

09 July 2024 at 7.00 pm

Council Chamber, Argyle Road, Sevenoaks

Published: 01.07.24



# Audit Committee

## Supplementary Agenda (2)

	Pages	Contact
11. <b>Internal Audit Annual Report and Opinion 2023/24</b>	(Pages 1 - 12)	Jennifer Warrillow Tel: 01732227053

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**DARTFORD & SEVENOAKS AUDIT PARTNERSHIP**

**Final Audit Report**

**Sencio Contract Management**

May 2024

**Sevenoaks District Council**

<b>Ref.</b>	SDC23-2324M
<b>Audit Manager</b>	Jen Warrillow
<b>Client / Sponsor</b>	<b>Sarah Robson</b> Deputy Chief Executive and Chief Officer People & Places

*This report is confidential and must not be shared without the prior permission of the Audit Manager.*



## Executive Summary

The objective of this audit was to review the effectiveness of controls over the Council’s lease and contractual relationship with Sencio Community Leisure (Sencio) and establish what lessons can be learned to inform the Council’s management of similar external contracts in future.

Most significantly, the contractual relationship was based on lease agreements signed in 2004 for a period of 25 years. These agreements would not be considered fit for purpose by current standards and were missing significant clauses, particularly in relation to exiting the agreement and provisions for poor performance.

We found the Council have communicated with Sencio and managed the contract in line with the expectations set out in the lease agreements, associated schedules and the annual contract letter. Monthly meetings were held to discuss day-to-day issues with running the leisure provisions as well as quarterly meetings to discuss maintenance of assets, performance and financial information.

Reporting to Strategic Management Team and relevant committees was ad hoc though there was sufficient information provided timeously to support decision-making. However, there was no regular reporting to support management assurance of performance of the contract. Additionally, there was no risk register maintained for the contractual relationship between the Council and Sencio.

We found that these issues have already been addressed in the contract and associated management and governance arrangements for the new White Oak Leisure Centre. The Council plans to take the same approach with the longer-term contract for Sevenoaks and Edenbridge Leisure Centres and Lullingstone Golf Course.

A summary of our actions and management responses can be seen in the below table:

Priority Ranking	Number of audit actions	Actions agreed	Risks accepted by management
<b>Critical</b>	0	N/A	N/A
<b>High</b>	0	N/A	N/A
<b>Medium</b>	2	2	N/A
<b>Low</b>	1	1	N/A
<b>Advisory</b>	0	N/A	N/A
<b>Total</b>	<b>3</b>	<b>3</b>	N/A

# Acknowledgements

We would like to thank the following Councillors and officers for their assistance with this review:

- Cllr Graham Clack
- Cllr Margot McArthur
- Pav Ramewal – Chief Executive
- Sarah Robson – Deputy Chief Executive and Chief Officer for People & Places
- Adrian Rowbotham - Deputy Chief Executive and Chief Officer for Finance & Trading
- Martin Goodman – Head of Legal & Democratic Services
- Peter Edmed – Property Compliance & Maintenance Manager
- David Lagzdins – Senior Solicitor
- Kathryn Bone – Community Projects & Funding Officer

## Distribution

Draft & Final report		Final report only	
<b>Sarah Robson</b>	Deputy Chief Executive and Chief Officer People & Places	<b>Pav Ramewal</b>	Chief Executive
<b>Martin Goodman</b>	Head of Legal & Democratic Services	<b>Adrian Rowbotham</b>	Deputy Chief Executive and Chief Officer Finance & Trading (s.151 Officer)

## Detailed Findings

- 1) In April 2023 at an Extraordinary Council meeting after Sencio Community Leisure declared insolvency, it was requested that an investigation by Internal Audit, be agreed, as to establish:
  - a. why Sencio had gone into administration/insolvency,
  - b. who was responsible, and
  - c. report lessons to the Council to inform the Council's contractual relationship and governance with a future long-term provider.
- 2) The scope of this audit excluded items a. and b. as we do not have the authority to undertake investigations of this nature in external organisations. We have instead focussed on the Council's management of the contractual relationship with Sencio Community Leisure. The rest of this report details our findings in relation to this scope.

### Roles and Responsibilities

- 3) We interviewed each Officer and Member who had a direct responsibility in relation to management/monitoring of the contractual relationship between Sevenoaks District Council and Sencio and found they all understood their roles. We found Officers' responsibilities were outlined either in their job description or from constitutional delegations and Members were approved to sit as Council representatives on the Sencio Board at Annual Council meetings as appropriate.
- 4) Officers had relevant previous experience and/or had received adequate training to support them in discharging their responsibilities. Members were supported with ad hoc advice and guidance in relation to the Council's expectations with regards to their role on the Sencio Board. **Action 3**

### Contract Specification

- 5) We examined the original lease agreements and associated schedules for the Council's leisure sites as signed in November 2004. Anecdotally, it is understood that external lawyers wrote these contracts. However, it is stark how light on detail the leases are and they would not be considered fit for purpose by current standards. Primarily, though not exclusively, they were missing the following:
  - a. Expected performance levels
  - b. Adequate exit clauses
  - c. Details for monitoring the contracts
  - d. Expectations regarding provision of information to support monitoring of the contracts

- e. Provision for managing poor performance
  - f. Business continuity requirements
- 6) In addition to the original leases, the Council issued Sencio with an annual contract letter, which set out the conditions Sencio needed to meet in order to receive the annual management fee of £26,950. This letter did include performance information that was required to be sent to the Council as well as provision of audited accounts and recognition of the £600,000 loan (that was subject to a separate loan agreement).
- 7) Although the annual contract letter added an expectation of certain levels of performance to be reported at quarterly meetings, it did not and could not give provision for managing poor performance outside of non-payment of the £26,950 annual management fee. This fee was last paid in advance in May 2020 to support Sencio through the difficulties of the Covid-19 pandemic. Payments due after this were withheld due to Sencio not providing their audited accounts as per the contract letter. The Council had therefore taken all action available to them through the contract provisions in order to address performance related issues.
- 8) We note that the Council sought external expertise for its leisure operator contract for the new White Oak Leisure Centre in Swanley, which has ensured the contract with the new provider is fit for purpose and meets current best practice. Similarly, in preparation for the longer-term leisure provision procurement, the Council has again sought external expertise in ensuring the new contract includes all necessary controls and meets current best practice requirements.

### **Monitoring and Communication**

- 9) The Council held regular contract management meetings with Sencio and undertook frequent inspections to examine the Provider's compliance with relevant asset maintenance regulations and legislation. The following meetings had set agendas and were minuted:
- a. Quarterly partnership meetings with Deputy Chief Executive and Chief Officer for People & Places (SDC), Sencio Chief Executive, Health & Communities Manager (SDC), Senior Accountant (SDC), Community Projects & Funding Officer (SDC) and Property Compliance & Maintenance Manager (SDC);
  - b. Monthly 1:1 meetings with Deputy Chief Executive and Chief Officer for People & Places (SDC), Property Compliance & Maintenance Manager (SDC) and Sencio Chief Executive.
- 10) The quarterly partnership meetings were often supported with relevant reports and information provided by Sencio as requested. Where reports were not provided in time to inform agenda item discussions, an action was raised for them to be circulated outside the meeting.

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- 11) The set agendas for both the quarterly partnership and the monthly 1:1 meetings followed expected topics as related to the contract. The Council raised and documented relevant actions in the minutes and then followed up as part of the agenda for the following meeting.
- 12) Monthly meetings with set agendas were also held between officers and the Portfolio Holder and Deputy for People and Places, with a standing item reviewing Communities / Leisure. The Council raised and documented relevant actions in the meeting notes and then followed up as part of the agenda for the following meeting.

### **Risk Management**

- 13) Despite there being an agenda item for risk management for the quarterly partnership meetings, there was no risk register maintained specifically in relation to the Sencio leisure contract. It is best practice to develop and maintain a risk register to support management of contracts of this size.
- 14) However, we note that the Council has developed a risk register for its leisure operator contract for the new White Oak Leisure Centre and the interim two-year contract and have plans to develop a risk register to support management of the new contract.

#### **Action 1**

- 15) Despite the absence of a risk register for the contract, from 2020, when Sencio requested financial support from the Council, mitigating actions were put in place to protect against the risk of losing the leisure provider.
- 16) The Council appointed Max Associates to both advise on whether to grant financial assistance to Sencio, but also to give advice to the leisure provider on recovery from the pandemic. This action was appropriate in reducing the likelihood of Sencio declaring insolvency.
- 17) Additionally, the Council developed a transition plan to reduce the impact of closing the leisure provisions should Sencio declare insolvency despite support offered. Max Associates reviewed these transition plans for appropriateness and the Council approached an alternative provider to act as an alternative if needed. These plans supported officers to respond as quickly as they did when Sencio later did declare insolvency.

### **Loan Agreement**

- 18) In July 2017, the Council entered into a loan agreement with Sencio and lent the leisure provider £600,000. The loan agreement included conditions around late repayments, in particular that if Sencio were one day or more late in paying on a due payment date on three or more occasions during the term of the loan, the Council would be able to seek to declare Sencio insolvent.



19) Two of the initial three repayments were late and as such, the Deputy Chief Executive and Chief Officer for Finance and Trading wrote to Sencio in January 2019 to remind them of the loan conditions. The third and final late payment was the payment that was due in March 2023, by which point, Sencio had already declared insolvency themselves.

### **Performance Management**

20) Performance data was provided by Sencio in relation to the agreed indicators and monitored using a spreadsheet which used conditional formatting to highlight whether the agreed targets had been met or not. The last performance data received was for September 2022 to be discussed at the planned January 2023 meeting. Partnership meeting minutes show that performance data was discussed.

21) The most significant area of poor performance was in relation to meeting income targets, this was discussed at length under the finance agenda item and supported by the production of the profit and loss statements for each of the leisure sites.

22) The Council's Property Compliance & Maintenance Manager undertook regular inspections of the buildings, plant and machinery to ensure Sencio were complying with relevant maintenance expectations. The result of these inspections and a summary of budget required to undertake any and all repairs and maintenance was provided to the quarterly partnership meetings and minuted accordingly.

### **Reporting**

23) Reporting in relation to the contractual relationship with Sencio and the provision of leisure facilities was ad hoc when specific decisions were required. Frequency of reporting increased during the Covid-19 pandemic to provide updates on the impact and recovery from enforced closures and safety measures.

24) Reporting went to the Council's Strategic Management Team, People & Places Advisory Committee, Cabinet and Full Council. Additionally, there were agenda items in relation to the contract, which were examined by Scrutiny Committee. Reporting was at appropriate points in time and reports provided relevant information to support both options and final decisions.

25) There was no regular reporting to provide management assurance on the performance of the contract to Strategic Management Team or any committee in relation to the Council's contract with Sencio.

26) However, six monthly reports are presented to Strategic Management Team, the relevant Advisory Committee and Cabinet in relation to the new White Oak Leisure Centre and the interim two year contract. The leisure operator also presents to People & Places Advisory Committee on a six-monthly basis, alongside Scrutiny on an annual basis. This reflects good practice to provide management assurance on the performance

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of these contracts. The Council has plans to adopt this approach with the new contract as well. **Action 2**

# Action Plan

<b>1. Risk Management</b>		<b>Medium Priority</b>
<p><b>Finding:</b> There was no risk register maintaining specifically in relation to the contract with Sencio.</p> <p><b>Cause:</b> Officers had not considered maintaining a risk register to support management of the contract with Sencio.</p> <p><b>Impact:</b> Without identifying and assessing the risks associated with a contract of this size, it is difficult to be certain and provide assurance that all necessary mitigating controls and actions are in place.</p>		
<b>Action</b>		
<p>Develop and maintain a risk register specifically for the management of the leisure provision contracts, similar to that undertaken for the new White Oak Leisure Centre contract and interim leisure contract.</p>		
<b>Management Response</b>		
<p>Agreed</p> <p><b>Comments:</b></p> <p>Leisure provision has already been added as both a Corporate and Operational Risk. A risk register will be drafted specifically for the new leisure contract in the same vein undertaken for White Oak Leisure Centre and interim contracts.</p>		
<b>Responsible Officer:</b>	<b>Implementation Date:</b>	
Sarah Robson - Deputy Chief Executive and Chief Officer for People & Places / Kathryn Bone - Community Projects & Funding Officer	October 2024	

**2. Regular Reporting**

**Medium  
Priority**

**Finding:** Reporting to relevant groups and committees was done on an ad hoc basis as and when extraordinary decisions were required. There was no regular reporting to provide assurance on the performance of the contract.

**Cause:** There was not historic reporting schedule requested or in place.

**Impact:** There may be missed opportunities to spot emerging issues. Additionally, without regular management assurance on the contract performance, relevant parties cannot be certain that issues are being addressed appropriately.

**Action**

Develop a schedule for regular reporting to SMT and Members on the performance of the contract, similar to that undertaken for the new White Oak Leisure Centre contract and interim leisure contract.

**Management Response**

Agreed

**Comments:**

Existing reporting for White Oak and the interim contract will continue to be in place until May 2025. A schedule will be put in place and has already been incorporated into the longer-term tender document, which will.

**Responsible Officer:**

Sarah Robson - Deputy Chief Executive and  
Chief Officer for People & Places / Kathryn  
Bone - Community Projects & Funding  
Officer

**Implementation Date:**

January 2025

<b>3. Guidance for Members</b>		<b>Low Priority</b>
<p><b>Finding:</b> Although Members were provided with ad hoc guidance on the Council’s expectations of them as Council representatives on Sencio’s Board, these expectations are not documented for reference.</p> <p><b>Cause:</b> Members have previously requested advice as and when they felt they needed it.</p> <p><b>Impact:</b> There could be misunderstandings about the role the Council expects Members undertake when sitting on external boards as a Council representative, particularly in relation to significant partnerships.</p>		
<b>Action</b>		
<p>Document the Council’s expectations on Members when acting as the Council representative on ‘Outside Bodies’, for example, external boards of significant partners, and provide this to relevant Members.</p>		
<b>Management Response</b>		
<p>Agreed</p> <p><b>Comments:</b> N/A</p>		
<p><b>Responsible Officer:</b> Martin Goodman – Head of Legal and Democratic Services</p>	<p><b>Implementation Date:</b> November 2024</p>	

### Audit Findings Priority Ratings

Priority	Definition
<p style="text-align: center;"><b>Critical</b></p>	<p>Control weakness that could have a significant impact upon not only the system, function or process objectives, but also the achievement of the organisation’s objectives in relation to:</p> <ul style="list-style-type: none"> <li>• the efficient and effective use of resources</li> <li>• the safeguarding of assets</li> <li>• the preparation of reliable financial and operational information</li> <li>• compliance with laws and regulations</li> </ul>
<p style="text-align: center;"><b>High</b></p>	<p>Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives.</p> <p>This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisational objectives.</p>
<p style="text-align: center;"><b>Medium</b></p>	<p>Control weakness that has a low impact on the achievement of the key system, function or process objectives; or</p> <p>This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.</p>
<p style="text-align: center;"><b>Low</b></p>	<p>Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the audit action would improve overall control.</p>
<p style="text-align: center;"><b>Advisory</b></p>	<p>Observations and areas for consideration, these findings are drawn from our shared experience of working across the Council and more widely with partners. These findings require no formal response and will not be followed up.</p>