not be afforded. We have found no evidence that a cost and benefit assessment was undertaken to support this view; it may well have been that, for example £50k spent on project management and advice, would have reaped considerably greater financial benefits than its cost. That is conjecture but is the only conclusion that can be drawn from the BLF document which was based on prior project experience.

6.11 It has to be concluded, therefore, that there was a considerable failure of judgement right at the outset of this project in not seeking the service of professional project management (para 9.26), and during the term of the project by not seeking appropriate professional services and advice, whether in respect of contract administration (paras 10.4 to 10.10 and 10.15 to 10.26) and VAT advice (paras 11.24 to 11.44) in particular. With professional management it is unlikely that many of the omissions would have occurred in the first instance, but, importantly, if it had there could have been a case for compensation under their indemnity insurance policy.

The Risk Register

6.13 The level of risk in a project and the amount of contingency funding provided are linked; the greater the expectation of risk, the greater the contingency needs to be. We have therefore undertaken a desktop review of how risk was assessed by the project team and what mitigations were put in place to address identified risks. The level of contingency is a separate issue, considered in paras 9.16 to 9.26.

6.14 During the review we have come across two formal Risk Registers:

1. BLF Mentoring pack – Template risk register 32 points, dated 26th July 2016.
2. In Business plan – 11-point plan first produced November 2016 and updated on 7th June 2018 for report no 5 to BLF.

6.15 The BLF template Risk Register is a comprehensive guide and not all of the risks identified would apply to this project. However, this template did include some management, financial and design risks that did apply.

6.16 The Risk Register in the plan submitted by DPC to BLF is much simpler and has been written using a different standard template. The controls, actions and responsibilities are clearly laid out. It meets the requirement of a Risk Register and, importantly, it was accepted as that by BLF. Eleven risks are identified:

1. Loss of funding due to delays
2. Delays in transfer of site to DPC
3. Fund raising doesn't meet targets
4. Build costs rise
5. Building faults
6. Lead contractor financial/labour issues stopping build
7. Loss of Key officers/Councillors
8. Old user groups do not move back to building
9. New activities have low take-up
10. Income does not cover outgoings
11. Issues which DVC/DPC unable to resolve

6.17 The Risk Register includes a risk description of "*fundraising events don't meet target*". This is shown as both medium in impact and in probability. There is no reference to the potentially greater risk of fundraising from grant making bodies not meeting target, but it is within the BLF risk register template. However, in respect of events not meeting targeted income, the register states "*Review type of activities [and] improve marketing and publicity.*" There is no evidence that this would be sufficient, or that it happened, but the register, first produced in November 2016 was updated on 7th June 2018 long after it was apparent that this risk had become reality. We have seen no evidence that the Risk Register was regularly updated between 2016 and 2018.

6.18 In the June 2018 update, a number more were added. One was that insufficient funds would be available to complete parts of the project, such as the car park, but this had already been removed during the VE exercise in September 2017 so no longer was a risk. Very significantly, by then, a risk arising from variations not being costed at the correct time had been added.

6.19 A Risk Register was produced for the BLF submission and we have evidence that it was updated at least once during the build process. We cannot be clear that this was anything more than to satisfy the needs of BLF rather than for sound project management reasons. We believe that if more items from the BLF template had been used this would have assisted consider tailored mitigation for many more risks, and this could have lessened the cost overrun. Examples of mitigation provided in BLF's register advice includes to obtain specialist VAT advice, identification of a PM and to undertake a skills gap analysis for the organisation. None of these appear to have been done. We have seen no evidence that these were considered either by DCC or DPC and if they had been could have could have avoided some of the mistakes identified elsewhere being made.

6.20 As the contingency reserve was reduced (para 9.16 to 9.26) there is a strong case for the Risk Register to have at least been reviewed and updated. It appears that this was not done, and as with the example of the added item in September 2017 (para 6.17) it leads to the conclusion that it may have been viewed more as a tick-box exercise to satisfy BLF than an essential management tool.

7

FUNDRAISING

7.1 Initially the project was a demolition of the existing Church Hall and the construction of a completely new village centre with an estimated cost of £750,000 and fund raising was started with this figure in mind. However, the project cost increased due to the requirement to retain parts of the building as required by Historic England (hereafter HE) (section 8).

7.2 We asked many witnesses the question who was tasked to head up fundraising for this significant capital project. We were told that DVCA was fundraising but as a charity it could only raise funds for the elements such as chairs and tables without causing tax issues, but that was probably not understood at the time. However, charitable status was only conferred in May 2018 so up to that time it could have fundraised for the project as a whole. With some probing, most thought DPC Chairman was in charge of fundraising. The fact that there wasn't a clear fundraising group with an appointed leader and that there was a considerable degree of overlap with the project management and execution is a matter of concern.

7.3 The BLF maximum fund award at the time was £500k – although the fund manager was persuaded to increase this by 10% to £550k. The Annual Report of DCC, in March 2017 presented to DPC's annual meeting in May 2017, stated that following the BLF award "*we still have a large gap between our estimated final cost of about £950k including all building costs and professional fees……..but we hope to bridge during the first few months of our next year*." Thereafter the report is silent; there is no evidence that either committee members considered, or DPC challenged actually how it was anticipated the shortfall would be bridged.

7.4 To raise £400k would inevitably take some considerable planning and it was essential to 'think big'. Indeed, it is a sufficiently large sum for there to have been consideration given to employing professional fundraising expertise to do so. There is no evidence that such a means of fund raising was considered and the decision was taken to raise the necessary funds by in-house means. This may be of considerable credit to those concerned, but it simply increased the probability that the required sum would not be raised.

7.5 We have seen no evidence that, in the absence of a professional fundraiser being employed, there was a plan to raise it from village activities supplemented by applications to other fund managers. Rather it appears that fundraising was thought of at a more local and lower level than following a predetermined plan necessary to raise considerable outstanding funds.

7.6 By the time the BLF award was made, because of Borough Council planning requirements, the build had changed to renovations and extensions. Tenders had been received and a preferred builder appointed. The tender price was £1.15 million and negotiations commenced to reduce the price and in September 2017 a build price of £850K was finally agreed. On 26thJune 2017 a report was presented to DPC requesting authority to seek a public works loan. The report set out a total project cost of £955k (build cost £915k) with funding made up from a grant of £550k from BLF, other grants of £155k, (some not yet awarded) parish council funds of £130k and local fundraising of 12.6k. This indicated total available funding of £847.6k. DPC therefore agreed to apply for a maximum loan of £150k over 30 years in order not to increase the precept. This would have given slightly more funding than required.

7.7 However, subsequently only £19k of the £155k grants applied for were awarded and £10k of other funding was not given. A private donation of £25k was given in August and parish council funding was increased which meant that by September total available funding was £902.5k. We have been advised that this included £10k for fees and £42.5k for contingency, leaving £850k for the build. By the time the builders were ready to start, the build cost had to have been negotiated down to £850k. This demonstrates that as the predicted build cost increased the available funding decreased. Rather than pause or stop the build at this stage costs were trimmed to meet available funding. In March 2018 a grant of £88.25k was awarded by WREN and this allowed certain elements of the build that had been removed to reduce costs to be reinstated. See also section 7.12 below.

7.8 There was a further issue. An application for £80k had been made in June 2017 to the EU sponsored LEADER fund which was required, by its terms and conditions not to be granted if more than 80% of the funds invested in the project came from public sources. In this context, public sources include BLF and DPC funds, amounting between them to 72% of the £950k required. Whilst the LEADER fund was thus essential to fund the project, it pushed the total from public sources to above the threshold therefore negating its award.

7.9 The table below, taken from DPC documentation illustrates this:

Total build cost	£915k
Therefore, 80%	£732k
Sourced from public funds	£680k
Maximum LEADER funding	£ 52k

Thus an £80k grant from LEADER would have exceeded the 80% threshold in the event that the FTG predictions proved correct. Whilst LEADER could be applied for only in respect of work not already commenced (such as the car park) we have seen no evidence that it has to cover the entire cost and it was thus open for DPC to have applied for, say, £50k from the fund and remain compliant. We do not know why this wasn't done although we could postulate that it was because there were insufficient internal funds to meet that further shortfall.

7.10 We have been told that part of the funding was expected to come from village subscriptions, especially a Village Lottery. We were told of another village which had launched a similar scheme for funding towards a new village hall, and that raised about £2k per month, however this village has a much higher per capita income and was therefore not a sound comparison. We were told that, in the event, the Dersingham lottery did not raise the expected funds - it only raised about £70 per month (although at its peak some £250 per month); in any event, the lottery was to provide funds for DVCA, not the build fund. Perhaps this lack of uptake is not surprising given that households were already paying a higher Precept to fund the project. However, even if it had raised funds at the rate of the other village, it would have taken over ten years to raise £250k, set against a BLF requirement to commence work within six months of their award. This is a simplistic way to look at the situation perhaps, but with one of the largest other funds declining, and the largest at jeopardy of being withdrawn, DPC should have considered the worst case scenario and plan for how to meet it. There is no evidence that it did so; indeed, DCC's June report is completely silent on this.

7.11 With proper financial planning management, the project would have been stopped or paused at this point. Tender bids higher than expected set against funds raised being lower than required to meet the expected tender bids. It was evident in February 2017 that there would be insufficient funds to deliver the then planned project (para 7.3). Yet in DCC's June report it states "…*we have approved our preferred contractor and have been working on cost savings with the architect and design engineers.*" The evidence is clear that the project was going ahead even if insufficient funds had been raised; that there seemed to be a 'disconnect' between income and expenditure. This was contrary to the Resolution of DPC on 27th March 2017 that all monies must be in place.

7.12 We have considered and report at section 12 whether good governance and scrutiny were evident at DPC. DPC's June 2017 report also states, "*Other grants [apart from BLF] have been applied for, some approved…. .*" Councillors were advised verbally that decisions were awaited on the other grant applications.

The spreadsheet attached to the DPC Report shows:

Grants approved:	£635k
Parish Council funds:	£142.6k (allocated in reserves, fund raising and community)
Grants applied for:	£70k (including DONG and Flux subsequently declined)
Total:	£847.6k

However, this was misleading, as the £635k approved grants included £80k LEADER funding which could not be claimed (paras 7.8 and 7.9), and, whilst correct at the time of writing, of the £70k grants applied for, £55k (from DONG and the Flux Family Trust) was declined by the grant making bodies. The secure funding, including Parish Council transfers and community fundraising was, at that stage, actually, £697.6k, so at best still a very significant shortfall. It is not possible to identify how DPC members considered that a Public Works Loan of £150k would be sufficient let alone that "*we* *expect this to be nearer to £100k."* Despite this, we can see no written evidence of appropriate scrutiny at DPC.

7.13 Although a relatively small amount financially, the June 2017 fundraising spreadsheet shows confirmed fundraising by DPC of £2.6k and Community Fundraising of £10k. There is no explanation of what these amounts are or what the difference between them is. Nonetheless, it is our belief that neither yielded the anticipated funds, and this alone should have raised questions in the minds of DCC committee members, and/or DPC Councillors.

7.14 Despite this, and seemingly without regard to DPC's resolution on 27th March 2017, on 25th August that year a letter of intent was sent to TMB confirming current secured build budget of £825k (para 7.11). By implication this suggests £875k was available to meet the total project cost (including professional fees and a contingency fund), although DPC was not made aware of this at the time.

7.15 TMB went on site in September 2017 despite no further written evidence as to fundraising progress. The implications of their entering the site before a contract had been signed is considered in Section 10. It was clear that, as they started to prepare the site, there was insufficient funding to cover the whole cost of the project.

7.16 The Risk Register includes a risk description of "fundraising events don't meet target". This is shown as both medium in impact and in probability. There is no reference to the potentially greater risk of fundraising from grant making bodies not meeting target, but it is within the BLF risk register template. However, in respect of events not meeting targeted income, the register states "Review type of activities [and] improve marketing and publicity." There is no evidence that this would be sufficient, or that it happened, but the register, first produced in November 2016 was updated on 7th June 2018 long after it was apparent that this risk had become reality. We have seen no evidence that this item on the register was updated between 2016 and 2018.

8

THE PLANNING APPLICATION

8.1 The Planning Application was submitted to demolish the Church Hall and replace with an entirely new build in December 2015 (ref 15/01686). No matter how simple that appeared, it would be inconceivable for the sponsors of a new, publicly funded hall not to have sought pre-planning advice from the planning authority, in this case the Borough Council of King's Lynn and West Norfolk. But there is no evidence to suggest it was sought.

8.2 Because none was sought it is conjecture to suggest what may have been learned. We were told that DPC relied on advice sought earlier, in about 2004-05, that a new build on this site would not present a planning problem.

8.3 However, between then and the end of 2015 when the application was submitted, the Church Hall was described, in the Dersingham Conservation Area Statement as an "*important unlisted building*" when the area was designated as a Conservation Area in 2013. It is unimaginable that this change of status was not taken into account, but we have also been told that even within the constraint of the Conservation Area it would have been possible to demolish the then existing building and replace it in similar style. That would require the agreement of HE.

8.4 Being sited at the edge of the ancient monument, it meant that HE would be a statutory consultee. A statutory consultee is precisely that, it has no veto as such, but it is the national government body that deals with the protection of the historic environment and the planning authority would be unlikely to ignore or refuse the advice of such a body. HE was not willing to support a demolish and rebuild application, rather it advised that it would support the retention of the front (South) elevation with a new build behind it. Therefore, from then on, the need to take account of this on the build price and VAT issues was paramount yet this appears not to have been.

8.5 DPC did write in response to the HE letter but the Borough Council followed HE's advice, even though the front wall was in a precarious condition. The HE advice led to a higher build price, but this was arguably, partly, offset by cost reductions elsewhere in the project so the HE requirement did not of itself lead to overspending. To lodge a formal appeal would require making an economic case for total demolition and rebuild, but this would have delayed the entire project and there was no guarantee that it would have been successful.

8.6 However, with up to date pre-application advice, it is probable that this setback could have been avoided. HE’s decision, and DPC’s reluctant decision to comply with it rather than challenge it, would have had a significant impact on the VAT advice received by DPC, had it been that advice was actually sought, received and followed.

8.7 Revised drawings were prepared and submitted which retained the front elevation of the former Church Hall. Planning permission was granted in September 2016. Following the appointment of the preferred builder, VE negotiations took place to reduce the price of the build, and this led to the submission of a revised planning application at the beginning of October 2017, which was granted in late November 2017.

8.8 The second planning application changed features in line with the VE cost reduction measures agreed between DCC, the QSs and TMB. Atelier, DPC’s architectural designer, had produced initial concept drawings for a new build hall free of charge to DPC; by late 2015 it had tendered to take the project through to the planning application stage.

8.9 The impact of HE’s decision to not support total demolition was twofold. Firstly, the unforeseen cost of merging an old build with new cannot readily be predicted as unexpected items, such as the need to replace decayed timber, come to light. Secondly, and more significantly, whilst a new build is VAT exempt, a renovation (as it is classified) attracts VAT at standard rate. On what had now been VE’d down to an £850k project, VAT would amount to an additional £170k charge. Further implications of VAT will be discussed in section 11 and the need for greater contingency in section 9.

8.10 Whilst Atelier had been contracted to take the project to planning application stage, the overall responsibility lay with DPC. As client and fundraiser, it can legitimately delegate or outsource the work, but not the responsibility. In this regard, DPC operated through a properly constituted Committee, the DCC, and therefore it is the Chairman of that Committee which had overall responsibility for ensuring that the planning application was correct and affordable within the available funding.

9

TENDER, APPOINTMENT OF PREFERRED BIDDER, POST TENDER NEGOTIATIONS & CONTINGENCY

9.1 Concern had been expressed that the tender, appointment of preferred bidder and post tender negotiations were not conducted in accordance with Council's Standing Orders or in accordance with the standards required when public funds are involved. We believe that it was, and whilst not following best or recommended practice, the procedure was compliant.

The Invitation to Tender

9.2 The invitation to tender (hereafter ITT) was prepared by a Parish Councillor working in conjunction with Atelier. This was followed with the ITT being released via Contracts Finder (hereafter CF) (the required method for contracts of this size and nature being let by public bodies) and five builders were contacted to alert them to this fact. There is nothing unusual or out of order in doing so.

9.3 The ITT posted on CF was loaded onto the website by the Clerk. It was deficient in a number of ways:

9.3.1 Firstly, it gave the anticipated bid price of £1.2m but, within 24 hours, this was changed to £850k which was considerably below the QS costings for the scheme which we now know was shown on the drawings.

9.3.2 Secondly, whilst there was some confusion about this during interviews, all the evidence we have amassed, confirms that the drawings and documents for the tender were those for the scheme originally estimated by DPC's QS to cost £1.2m. Interested bidders were referred on CF to the 'seller' for details of specifications and drawings. Atelier had provided a link to Dropbox where the drawings and other documents could be found.

9.3.3 Thirdly, the entry on CF should have made clear that post-tender negotiations may follow the appointment of a preferred bidder and would only be with the preferred bidder.

9.3.4 The Clerk created the CF entry and she has confirmed to us that she had not done this before and had no knowledge of what should have been written to ensure proper compliance with procurement rules and best practice. We were also told that the DPC Chairman was present when the RFO uploaded the information.

9.4 One of the builders alerted was based in Kent rather than the company with the same name in West Norfolk, which had been the company the DPC had anticipated would be contacted. We are aware that the King's Lynn firm of the same name assisted Atelier at the stage when a new build was proposed. CF was open for any professional builder to use and access the opportunity; it therefore has to be concluded that this error, whilst unhelpful, did not jeopardise compliance in seeking tenders for the work.

9.5 We received conflicting evidence as to the basis on which the ITT was produced and posted on CF. Some witnesses told us that the specification and drawings were based on the originals produced by Atelier as costed by the QS at £1.2m although others suggested that changes had been made to reduce the cost to £946k. We have now confirmed that the version tendered related to the scheme costed at £1.2m. It is not surprising, therefore, that the two compliant bids received were priced at about that value.

Appointment of the Preferred Bidder

9.6 Three bids were received in response to the ITT. One was deemed not to have fulfilled the requirements of the tender specification and was therefore rejected.

9.7 We have been told by some others whom we have consulted that it is not unusual in the building trade to submit cursory bids, as the full requirement is established in the post tender negotiations. In this way bidders do not incur high upfront costs for what, statistically, will most likely be an unsuccessful bid; TMB told us that they had not bid for work in the past where they considered that the cost of bidding would be high relative to the chance of being selected.

9.8 We understand that the non-compliant bid was a single A4 piece of paper and importantly without a schedule of rates. The bid did not comply with the ITT and DPC was therefore right to reject it.

9.9 A comparison of the two compliant bids was undertaken and a preferred bidder selected. A Motion to accept this bid was put to DPC on 27th March 2017. However, the process at DPC was, questionable, in that whilst a significant sum of money was being spent, more than 10% of which was from DPC's own funds, it appears that only verbal comments were given at the meeting. No full analysis of the bids or the methodology for choosing the preferred bidder was submitted to Councillors.

9.10 We were told that TMB was asked to supply supplementary information. The ITT specification provided for a period of fourteen days for supplementary information to be supplied, and we therefore believe that DPC was within its rights to ask for this.

9.11 We are also aware that Atelier recommended that DPC retender the entire project. We believe that this may have been wise because it could have ensured that the right drawings would have been available, and correct expected price range included on CF. However, we do not conclude that DPC, whilst unwise, was wrong to follow the course of action it did.

Post tender negotiations

9.12 A question was raised with us concerning post-tender negotiations being undertaken with just one bidder, the preferred bidder. This is a normal arrangement but to be compliant the intention should have been noted in the advertisement on CF, but it was not. The failsafe would have been a statement to this effect in the ITT, but that was not the case either.

9.13 Negotiating only with the preferred bidder is not of itself contrary to procurement regulations or best practice, but not advertising the fact in advance is not best practice. The Clerk made the entry on CF and posted the ITT and when we questioned her about this omission she told us that she was not aware, and also that she had never done any such activity before and therefore had no experience of procurement at this value level. We have been told that DPC Chairman was present when the entry was made on CF.

9.14 There were at least five meetings held at Atelier's office, between DPC, Atelier, the QS and the preferred bidder, TMB, as attempts were made to reduce the build price to match the available funds. They have been described as lengthy and sometimes difficult, but also as professional, and with various players sticking to their own preferences. The meetings reviewed the items which could be removed or replaced with less costly materials, such as steel replacing feature beams and European larch replacing Siberian larch etc. During the VE process, some significant components were removed, such as the kitchen, first floor suite and store room, and car park surfacing. Without additional funding, it was doubtful that the building would have been viable. It is evident that the process was not easy and that should have indicated that the outcome would be risky to all players, including DPC. Of considerable concern to us was that DPC's QS only attended two of the at least five meetings. At the end of the process, some of the Drawings had to be amended to include the revisions made.

9.15 However, proper procurement arrangements have been followed if all bidders and potential bidders were working to the same specification, and there is no evidence to the contrary. Whilst the process to reduce the price may have been difficult and may not have secured the best value, we do not believe that it contravened procurement regulations.

Contingency

9.16 During the post-tender negotiations, both TMB and its client, DPC, reduced their contingency provisions. TMB has told us that, in their case, they did so in order to secure the contract, in the (incorrect) belief that DPC had sufficient funds to meet the project cost with suitable contingency funding. It is clear to us that DPC had not taken sufficient account of the considerable difference between project cost and build cost, and this, together with the reduction of its contingency to £50k increased the risk to the funding of the project.

9.17 Contingency is a crucial part of any contract. It would be normal for both the bidder and client to have contingency funding to be able to cover unforeseen problems, cost overruns and inflation. Contingency is expressed as a percentage of the total projected cost, so if cheaper materials are used and the estimate reduces, so does the contingency. Both the bidder and client require contingency to cover their respective risks.

9.18 We were told that DPC believed that a single contingency fund of about 5% would suffice because Atelier had carried out all the detailed design work and were familiar with the original Church Hall. However, we believe that the BLF advice should have been followed which could have provided sufficient funds to meet the full project cost. We also believe that the contingency was cut mainly to meet the available funds.

9.19 Not only is it clear that the documents and drawings deposited in Dropbox were for the project costed at £1.2m rather than the VE reduced cost set, but also with a reduced DPC contingency now having to fund the redrawing of the correct set, there was even less than the already reduced amount available for all other unforeseen and project costs. This significantly increased the project risk and should have been added to the Risk Register but was not (paras 6.13 to 6.20). However, Baxter's (as QS) reduced cost of £946k did include a reduction in contingency as they had changed the building materials to those said to carry less risk.

9.20 We were told by more than one builder the extent of contingency that they would build in to a bid price would be lower for a completely new build than for a renovation (i.e. retaining some original features and building new around them) and it would be significantly more than DPC provided. The reason is that merging old and new makes it more likely to require extra work, unforeseeable at the time of bidding. This was a crucial difference resulting from HE's requirement to retain some of the original building and was subsequently reported to BLF in report 4 as being the cause of the then projected considerable cost increase (see section 5.18). The report states "*During these last two months some unexpected problems have arisen which have led to significant cost increases*" blaming HE's requirement to retain the original front wall, which ate into the contingency reserve. The risk of overspend for this specific reason was not included in either the original Risk Register or the 7th June 2018 updated version, although it may have been included the catch-all description of "build costs rise".

9.21 Further, DPC potentially faced the need to pay VAT although it appears that this was not considered at the time, or that hoping it would not be the case. This presented a considerable cash flow issue (rather than cost overrun, as the VAT could have been reclaimed). Either way, it further increased the project risk. The Risk Register makes no reference to such a risk, although we have been told that it was raised as a concern by a Councillor in DCC but dismissed (para 3.24).

9.22 It was therefore essential that both bidder and client retained a fair level of contingency in their budgets. BLF recommends that the client builds in contingency of 15% of the total project cost in addition to the contractor's contingency. We were told that DPC started with 10% (therefore some £43k below the recommended amount) and reduced it to £50k, just over only 5%, through the post tender negotiations. This shows that there may have been insufficient funds from the outset to meet actual or perceived risks yet was not listed on the Risk Register (see sections 6.13 to 6.20).

9.23 The extent of contingency provided for by DPC meant that it budgeted at a figure of between some £125k and £180k below BLF recommendations, dependent upon whether the higher or lower build cost was included. HE's decision that the front elevation should be retained not only increased cost, but also contingent risk and it would have been prudent to at the least pause and review project financing at that stage.

9.24 Not only did it cut its contingency when the Risk Register should have indicated the need to increase it, DPC was also party to post tender negotiations with TMB and professional advisers which led to TMB reducing or eliminating its own contingency as well. That double hit meant that in the event of unforeseen overspends – and there were many, see section 10, there was no available funding to meet them.

9.25 Any major project requires the inclusion of a contingency fund because of the risk of unforeseen problems or events. The extent of the contingency fund provided is dependent upon an objective and detailed risk assessment. A Risk Register was produced for BLF, but it appears that the consequence of the risks identified were neither quantified nor appropriate remedial interventions planned. Had it been otherwise, it is inconceivable that the assessment would not have picked up the additional project costs (even if limited only to renewing the drawings), the VAT issue and especially the cost consequence of HE's decision. That these risks – and other more mundane ones which arose during the build process – were not costed into a project contingency fund is evidence of DPC's flawed approach to the project.

9.26 We have concluded that the failure to buy in professional project management to oversee the project was a major failure (para 6.11). There was no single identifiable person that was managing, supervising and co-ordinating the project for DPC. Had there been bought-in management, the recourse to compensation for failure would reduce the risk; conversely, in this instance, the lack of it merely served to increase the risk and therefore the need for adequate contingency funding.

10

CONTROL OF THE BUILD PROCESS

10.1 The process of undertaking the build of a largescale project such as this requires some explanation. The client employs professionals to lead on their behalf, most notably the services of a Project Manager to look after the whole project, not just the build element (hereafter PM1), Quantity Surveyor (QS) and Contract Administrator (CA). For its part the contractor employs a professional Project Manager (PM2), Site Agent (SA), and Quantity Surveyor (QS).

10.2 In the case of Dersingham Village Centre, the client was DPC and the contractor TMB. DPC did not employ a PM but did employ a QS (changed from Baxters to M Howe during the project) and instead of appointing an independent, professional CA, it chose to select two Parish Councillors to undertake the role. TMB had its management in place, but the PM2 visited only occasionally to be updated on work and any problems.

10.3 We have already outlined the consequence of DPC's failure to employ a PM (paras 6.11 and 9.26). Not only did this failure result in poor preparation before the build commenced, it also impacted during the build itself.

Appointment of Contract Administrators

10.4 The decision to select two Parish Councillors to undertake the CA role was, we believe, critical to some of the failures of the project. There is no evidence of a list of skills required having been drawn up or measurement of the two (or other) individuals against it. Indeed, we were told specifically that it was not done although they genuinely thought that they did have the necessary skills, perhaps due to a misunderstanding of the role. We concluded that this was a major failure of process.

10.5 Insofar as the two individuals are concerned, together, they may have had the appropriate skillset. The skills of an Engineer are in many ways similar to those of a CA but differ in the knowledge and experience required of a project of this nature. The evidence leads us to believe that there was a mismatch between required skills and those actually available.

10.6 We considered the obvious question as to how the two CAs were chosen, by whom, and how DPC confirmed their appointment. When we asked questions about it, there was a degree of uncertainty. We learned that, at the time of the CA appointments, many or most Councillors were incorrectly believing that this was a Fixed Price contract, whereas it certainly was not. Had it been so, then the importance of the role of the CA would anyway be diminished.

10.7 We know that DPC Councillors did not receive a Paper on the matter before voting to appoint two Parish Councillors as CAs in October 2017; indeed, there is little evidence of a Motion and subsequent debate and voting on a Resolution. At the DCC meeting in July 2017, councillors had discussed appointing Atelier as CAs at a fee in the region of £56k. The committee resolved to forward this recommendation to DPC but in fact it did not. We know that by the 30th October 2017 DPC meeting, the two Parish Councillors were already on site, but we are not sure of their roles at this time. We have a letter attached to an email dated 12th October (so, three weeks earlier) from Atelier to DPC setting out the basis on which they would carry out the CA role and responsibility and a further email, dated 16th October 2017 from the chairman of DPC, expressing concern that it could not delegate spending to a third party, tightness of the budget and referring to the decision about contract administration being made by DCC on 7th November 2017. On 19th October 2017 Atelier advised TMB that they had not yet been formally appointed as CA and the chairman of DPC in response advised that until DPC had discussed and decided on contract administration all queries should be addressed to DPC via the Clerk, the two councillors subsequently appointed as CAs, DPC chairman and Atelier. At the very least, this indicates a muddled, unprofessional approach to the decision to appoint. It is unclear to us how and when the decision to recommend to DPC that two councillors be appointed as CAs was made. It is questionable how the project team could expect the build to progress smoothly and on budget without contract administration in place at the start.

10.8 The second paragraph of Atelier's letter, after indicating that the contractor effectively takes control of the site at the point of appointment, states "*During that period the CA is the only person entitled to give instructions to the contractor and we confirm that we will fulfil this role.*" It then lists the chain of command on site and to comply with the contract, including a reference to Variations (paras 10.27 to 10.43). This letter makes clear, therefore, that Atelier believed that it had been awarded the CA contract role at its bid price. We have not seen any evidence of a reply from DPC although when interviewed Atelier said that they were advised verbally that they had not been appointed to the role of CA.

10.9 We were told that two Councillors were appointed instead as funding was tight. There was a budget of £10k for general professional fees, evidenced by the cash flow forecasts produced for BLF, however this was always going to be too little to employ the appropriate professionals. Atelier's first invoice after the build commenced, dated 27th November 2017, took the professional fees to in excess of £10k and yet there was no discussion of adjustment to the budget. We conclude therefore that the decision to appoint internally was already made without following proper procedure and the decision was taken for purely financial reasons. Ensuring that proper procedure is followed is ultimately the duty of the Chairman, taking advice from the Clerk to the Council.

10.10 We have established that DCC agreed to propose a Resolution to DPC that Atelier be appointed as CA for the project. It is clear that Atelier also considered this likely. We know that this Resolution was never put before DPC. Furthermore, the Contract shows three intended CAs, Atelier, Martyn Howe and then the two Councillors, with the former two crossed through. It may be that the reason for this was entirely honourable, in that there was a realisation that insufficient funds were available to pay for the services of a professional CA, but that does not explain why the resolution of DCC was never put to DPC, nor how a proposal to appoint two councillors as CAs came about, as this was not discussed or proposed by DCC. Had there been a wish to change the Resolution proposed by DCC in July, it should have been put to DPC at the 30th October meeting preceded by an Amendment and both voted on.

Role of the Quantity Surveyors

10.11 Each party provides a QS. This is a professional role responsible for the continued costing and budgeting of the build process. Each liaises and negotiates with the other to ensure fair valuations for both parties especially when variations are costed. They are not only able to price work done to date but also assess the likely cost of outstanding work. Employment of a QS is fundamental to delivering a major building project, and in fact it is inconceivable that BLF would allow a project to proceed without one.

10.12 Assuming that the baseline initial drawings are correct and updated regularly, then the principal cause of cost change is through variations to the baseline on which the contractor based his price. Variations are changes to the planned build work and can arise from the client changing its requirements or – especially in substantial renovations such as was the case here – dealing with unforeseen items that need attention.

10.13 Variations are normally agreed on site between the SA (for the contractor) and CA (for the client) and a Variation Order (hereafter VO) raised by the CA, which is supplied to the QS for each party as well as those responsible for the client's cost control. It follows, therefore, for each QS to be able to agree the price to be paid for variations, and for budget control, it is essential that VOs are raised in a timely manner. Further, the greater the number of variations, the greater the potential for cost overrun, and consequently the greater the need for alacrity in issuing the VOs and for contingency funding. This requires the client's QS being on top of the changes taking place.

10.14 We were told by both QSs that their timely work was hampered by late receipt of VOs. This would explain not so much the extent of the cost overrun for DPC but rather the way in which the sum ratcheted up rapidly towards the end of the build period, as delayed VOs were received for costing and negotiated agreement. This is evidenced in the cash flow statement produced for BLF in June 2018.

The role of the Contract Administrators

10.15 The client employs the services of a CA to administer the contract. The role is to ensure that the work is carried out to specification and that variations to be made to the construction drawings are agreed with the contractor, and the resulting VOs are issued and distributed. The CA is also the focal point for distribution and dissemination of drawings and other documents to the builder and client team. If, at its 30th October meeting, DPC had been in any doubt or misunderstanding as to the role of CA, then Atelier's letter accompanying their email of 12th October 2017 would have provided considerable direction to them. That, of course, presupposes that the letter had been shared with DPC, but no evidence has been presented to us to indicate that it was. We have concluded that in this project, the CA appointment and function did not happen effectively.

10.16 The CA role is therefore essential to the successful execution and completion of a major build project and for that reason it is normal, but not essential, to appoint and buy in appropriately qualified personnel for the purpose. We concluded that in this project, this was not effective.

10.17 The professional body, RICS, published the first edition of its Practice Standards for Contract Administration in April 2011. It states, inter alia:

10.17.1 - *The role involves managing the contract between the employer [client] and the building contractor. [It] was historically performed by the architect…. (section 1.2)*

10.17.2 - *The CA is responsible for administering the terms of the building contract between the parties. The CA will act as the agent of the employer [client] in some circumstances but will be required to make impartial decisions in others. (section 2.2.1)*

10.17.3 - *The CA has two distinct functions described as an agency function and a decision-making function. Despite the seemingly conflicting agency function, the decision-making function should always be impartial where the parties to the contract may have conflicting interests. The decision-making will reflect the professional expertise of the CA. (section 2.2.2)*

10.17.4 - *A major benefit of this impartiality for the employer [client] and contractor is that either party may challenge the decision of the CA. This can be distinguished from the role of the employer's [client's] agent under a design and build contract (section 2.2.2)*

10.18 The Practice Standards then lists, at section 2.2.3 five attributes required of the CA. These include, inter alia "*Act in a manner which is independent, impartial and fair when making decisions.*"

10.19 The two CAs appointed were Parish Councillors. We were told that this was to keep professional fees costs down, so to reduce the funding gap of the total project towards that of the build contract. We were told that to appoint a professional CA (such as Atelier) would have cost in the order of an additional £50k. However, it makes it extremely difficult to see how that fits with the Practice Standards at 10.17.2, 10.17.3, 10.17.4 and 10.18 above. This leads us to conclude that the appointment internally, whilst not contrary to regulations, was not best practice, leaving DPC open to increased risk because of the failure to employ an impartial officer.

10.20 When it appointed the two CAs from within its own ranks, a maximum cost per variation which they could agree without reference back to DPC was set at £500. We believe that this figure was simply taken from Atelier's letter accompanying their email of 12th October 2017. It was clear from the moment that TMB went on site to start preparatory work in September 2017 that this would either cause delays pending requests to DPC for approval, or that it would be frequently breached. In fact, it was the latter. One of the CAs told us that it was essential to make decisions on site and not delay by reporting back to the next DCC or DPC meeting for approval (para 10.25). Thus, breaches were both deliberate and inevitable. This was contrary to, and itself breaches, the DPC Resolution.

10.21 The Good Councillor Guide 2017 states "*It is unlawful for a council to delegate decision making to any individual councillor…*" and that is why two CAs were appointed. This legal requirement was complied with by DPC as it did not delegate the decision making to just one councillor, however DPC's resolution had not been complied with regarding the £500 limit in the first instance. The effect of there being two CAs had the effect of splitting the work with little planned overlap to ensure consistency and continuity, a matter which TMB noted in their monthly progress reports (para 10.33). We also know that one of the CAs was out of the country for periods of time, leaving just one to make decisions. As a result, at its meeting on 26th February 2018, DPC correctly appointed a further councillor to support the CAs. In evidence, he told us that he was denied access to the site and, if so, we conclude that the DPC Resolution was not complied with.

10.22 We were told that taking out professional indemnity insurance was not considered nor was advice received that it would be required. Not having it would further increase the level of risk, but this possibility is not listed on the Risk Register produced for BLF in November 2016 and updated in June 2018 (para 6.16).

10.23 The appointment of the CAs was confirmed by resolution of DPC at its meeting on 30th October 2017. There is no evidence of an Agenda paper being sent to Councillors in advance, nor any meaningful discussion at the meeting.

10.24 At the time of the DPC meeting confirming the appointment of the CAs, TMB were already on site and there is evidence that two Councillors were already active on site. Indeed, variations to the contract were already being agreed before then, although the associated VO was not issued until December.

10.25 We asked the CAs for their understanding of the role of a CA. We were told (these are not direct quotes) that:

* contract administrator is to come to site at regular intervals to inspect work, make decisions on the spur of the moment to ensure the contract is

progressing without interruption, to ensure continuity of work for the contractor. If they were tied down by having to refer back to the parish council, there would be a lapse of time and the contract would stop (para 10.20).

* from the admin side, needed to ensure works progressing on site and up to standard, using the correct materials. They were a quality control team.

10.26 These answers show that there was a clear lack of understanding of the breadth of the role of CA by the two individuals concerned and suggests that no prior research was undertaken to ensure that (a) they would be suited to the role and (b) that they undertook it properly according to RICS Practice Standards despite assuring Councillors that they were properly qualified and experienced for the role.

Variations

10.27 One of the roles of the CA is to manage the process known as Variations. This is where the client's preference or other circumstances change once the build has started and indicates where a change to the construction drawings and contract is necessary. Atelier's letter accompanying their email of 12th October 2017 makes reference to Variations stating that "*work of this nature can often require minor variations during the course of the project*." And "*It is my intention to ensure that each instruction is valued by your QS and that he will be in a position to manage the monthly payments to the contractor accurately.*"

10.28 The processing of Variations is first for the CA to advise the builder or his agent of a change requested by the client, or agree a change requested by the builder. Thereafter to complete without delay a VO to advise both QSs that a change has been made for which the price has to be agreed by them, and also to the project's financial controller to update the build's final cost estimate and cash flow implications (section 11).

10.29 When there is a delay to the issuing of a VO, the implication escalates as the QSs are working increasingly in arrears and crucially the final cost estimate and cash flow can be severely compromised. DPC's QS (Martyn Howe) has told us that the first he knew about many of the variations was when he received monthly application for payment from TMB's QS. We have seen his Cost Report no 2 to DPC dated December 2017 (so right at the start of the build process), he indicates that already some 33% of the contingency reserve has been used, and that he was at that time awaiting anticipated instructions for a further £14.7k worth of work.

10.30 In his covering email, dated 3rd December 2017, the QS states "*From my records there do not appear to be any Contract Administrator's Instructions to date so all of the variations are under the 'Anticipated Instructions' category. I am particularly concerned about items 2 and 3 which appear to have increased significantly over the past month and I will be writing to TMB under separate cover with regards to these* *items. I am also concerned that there does not appear to be any formal process for signing off additional works which effectively give TMB the opportunity to apply for whatever amount they see fit. It may be worth considering asking for quotations from them before agreeing to any future variations so we know the cost in advance*." It is clear from report no 2 that he is signalling to DPC that arrangements with the CA role are already starting to cause problems. We have not been able to see any response from DPC to the QS, whether a written reply to the report, or indeed action on the ground to indicate that his warnings have been taken account of. This was further reinforced in a covering email from the QS with cost report no.3 (12th December 2017) when he remained concerned about variations and being out of the loop. He asked for a meeting with DPC and Atelier to discuss the process. We have not seen any response to the QS and have not been made aware if a meeting took place.

10.31 Delays to the issue of a VO can be for legitimate reasons but will also be compounded by the number of variations agreed. We have been told that for a build of this magnitude the number of variations might run to about 30, TMB has said that it could be a variable number, but in this case it was 188 which they deemed unnecessarily high. We are aware that each VO included a number of variations, so that the real number is disputed, but 188 is the number identified by DPC's QS, who also concluded that the number was very high and that a number were "*site led*" suggesting that TMB initiated some of the variations.

10.32 A fundamental issue is that the tender drawings related to the original £1.2 million design, the price was negotiated down to a build cost of £850k. We were told that when TMB commenced the building works they were not issued with a full set of construction drawings relating to the cheaper project. This is further complicated because certain elements that were part of the VE exercise, such as the kitchen, first floor suite and higher quality flooring were removed from the scheme and subsequently reinstated when the WREN grant was obtained. Other elements such as the glulam beams were removed from the build and not reinstated. Yet other changes were made that were not part of the original planned project (infilling of window to store 2, fitting the chandelier, fitting the automatic front doors, providing 2 loft hatches and provision of ramps and hand rails at the front of the building) and others were because of matching new to old parts of the fabric of the building. Some variations arose because of the need to reduce the build and project cost, such as replacing Siberian larch with the cheaper European larch, only for it later to be reinstated as a variation. We have evidence that revised drawings were issued in October and November 2017 which reflect changes to reduce the contract cost to £850k, but TMB was expressing concern in October 2017 that they hadn't received Structural Engineers drawings. A further set was issued in March 2018 following confirmation of receipt of the WREN grant. Whether all drawings got to those that needed them in a timely way is open to question. However, it would appear that variations were being agreed for which construction drawings were neither prepared in advance nor completed. Without proper drawings it would have been difficult to assess whether the work described in the VOs was in fact a variation and difficult for the QSs to agree a fair valuation.

10.33 TMB refers to this in their monthly Progress Reports throughout the Spring of 2018, including, in February 2018 "*Early VE exercises have not been transferred to drawings, spec or schedules generally. This makes it extremely difficult for the individual/site manager involved…..the knock-on effect has the potential of added cost of removing or adding items that may or may not be correct, or indeed wanted by the end user/client.*" Further reference in the Progress Report for May 2018 which states, "*Request that the client draws a line under any further changes and issue outstanding information*." This clearly reinforces the view that the CAs had been lacking in their role and the carrying out of their duties.

10.34 These are just two comments drawn from the series of Progress Reports which TMB has shared with us. Others show similar concerns were regularly being raised. The first is just before their letter of concern at delays referred to in para 10.35 and yet the May Progress Report suggests that little had been done to address their concerns by that date.

10.35 TMB shared evidence with us of their written concern of delays to the process and decision-making more generally. We refer especially to their letter to DPC dated 28th February 2018 in which it stated, inter alia "*the current lack of final decisions surrounding key aspects of the design and resulting non-issue of finite instructions and construction working drawings are now seriously impacting our procurement of materials/trades with industry lead-ins and affecting the ability to maintain the agreed works programme.*" This letter was addressed to the Parish Council office and for the attention of the two CAs. There is no record of DPC Councillors being told of the letter, nor any evidence of a reply to TMB.

10.36 We can find no evidence that either the delay letter or any of the monthly Progress Reports were shared either with the DCC or full DPC although following the DPC meeting in March 2018 DPC's QS reports were thus shared. It was also resolved at this meeting that the TMB monthly reports also be circulated to all councillors, but this was not done. It is a failing of DPC that they did not pursue obtaining these reports.

10.37 We were told that some VOs had a considerable number of variations on them, in some cases work authorised over a considerable period of time. Each of the 15 VOs issued had on average 12 actual variations. Not only were these therefore late being issued, but the descriptions of work carried out was sometimes sketchy. For example, VO1 was dated December 2017 for work undertaken in and from October. Untimely issue of VOs to both QSs throughout the project, and insufficient detail meant that prices could not be agreed quickly, and this led to considerable difficulty in controlling cash flow and project finance.

10.38 It is not as if the CAs didn't know that by not keeping strictly to contract it was inevitable that there would be overspend. They told us that there were insufficient funds for the project and they saw their role therefore to reduce cost at every opportunity.

10.39 We have analysed the Variation Analysis provided us by the QS. It indicates there were 188 variations which included:

Varied or additional items of work instructed by CA:	41 items, cost £41,527.19
Items of work not shown or incorrect on contract drawings, work specifically required by architect or changes in specification:	11 items, cost £20,971.48
Items as consequence of site condition, required by Building Inspector or as a result of negotiations with neighbours:	15 items, cost £19,349.65
Items carried out by TMB without prior instruction and subsequently presented for payment	32 items, cost £57,586.87
Items of work the extent or nature of which was not known at tender stage. Works carried out subsequently measured and agreed:	21 items, cost £40,675.08
Items of work originally omitted from the Contract but added back when Wren funding secured including additional items:	9 items, cost £69,601.73

10.40 In the above list, the first, second and third categories could reasonably be regarded as the responsibility of the procuring client, amounting to 67 items at a cost of some £82k.

10.41 The fourth category is of concern; that is where the QS is suggesting a degree of undue independence being shown by the contractor. It could also have been that a variation was agreed verbally and a VO not raised. It is a moot point whether a professional CA would have picked this up sooner and intervened; certainly if variations were administered in a more timely way it is probable that some, if not all, of these items could have been reduced or prevented, or transferred to a different subheading as no doubt some or all of the work was actually necessary.

10.42 Our analysis shows that the role of the CA was not working as it should have done either for the client or the contractor. It is evident that there were undue administrative delays. It is clear that extra cost was added to the final build and project cost. The QS has listed the total extra cost of the build as £250k but some 25% or more was due to additional work as a result of Wren funding being secured so is offset against additional funds.

10.43 The reporting of VOs to DPC was sketchy at best. Group members do not recall any unauthorised VOs being reported to DPC and the Minutes support this.

Case study of confusion: The inclusion of underfloor heating

10.44 Confusion was caused by a range of issues, including poor communication, poor recording, the late posting of VOs, some variations being led by the CAs and others by TMB. There is uncertainty in a number of cases and one such is the underfloor heating and finished floor levels, and whether it was a variation or not. We have not been able to draw any conclusion as to what actually happened, but that that is so, it illustrates the confusion and muddle which pervaded much of the project, and thus use it as a case study.

10.45 We know that M & E drawings included in the CPDP included underfloor heating in the main hall, hub and garden room. Elsewhere heating was shown to be provided by radiators. In their tender, TMB noted "*contractor designed heating system complete, in accordance with BBSD Ltd tender documentation, design to be submitted for approval.*" Yet a drawing dated 9 August 2017 shows that underfloor heating is included.

10.46 We have examined the list of deletions agreed as VE and underfloor heating was not specifically listed. However, Atelier's drawings log shows that further drawings were issued on 3rd October 2017 (and again on issues dated 13th and 16th October), that showed the underfloor heating removed. The timing suggests that it was taken out as part of the TMB VE exercise.

10.47 In the letter dated 28th February 2018 in which TMB expressed growing concern is included a list of items requiring a decision. Item no 6 states "*Hall floor insulation specification pending underfloor/overhead heating decision*." This is the only written evidence we have found to show that a decision may have been pending to remove the underfloor heating. Just ten days later, on 9th March 2018, Atelier issued a further drawing which showed underfloor heating included.

10.48 Drawings in respect of the Garden Room show underfloor heating initially included, then removed and reinstated on exactly the same dates as for the main hall.

10.49 At their interview, when asked about variations, the CAs said "*the first set of variations were because there were not sufficient funds, for example the first floor and underfloor heating were taken out of the contract that was signed and then put back in.*"

10.50 The VE records supplied by the DPC QS and the list of variations does not show this. We have been told, however, that because of it being reinstated (if that is an accurate description), the finished floor level had to be raised which in turn required door openings to be altered. Certainly revised drawings issued on 9th March 2018 includes it (para 10.45). However, the claim that the floor level and door openings had to be raised is unsubstantiated from written evidence as no variations reflect this; if it was removed it was subsequently reinstated but at what cost and to which party?

10.51 What we know, therefore, is that the original intention was to have underfloor heating in those parts of the building. Drawings were produced to include it. It is possible that there were discussions to remove it during the build process, but there is no written evidence to confirm this, except drawings issued October 2017 with it removed, and March 2018 to include it again. When questioned, nobody was able to give us a clear answer as to what actually happened. We are therefore unable to verify whether or not there were any cost implications.

10.52 We believe that this is symptomatic of the lack of a clear audit trail and of the muddle and confusion at that time.

11

FINANCIAL CONTROL

11.1 Whilst fundraising emerged as the responsibility of DPC's Chairman – although we do not believe it was ever resolved that that should be the case – the build project was under the auspices of the DPC's DCC. The CPDP shows financial control as the joint responsibility of the DPC Chairman and RFO.

11.2 The Society of Local Council Clerks' (hereafter SLCC) website does not define the role of a Parish Clerk in specific terms, and there is very little reference to the role of RFO. There are general statements indicating that the Parish Clerk may also have financial responsibility, especially in smaller authorities such as Parish Councils, where there is not a case for functional role separation. However, the National Association of Local Council's (NALC) Good Councillors Guide states on page 10 that "*The clerk/RFO will be able to provide general advice on finance and should have access to advice….. However, for more complex projects it is important to ensure that specialist advice is obtained, especially in relation to subjects such as VAT.*"

11.3 There is an important distinction between NALC and SLCC in that NALC comments are drawn from its Good Councillors Guide, indicating that the advice is targeted at Councillors, not employees of the Council. This is fundamental to our view of answers to questions posed at 11.6 and 11.10 to 11.12 below, namely that it is for Councillors to take the initiative to ensure compliance, and not the employees themselves.

11.4 Under normal circumstances, a smaller authority will receive income from two principal sources, being the annual Precept payment, and, much less in total, any rental income. Balanced against these will be outgoings including, principally, payments to contractors for work undertaken, such as grass-cutting, small scale maintenance etc. Essentially, therefore, the role is to budget accurately and balance income against outgoings, but in terms of cash flow management, the majority of income is at the start financial year with outgoings being incurred throughout the year. Cash flow management, important though it is, is therefore generally relatively simple.

11.5 Parishes can buy software appropriate to their transaction levels and simplicity, and DPC has done so.

11.6 We asked DPC Chairman whether she considered that the financial reports that DPC and DCC were getting were suitable. That triggered a series of exchanges in which she replied that hindsight clouds the issue, and that you have to rely on what's put in front of you at the time. We asked whether with a likely project cost some five times the annual Precept whether those involved were up to the task. She replied that she believed that they were, everybody did the best they could. So we asked whether their best was good enough, and she replied that at the time she thought so and that you have to trust people until they admit a problem. Perhaps this exchange got to the core of what was failing at the time and to 11.3 above. She subsequently added "*I had long thought that the financial reports, especially reserves, could have been improved upon, and as the income and costs covered several financial years, it was quite difficult to monitor expenditure and verify the level of the Centre reserves and income*."

11.7 We conclude that through the entire project, and especially the build phase, there was insufficient financial control, with three players involved, the DPC Chairman, the DCC and the RFO. There was lack of clarity as to the responsibilities of each and there was no consideration to financial management at the outset of the project, despite the CPDP indicating that this had been considered but not implemented. It is inconceivable that a professional PM would have failed to do so.

Parish Council finance and cash flow v commercial finance and cash flow

11.8 Parish council cash flow contrasts sharply with what may be defined as commercial financial and cash flow management, in which revenues come in at varying times during the year and outgoings likewise, not necessarily linked in volumes, and with largely unforeseeable dates. Not only does this make the process considerably more difficult and specialist, but also the associated software reflects this reality. With hindsight, had the QS's email and report dated 3rd December 2017 (paras 10.29 and 10.30) been seen by Councillors, we consider that it is very likely there would have been a very different outcome.

11.9 DPC Precept income – increased because of an identified shortfall in the build – amounted to some £179k in 2018-19. There is some additional income as well, but this is proportionately insignificant. This contrasts with budgeted outgoings of some £850k on this project, nearly five times the volume for which the RFO is used to being responsible. DPC's method of accounting could probably cope with the larger volume, but the essential difference is less the total volume but rather the variable and unforeseeable times during the year when it would be received and spent. This, to a considerable degree, calls for professional financial and cash flow management. At the very least, the project finances should have been monitored by the project team outside normal parish council accounting packages, or further training given to ensure the use of the existing package was maximised.

11.10 We asked the DPC Chairman whether there was a lack of financial skills for the project and she replied that whilst she herself had had accounting skills some years earlier, DPC relied on the RFO. Later in the interview this became clarified as relying on the Committee with the RFO support. However, whilst the CPDP specified the DPC Chairman and Parish Clerk as jointly responsible for the financial controls and delivery, we were told by DPC chairman that she actually was not involved.

11.11 We then asked the RFO the extent to which she was involved in the project's finances and she told us that she was not, and that the DPC Chairman kept project finances closely guarded. Subsequent examination suggested that she meant the grant income, as cost items appeared simply to pass from DPC QS to RFO for payment.

11.12 Whatever the real situation it is clear that protocols were not put in place appropriate to a capital project of this size. Indeed, we saw no evidence that it was even thought about. The RFO claimed that DCC Chairman told her that her role was to take Minutes and pay the bills. We asked the RFO whether there was any discussion with her regarding this project, whether she had the time and skills to oversee the financial aspects of it. She said not. When asked similar questions, DPC Chairman told us that the RFO was not asked about skills or available time, but also that neither did the RFO raise it as a matter of concern.

11.13 We concluded that the DPC chairman appeared to have either oversimplified or not understood the complexity of financial management needed for a project of this size and took no steps to ensure that anything was put in place. The evidence suggests that the RFO did not know what skills would be required, had not been made aware of what would be required, did not know what was in the CPDP and did not raise any concerns at the time.

11.14 Cash flow management was especially important as it was known that the project was under-funded, contingency (reserve) had been stripped to a minimum (one third of the amount recommended by BLF) and invoices would be received at unpredictable intervals due, in part at least, to late issue of VOs by the CAs. Under these circumstances it may have been appropriate for more sophisticated management accounting software to have been purchased or the existing software used differently, and for the RFO to have been trained in its use. As already identified, there was no consideration of the necessity or desirability of this.

11.15 It is clear that insufficient attention and prior consideration was given to the financial control and management of the project. This should have been part of the pre-planning stage before the build started; however, it was considered (on paper at least) because it forms part of the CPDP required by BLF but appears to have been subsequently forgotten.

Establishment of the Financial Task Group

11.16 Because of growing concerns at the inadequacy of available finance for the project, at its meeting on 9th January 2018, DCC recommended to DPC that a Financial Task Group (hereafter FTG) be established, comprising three parish councillors and the RFO. On 15th January 2018 DPC confirmed the appointment.

11.17 The FTG gave its first report at a special meeting of DPC immediately prior to the precept meeting of 29th January 2018. A shortfall in funding was identified because of pre-build fees and costs. There was a lengthy and difficult discussion at the main precept meeting and it was agreed to increase in the precept by some £20k more than recommended in the RFO's report.

11.18 An early issue that was identified was that there appeared to be less money in the reserve report than was expected by the project team. It was discovered that these reports were being shown gross of VAT rather than net and the reclaimed VAT was not being shown as a credit to the reserve on the report. Therefore, the balance was reducing faster over time than it should have been. The solution was to change the reserve report to show net rather than gross values. This confirms the view of the DPC chairman that the financial reports were in need of improvement, as indeed was the entire financial management control (para 11.6).

11.19 The FTG continued to monitor the finances of the build but was not requested to submit any reports to DCC, although brief reports were given to DPC. A special meeting of DPC was requested and concerns about the build were discussed on 9th March 2018. It was agreed that the monthly reports from the QS and TMB be circulated to all councillors and for there to be regular updates at every DPC meeting. It should be noted that the QS reports were subsequently circulated, and regular reports given to DPC but the TMB reports were not circulated to councillors. We now know that by this time both the DPC QS and TMB had formally expressed concerns about variations and contract administration processes, but that information was not shared with DPC or all of DCC councillors. Had councillors known this, the outcome of the meeting could have been very different.

11.20 At the DPC meeting of 26th March 2018 the chairman proposed that the FTG be disbanded but it was resolved to retain the group. Most councillors appeared to value its work as it gave them some oversight and wished it to continue to the end of the build.

11.21 Financial information was obtained from the DPC QS monthly reports, although the group was denied direct access to the QS. Financial information was also provided by the RFO. Monitoring continued and finances appeared to remain on track until June 2018 when a small overspend of £8k was identified. By the end of July this had increased to £25k and in August the predicted overspend increased exponentially to just under £200k. By this time the Council was in the position of being unable to fully meet a bill from TMB. The group was then able to meet with the QS to discuss the issues. At the DPC meeting of 31st August the group advised that a second public works loan of £200k would be the only solution.

11.22 Given that either the DPC Chairman or the RFO, or both, had not understood the complexity of the financial management needed for such a project (para 11.13) it appears that the FTG was the only real attempt to put proper financial monitoring in place, and yet it is concerning that, for much of the time, access to the QS was denied (paras 10.29 and 10.30), that DCC did not ask for any of its reports to be forwarded, and that an attempt was made to disband the group. These could be regarded either as a further failure to understand the nature and extent of the problem engulfing the project, or as an attempt to cover it up. We do not make any conclusion as to which it was.

11.23 In report no. 5 to the BLF in June 2018 the revised Risk Register included reference to the FTG. For example, a risk identified was "*insufficient funds available to complete parts of the project*", e.g. car park. This was described as "*medium impact and probability with action required as budget reviewed regularly and task group set up by DPC with the lead responsibility being the FTG and QS*." Another risk was "*variations not costed at the time"*, again "*medium impact and probability with action required to be costs provided ASAP and monitored by FTG and the lead responsibility being the CAs, QS and FTG."* The author of the Risk Register did not report the register and its terms to either the FTG or DPC. This was a clear lack of transparency.

VAT issues

11.24 We found little evidence that the essential taxation difference between 'demolish and new build' and 'renovation' had been foreseen or appropriate formal written advice given or taken. Had the old building been demolished and replaced anew then VAT may not have been chargeable but on a renovation it would be so. The main issue requiring VAT advice was that DPC intended to retain a room for use as its office and wanted to use meeting rooms free of charge. This would have prevented DPC claiming back VAT on the build (para 11.33).

11.25 The financial difference between the two is significant. Even at the VE'd cost of £850k, VAT would amount to £170k and whilst this could be recovered from HMRC it would have presented a considerable cash flow challenge. Even if all costs had come in on budget, then, the impact on cashflow would have been considerable. The Minutes of the DCC meeting on 7th November 2017 show that one Councillor asked what the impact of VAT being levied would have on cashflow, but there is no record of the reply.

11.26 We have evidence that DPC Chairman received an information request from BLF regarding VAT recovery as early as February 2016 which she forwarded to the RFO. The reply, the following month, referred to section 33 of VAT booklet 749 and form 126 that DPC was required to complete; in other words, it appears to have been regarded as 'how' VAT would be recovered rather than whether it was eligible for recovery.

11.27 We asked DPC Chairman whether she had ensured that adequate VAT advice was sought in respect of the difference between VAT on new build compared with renovation. We were told that she had approached an accountant in the village who was unwilling to give advice, because he did not have the necessary expertise in local government finance and big build projects. That should have raised questions in the mind, but it appears that it did not. We then asked whether the VAT difference between a new build and renovation was understood, the answer was that "*you don't know what you don't know.*" There were people on DCC that should have been aware of the VAT differences between new build and renovations. Evidence available to us shows that the issue of VAT was raised but the answers were unclear and the issue remained unresolved.

11.28 We asked the same question of the RFO. She told us that in 2017 she had attended a course on VAT and subsequently spoke about the project to the clerk of another Council whom she had met on the course, who recommended getting professional advice. We have subsequently established that this was not the case; it was the Autumn 2017 SLCC conference, held on 2nd November 2017 that she had attended at which VAT was not a specific agenda item, but which she had discussed in the margins of the conference with a Clerk from another parish. We have established that she did attend a specific VAT course on 3rd May 2018 but by this time it was far too late to influence the course of events.

11.29 On 29th June 2016 the DPC Chairman emailed the RFO concerning VAT being charged on a new build village hall at Trimmingham. On 11th July the RFO responded that having spoken to HMRC they had indicated that DPC would need to employ a contractor which would undertake the project zero-rated. The RFO advised that DPC will need to seek further advice from HMRC if the preferred contractor (TMB) would not do so. We have no evidence of the questions asked of HMRC nor that this email exchange was circulated. It indicates a lack of understanding and knowledge and should have prompted further formal advice to be sought.

11.30 On 1st November 2016 the DCC Chairman asked the RFO for a breakdown of invoices to be paid and the extent of non-recoverable VAT. The RFO answered the various queries but without reference to non-recoverable VAT. Again, this indicates a lack of grasp of the seriousness and complexity of the issue being dealt with, and therefore the need for professional support but also the failure of DCC Chairman to insist on a reply.

11.31 On 2nd November 2017, after attending the SLCC Autumn Conference, the RFO emailed various Councillors advising (not insisting) that VAT advice was required and that she was sourcing this (free of charge) from SLCC. By that time the build work had started; on 6th November, there was an email from TMB asking for evidence that the build is VAT exempt, the RFO replied that advice had been received and that as a result VAT would be paid. However, two days later, on 8th November, by email the RFO asked BLF where she could get a VAT Exemption Certificate, as HMRC had said that VAT is not chargeable and it is 'a waste of money'. This series of emails suggests confusion on VAT even after the build has commenced and also confusion or misunderstanding of the advice received from HMRC although there is no indication of the questions asked of HMRC.

11.32 We have, however, seen an email from Steve Parkinson of the Parkinson Partnership LLP, dated 6th November 2017, addressed to Alison at SLCC. It relates to the Dersingham build and makes reference to a website enquiry from the RFO. The email states, "*I'm afraid [the RFO] has been given wrong information by someone at HMRC,* *although it may depend on what she actually told them in the first place. Construction work on community building being built for a parish council will attract VAT at 20%. Zero rating only applies where the construction services are provided to a charity, not to a local council, even if the local council will lease the building to a charity once constructed. As the council is intending to lease the building to an (as yet unformed) charity for a peppercorn, the council will be able to reclaim the VAT on the construction as the building is being used for non-business purposes. However, it will still have to pay VAT on the invoices for construction services. If the council is treating the building as non-business it will not be able to receive any funding from the group that will be operating the hall (I believe £10,000 is mentioned in recent minutes) nor will the trust be able to grant the council free use of rooms, as this could potentially be seen as consideration for the lease. That could potentially make use of the hall a business activity and the council would not be able to reclaim £175,000 or more in VAT. Instead the council would be wise to ensure that the lease provides for the use of the hall by the council at no cost. In treating the construction of the hall as a non-business activity the council will not be able to make any charge for the hall for 10 years from the date of practical completion, otherwise it may be liable to pay some of VAT back (under the Capital Goods Scheme which applies to construction over £250,000).*" The clerk advised the review group verbally that the VAT adviser had offered to give his tailored advice to DCC/DPC and would charge £500. We have found no evidence of reference in Minutes or emails to this offer from SLCC nor any decision whether to incur the extra cost.

11.33 That evening (6th November 2017) there was a meeting of the Finance and Administration Committee and the Minutes state "*the clerk read out some advice that she had received from the VAT adviser for the SLCC which had been received today. The clerk to check if new build or refurbishment*." The latter sentence refers to the need for DPC to know precisely which it was because there was a counterview that as 95% would be new build it may not be a renovation.

11.34 The following evening DCC met (7th November 2017) and the minutes show "*the clerk explained that she had received advice form the SLCC adviser. If there was any chance that the DVCA was not going to survive for 10 years then that has implications for the Council in having to repay any reclaimed VAT back and find any shortfalls in the £16,000 running costs. The only way to repay the VAT would be via the precept since no loans would be available. If the government caps parish councils this might not be possible. Councillor Payne advised that the DVCA could not fail as the Council would have to pay back the lottery monies. Members would have to be found to keep the charity running. The clerk advised that the Council must retain and not lease the parish office and meeting room. The clerk advised that if the council went VAT registered then it could take over the running of the hall within the first 10 years with no penalty. The clerk advised that this would affect small advertisers for the Village Voice etc but would mean that the council could take over and would charge VAT on room hire etc*." The clerk was asked to write up the VAT situation.

11.35 On 24th November 2017, written advice was received from Community Action Norfolk, Village Information Sheet 18 entitled "*Village Halls and VAT on building work…..*" It was published in May 2011 and was compiled with the assistance of HMRC. At seventeen pages, being relatively short in length, and given HMRC's input, it could have been expected that it would have been read and assisted in the VAT debate then ongoing. It was received by DPC Chairman, forwarded to the Clerk and FAC but, surprisingly given its title, not DCC. This suggests that there was an attempt to seek advice but it was then too late, as BLF advice indicates it should have been sought before the build work started.

11.36 Just three days later, on 27th November 2017, the RFO circulated an email to DCC stating "*this is my take on the VAT as per the last meeting*." RFO's advice states "*It is not down to whether it is a new build or a refurbishment but down to who owns the building, the use of the building etc. Whatever is decided the council must retain and run the parts of the building it wishes to use e.g. office and meeting room. The plan is for the Association to run the hall once building work is complete. The council must be sure that this achievable because currently if the Association was to fold within 9 years plus current year the Council would have to repay any reclaimed VAT back. If everyone is happy that this will not happen and the Association will remain strong and keep going then there is no problem. If not the Council would have pay back all the VAT and this would have to go on the precept as there would be no loans available for this and if in years to come the government caps parish council this might not be a possibility. The Council would have no option in this situation but to go bankrupt. The council could safeguard the situation by going VAT registered now. This would mean that the parish council could run the hall as a business and claim back the VAT and would not have to repay the VAT. This would mean the council would have to charge VAT to advertisers of the Village Voice, which could mean that the little advertisers not VAT registered would have to pay more and the council would have to charge VAT on everything e.g. room hire etc as it would be based as a business element for the council. The council would have to go VAT registered within 6 months of the first VAT invoice paid to the Centre.*"

11.37 No further action was taken in respect of the potential significant VAT issue, other than paying the build invoices and claiming the VAT back from HMRC.

11.38 It is evident that there was confusion and misunderstanding around the VAT issues. It is clear that at the time there were three important questions that should have been asked, would DPC have to pay VAT on the build? Could DPC reclaim the VAT paid? Would there be VAT implications of DPC using an office and meeting rooms free of charge as proposed in the BP? Three separate sets of written advice have emanated from the RFO - 6th November to FAC, 7th to DCC and then 27th when she circulated an email to DCC members stating, "*this is my take on the VAT as per the last meeting*." In the latter two cases the advice to DCC focused on what would happen in the event that DVCA failed and the residual liability would rest with DPC. There is clear confusion as separate and different advice was given to two committees, although two councillors were on both and it is likely that they would have been unclear about the advice given. It is perplexing that Steve Parkinson's advice was not simply circulated to all Councillors as it covered a wider range of issues. Further, the written advice from the RFO was just three days after the Community Action Norfolk pamphlet was received, specifically about VAT, and yet no reference was made to it. The three questions were not clearly answered by the three sets of advice and this all shows the extent of muddle and misunderstanding concerning the highly technical and important issue of taxation and there appears to have been little consideration of the potential financial loss to DPC.

11.39 DVCA manages the Village Centre and use of the facilities there. DVCA is a registered charity and has chosen not to register for VAT and therefore cannot reclaim it. As a Parish Council, DPC can reclaim VAT paid on certain goods and services. During the course of the build, DPC was not registered with HMRC for VAT but has now done so. Because of time lapse between paying suppliers (including VAT) and receiving it back from HMRC, DPC had to be aware of, and plan for, consequential cash flow issues. Clearly, the higher the invoice, the higher the VAT, the greater the cash flow implications, and the VAT totals on monthly invoices from TMB are considerably higher than would be normal for DPC.

11.40 As the building was a renovation, VAT was chargeable but could be reclaimed from HMRC provided the building meets the criteria of being a community building for "*non-business use*" and remains that way for at least 10 years. If DPC is deemed by HMRC to receive income, either monetary or by way of barter, the criteria would no longer be met and HMRC could seek to recover a proportion of the VAT reclaimed by DPC during construction. Interest payments and possibly fines could also be payable.

11.41 In order to ensure the reclaimed VAT cannot be recovered from DPC by HMRC and for the DVCA charity to run the building as planned the following conditions must be met:

11.41.1 DVCA must have a non-business lease with DPC with a peppercorn or £1 rent.

11.41.2 DPC must receive no monetary or non-monetary (barter) income from DVCA.

11.41.3 DPC can give money to DVCA, as a charity, without penalty.

11.42 To regularise the position for DPC there is an agreement between DPC and DVCA, summarised as below. DVCA is a Charity, legally unconnected with DPC. DVCA manages and maintains the building and grounds on behalf of DPC. DPC is the freeholder of the building and responsible for repaying the Public Works loans and for ensuring DVCA delivers the outcomes committed to in the Big Lottery grant application. DVCA charges for use of the building and undertakes fund raising to cover its running costs. It can also raise loans to develop services or activities if necessary.

11.42.1 DVCA leases the whole building and grounds from DPC on a full repairing basis and at a peppercorn rent.

11.42.2 DPC leases the Parish Office from DVCA under a sub-lease with an annual rent or £500.

11.42.3 DPC sub-lease includes the PC office and use of “shared areas” (hallways, kitchen, toilets, The Hub) and meeting rooms for PC business.

11.42.4 DPC pays an agreed proportion of utilities and running costs.

11.42.5 After ten years, HMRC will be unable to recover any VAT paid during the build even if DPC were to pay nothing for its use of the building, the utilities or running costs.

11.43 In a nutshell, DVCA generates income to maintain the property and run/develop services whilst DPC has the Public Works loans to repay from the precept and pays a nominal rent for use of the building.

11.44 We can now conclude, with reasonable certainty and with hindsight, that the potential VAT issues have been satisfactorily resolved. However, at the time that was not the case. Judged by what was known at the time, therefore, we can express considerable concern that the project was continuing notwithstanding the potential for a significant HMRC claim which would have rendered the whole project financially unsustainable. Whilst giving credit now for the resolve to satisfactorily address the issue, we must also be critical of the failure to secure and take professional VAT advice, or to deal with the matter at the right time, which was before the build started. Had that been so, it may well have been that the issue could have been avoided in the first place by, for example, setting up a charity or a limited company to build and manage the centre.

12

GOVERNANCE

General background and legal basis

12.1 Governance has been defined as the act and manner of governing. In the 21st century governing is required to be carried out fairly, and in an open, honest and transparent way. It needs to comply with legislation laid down by Parliament. It is not so much asking 'do we want it or not, rather are we doing it correctly?'

12.2 The main legislation concerning local authority governance standards is the 1972 Local Government Act and the 2011 Localism Act. Briefly, this translates into each Parish Council's Standing Orders and Financial Regulations, the sets of rules by which the Council regulates its own affairs. These are supported by a plethora of advisory documents such as the NALC Good Councillor Guide, the Good Councillors Guide to Finance and Transparency and the Guide to Governance and Accountability for Smaller Councils (a practitioner's guide). Together these documents should provide a sound framework for good governance within the Parish Council.

12.3 Government is in four tiers. Central Government (Parliament and the Executive) is at the top, then County Councils, District (including Borough) Councils, and Parish Councils. It is parishes which are closest to the electorate, and as each parish councillor represents a proportionately lower number of people they should therefore have closer contact with them.

12.4 Parish Councils are financed by the Precept – a tax on the local population – which is used to provide local services such as street lighting, grass cutting, dog bins and maintenance of open spaces.

12.5 Parish Councillors are elected every four years (duly elected if uncontested) and sign up to a Code of Conduct which sets out how they should conduct themselves in carrying out their role. In Dersingham, DPC meets in full council once a month and this body delegates certain responsibilities to committees that can deal with detailed issues within its domain. The committees are Finance and Administration, Environment (incorporating the former Recreation Committee), Staffing, Communications, and from 2016 to 2018 the Dersingham Centre Committee. DPC is responsible for the financial management of the Council, sets policies and makes major decisions. Committees draft their own terms of reference, have delegated budgets, can spend up to these and manage contracts such as for grass cutting. They discuss issues where necessary and make recommendations to the DPC.

Governance standards in Dersingham Parish Council

12.6 We have concluded that there was insufficient attention to general standards of governance in the management of this project. That is not to conclude that governance standards are significantly wanting in DPC as an organisation, rather that it was in this project. We are aware that the external Audit by P F Littlejohn, appointed auditors for the financial year 2017-18 did not identify any governance shortcomings.

12.7 The majority of recommendations made by committees to DPC meetings were based on verbal discussions and DPC rarely challenged recommendations, relying instead on the committee's advice. It is our view that Parish Councillors should scrutinise the recommendations from the committees and should debate Motions put before them and vote on a Resolution. At the end of such a process, the Resolution is a decision of the Council and Councillors should abide by and support that decision as it is they who have a duty of collective responsibility.

12.8 We have debated the issue of collective responsibility as opposed to acting as a collective and noted that other Parish Councils are much clearer that collective responsibility applies to their Councillors. For example, Walpole Cross Keys' Parish Council's Standing Orders state "*This Parish Council is fully committed to the notion of Collective Responsibility. This should never stifle true debate or legitimate concerns within the Council – however it does mean that any decision by the Council should receive the full and unequivocal support of all Parish Councillors regardless of their personal view on the issue.*" We are far from satisfied that this same level of responsibility has been expected of, or applied to, Dersingham Parish Councillors.

12.9 The decisions made by DPC are recorded in the Minutes of each meeting. SLCC advice to Parish Clerks is that a "*Parish Council has a legal duty to keep records of its meetings which can be used as evidence in Court. Minutes become legal when they are approved by Council and signed by the Chairman. The record of decisions has to be clear and Minutes should be concise; as a minimum the Minutes must record the resolution or decision but can include a short summary of important points where this adds value. A detailed account of who said what is neither necessary nor advisable.*" In DPC this advice is followed and we are aware therefore that the Minutes which we have examined may not fully reflect the extent of discussions, although they should clearly give the decisions and resolutions made. The apparent lack of sufficient summary of discussions in the Minutes has hindered our ability to draw firm conclusions in certain areas.

Specific findings of governance failure

12.10 We have found that good governance was lacking in a number of decisions or areas of decision making:

12.10.1 There was little in DPC's Standing Orders or Financial Regulations, applicable at the time, which relates to capital projects. This meant that governance was likely to fail.

12.10.2 On 27th March 2017 DPC awarded the build contract to TMB subject to all monies being in place (para 5.6). No written report was presented either before or at the meeting. A letter of intent was sent to TMB on 25th August 2017 yet by then not all monies were in place contrary to the 27th March Resolution.

12.10.3 There was no evidence that either DCC or DPC were made aware of, or if made aware, considered the BLF advice and best practice guide (paras 6.4 to 6.8). It appears to us to have been a failure not to have followed this advice. This was especially the case in respect of the provision of a contingency within the funding (paras 9.19 to 9.26), and the lack of appropriate financial control of the project (para 11.15). The CPDP did set out methods of financial control and responsibilities, but it appears they were not followed.

12.10.4 There was poor communication and lack of transparency around the publication of the BP and CPDP. These two documents were required to be submitted to Big Lottery as part of the stage 3 grant application. They were required to demonstrate that procedures and finance would be in place so that the project could be delivered without significant risk to either the grantor or grantee. They were therefore an essential part of the governance of the project. There is little evidence that they were circulated to Councillors, especially so the CPDP. This was a failure to keep Councillors aware of a vital governance document by which DPC could ensure compliance.

12.10.5 The ITT and supporting document placed on CF were not compliant with procurement best practice in that it did not make clear that post-tender negotiations would be pursued only with the selected preferred bidder (sections 9.3, 9.3.3 and 9.13). Whilst this is not a failure of governance it does demonstrate a lack of transparency.

12.10.6 DPC was asked to consider the appointment of builders at their meeting on 27th March 2017. The agenda was circulated with the three clear days required, however the agenda item itself was vague and did not make clear what Councillors were expected to decide. Also, no supporting documents were circulated in advance with the meeting Agenda. This is contrary to best practice as set out in the Good Councillors Guide.

12.10.7 The normal practice of DPC at the time was to present a recommendation without written reports in advance of the meeting, and to rely on detailed discussions having taken place at the committee meetings (para 12.7). On this occasion Councillors were being asked to make a decision to commit to spend a substantial capital sum without any information on which to base their decision. The lack of information had the potential to lead to DPC into making a poor decision, and there was an evident lack of transparency in the process.

12.10.8 The law requires that three clear days prior notification of decisions to be made, at least by virtue of it being an agenda item which must advise Councillors what is to be discussed. It is best practice that all available documentation would be circulated at the same time to ensure that the best decision is collectively made. DPC consistently failed in this aspect of governance.

12.10.9 There is evidence of a risk register having been drawn up for the BP, but we have not seen any evidence to show that it was periodically updated to take account of the way in which the project was being delivered. The CPDP update reports to BLF did include a risk assessment undertaken in November 2016, and, as far as we can ascertain, updated just once in June 2018. However, there is no evidence of the risk assessment being reported to DPC, nor Councillors asking for one. We conclude that this represents a governance failure.

12.10.10 Following the decision to commit to using TMB there were negotiations with them from March to September 2017 to reduce the contract price from £1.15m to £850k. DPC was not kept informed of the progress of these negotiations nor the outcome. Councillors should have been told what elements had been removed from the contract to achieve the savings, and what plans there were to reinstate critical elements, such as the kitchen. This represents a considerable lack of transparency.

12.10.11 A letter of intent was sent to TMB on 25th August 2017 which requested, amongst other things, that they procure resources to facilitate a start date of 25th September. There is no evidence that Councillors were aware that this letter was to be sent, nor the content, even though they have collective responsibility for it. The content of the letter demonstrates that not all funding was in place at the time. Therefore, authority to commence the work was contrary to the Resolution DPC made on 27th March 2017. This could have been a considerable financial risk to DPC.

12.10.12 A written report was prepared for the DPC meeting of 30th June 2017 to seek authority to obtain a Public Works Loan. The report included a number of presumptions concerning funding sources, some of which were not subsequently awarded, including the Leader grant which could never have been awarded. This report was premature and inaccurate and led to a decision to borrow a maximum sum which proved to be insufficient (paras 7.12 to 7.14).

This represents a lack of transparency in respect of available funding and obtaining grants.

12.10.13 The appointment of two Parish Councillors as CAs was presented to DPC without a supporting report being circulated in advance with the meeting Agenda or the letter from Atelier emailed two weeks before the meeting. This meant that there was no definition of the role and no proper skills assessment. There is no evidence that a risk assessment was carried out to ascertain the exposure of DPC in respect of this appointment. The internal audit report for 2018-19 did look at part of the build project and identified the lack of a risk register across the whole of DPC. Furthermore, whilst the Resolution to appoint was passed at the DPC 30th October 2017 meeting, there is evidence that they were on site and acting in that capacity in September 2017 (paras 10.23 and 10.24). This represents failures of both governance and transparency.

12.10.14 Further, it should be noted that DCC was advised at its meeting of 3rd October that the CAs were already on site, monitoring the works being carried out by TMB. At an earlier DCC meeting on 5th July it had been resolved to recommend to appoint Atelier to carry out work which appears to be the CA role. This Resolution was not reported to DPC and the change from an external appointment to it being carried out by two Councillors is evidence of a failure to comply with the earlier resolution and a lack of transparency. We accept the reason – to reduce cost – but that does not obviate the need to comply with appropriate governance standards.

12.10.15 At the DPC meeting of 30th October 2017 it was resolved that the Clerk should sign the contract with TMB, but it was not signed until 13th November. At the same meeting, TMB's first invoice was presented and by this time they had been on site for approximately six weeks. This put both DPC as client and TMB as contractor at considerable risk. It is clear that by this time both complying with governance standards, and management of the contract were becoming confused.

12.10.16 Upon appointment of the two internal CAs, DPC set a maximum amount per variation of £500 which could be agreed without reference back to itself. This was frequently breached, contrary to DPC's Resolution (para 10.20). NALC's Good Councillors Guide states that it is unlawful for a Council to delegate decision making to any individual Councillor (para 10.21) although that is not the situation here as it had not done so. Rather, the two CAs chose not to comply with DPC's Resolution. Although some of the VOs were signed by only one Councillor, we were told, but doubt, that they had discussed all the VOs between themselves before they were placed. This informal arrangement between them was contrary to DPC's Resolution yet there is no evidence that

DPC scrutinised what the CAs were doing or challenged them for it, neither were they presented with anything they could scrutinise. This is a serious governance failure.

12.10.17 Indeed, the Minutes show that no VO containing an item in excess of £500 cost was ever brought to the attention of DPC (para 10.43). At its meeting on 26th February 2018 DPC acknowledged that the £500 limit on variations was not practical and resolved to drop the requirement to revert to itself for higher value work. This was subject to the addition of a third Councillor being involved in decision making concerning variations (para 10.21). However, the implementation of this Resolution was not checked and when it was not complied with, the issue was not brought back to DPC. We have concluded that there are rarely any checks to ensure that DPC Resolutions are properly implemented and this is a considerable failure of governance standards.

12.10.18 TMB's monthly progress reports were not shared with DPC despite a specific Resolution at its meeting in March 2017 that they should be (para 10.33). We found that these reports would have provided Councillors with an insight into problems raised by TMB during the build, as would Atelier's letter setting out the role of a CA and the QS's report no 2, all of which would have provided transparency and the opportunity to raise questions.

12.10.19 There is no evidence of a real understanding of financial management and cash flow and a real misunderstanding on bankruptcy issues in respect of a large capital project such as this. The evidence we do have is that alerts and warnings about these matters, whether in the first instance from BLF or local professionals such as Atelier and the QS were not alerted to all Councillors and not consistently acted upon. This is a clear management failure by the project team and ultimately DPC which could have led to considerable consequences in respect of governance standards.

12.10.20 There was a lack of attention to the VAT issue, which was a clear financial risk to DPC. At its meeting of 7th November 2017, DCC had received some verbal advice about VAT from the RFO and requested that it be presented in writing. There is evidence that a written note was provided showing the clerks "*take on*" the issue. However, this did not accord with the advice from the SLCC tax adviser (para 11.32). There is little evidence that DCC was advised of the questions asked nor the professional written response. There is also no evidence of DCC pursuing its request. Not only was this a significant financial risk to DPC but also evidence of failure of its management procedures and particularly contrary to the advice in the Good Councillors Guide (section 11.2).

12.10.21 The timeline (section 4) shows that DCC became a committee in June 2016 (it had previously been a working group) and its terms of reference were to obtain funding, prepare a business plan and work with the church. The terms of reference should set out the elements that are delegated to the committee from DPC. There is no evidence in the minutes that they were updated to take the project through the build process. Yet the CPDP proposed that there would be two consecutive committees, a grant phase committee to take responsibility for the project during its development phase and a second to be a construction phase committee to oversee the construction phase, with each committee member being allocated specific roles. In the event there was only one committee the DCC, with no apparent allocated responsibilities. We regard the lack of specific terms of terms of reference to allow the committee to take on the role on behalf of DPC was a clear failure of governance.

12.10.22 Paras 10.29 to 10.35 gives evidence that both the QS in December 2017 and TMB in February 2018 gave clear warnings about delays in issuing drawings, making decisions and lack of VOs. We have found no evidence of responses to these concerns although further drawings were issued in March 2018, but we now know that the matter of the late issuing of VOs was never satisfactorily resolved. It appears from information provided to us that the warnings were not shared beyond Atelier, the CAs, DPC chairman and RFO. Neither DCC, FTG nor DPC were advised of these concerns (section 11.19). We have found no evidence that the concerns about variations or their impact on progress or funding of the work were considered. If the information had been presented to DPC it could have allowed for mitigation measures to be put in place to reduce the overspend. We can draw no conclusion whether it was deliberately withheld or that the seriousness of the signals was not understood, but it is a clear governance failure that important information was withheld from DPC.

General matters of governance

12.11 Whilst many of the governance failures outlined above are evident during the build stage of the project, they existed from the outset. BLF's CPDP and BP were written and submitted as a statement of DPC to demonstrate governance of the project. However, these documents were not distributed to Parish Councillors so that they could not scrutinise and ensure compliance in line with their collective responsibility. Furthermore, where professional advice was sought councillors did not generally see the questions asked nor the response. Technical advice is routinely sought verbally rather than in writing. Failure to put questions in writing and show the professional written response further adds to misunderstandings and confusion and demonstrates a lack of transparency.

12.12 We strongly believe that these failures of governance, both individually and collectively, contributed to the catalogue of failures which led to the significant overspend on the project cost forecast.

12.13 We have been told that culture at the time was that most Councillors saw their role as to support the DPC chairman and DCC rather than provide proper and appropriate probing and scrutiny and to ensure that Standing Orders and other procedural requirements were followed by the organisation. We have also been told that the culture was such that when questions were asked the questioner was challenged – sometimes aggressively – as being negative and non-supportive. We have no evidence as such but have heard this from more than one Councillor.

12.14 We have therefore concluded that there needs to be a cultural change at DPC, and with a new Council in place now is the time to bring it about. We have noted through this Review the extent to which decisions were made at DPC meetings without prior explanatory Papers, how it made decisions with little debate and how there was a tendency to accept reports from Committees without proper scrutiny. We believe that there is a strong case for appropriate training of the new Council to improve team working, accountability, scrutiny and their understanding of their role.