



Darlington Borough Council

Capital Contracts

Background

Reports were presented to Corporate Management Team, the Resource Scrutiny and to Cabinet in 2008/09 which agreed a separate Capital Projects Team would be established to manage projects and take responsibility for quality assurance. In addition, control point documents would be introduced to ensure the stages of contract management were clearly documented. Furthermore, in January 2011 following an internal restructuring, responsibility for the Capital Projects Office was transferred to the Assistant Director –Highways, Design and Projects.

An update on the management of capital projects was reported to the Chief Officers Executive on 11 August 2011. In respect of the Development work on Project Management systems, the report details seventeen observations linked to recommendations for improved together with expected outcomes. The in-house internal audit team produced a report in June 2012 which reviewed the progress made in relation to capital contracts management and reviewed the development and implementation of the capital contracts methodology. The majority of actions had been progressed but, as with any continual development culture, a further improvement/development action plan was produced which is currently in the process of being implemented and whose progress is periodically reported to the Asset Management and Capital Program Review Board (AM&CPRB).

In addition, a report was made to Cabinet on 5 February 2013.

Scope

The purpose of the review is to consider whether there have been appropriate action taken to develop the management of capital projects since 2008/09, whether actions set out as a result of the actions identified from the internal audit review in June 2012 have been implemented, and whether the required process in relation to recording information relating to capital contracts have been followed (which we will test by reviewing a sample of contracts).

Summary of findings

During the review the following points were noted in relation to the progress made on the management of capital projects:

- Control point documentation has been established for the capital project management process to set out the key information to be obtained as part of each key stage of a projects life. At the completion of each stage this is signed off by appropriate officers;
- A project management handbook has been developed to set out the required process for recording information in relation to capital projects, including a summary of each of the Control Point stages, what information should be maintained on each project, roles and responsibilities and how documentation should be recorded and maintained;

- The capital projects team has been developed to lead in-house capital projects. A terms of reference has been put in place for the team. A terms of reference has also been established for the AM&CPRB which sets out its key functions, the structure of the AM&CPRB and who the group will report to; and
- There is a requirement that projects should be reviewed on a monthly basis, for example to review budgeted costs against actual and the number of change requests submitted. Key information from the review should also be extracted and entered onto the Capital Project Position Statement (PPS) spreadsheet.

It is acknowledged that there has been a significant amount of progress made to develop the capital projects management and monitoring process to encourage that appropriate information is maintained on contracts, appropriate sign off is obtained at each stage and the progress of contracts is monitored, and to ensure the actions identified from the internal audit report in June 2012 have been implemented. The majority of the actions from the internal audit report have been implemented, with the key actions outstanding is to finalise an evaluation of whether an integrated control point system could be implemented.

As part of our review we considered four capital contracts which were operational since the new arrangements have been in place. The contracts selected were as follows:

- Mowden Federation Remodelling;
- Hutton Avenue footbridge replacement;
- Springfield former school site; and
- North Road bus priority scheme.

The contracts selected were of various sizes and complexity and each was traced through the various revised phases of contract monitoring.

We did make some observations as part of our work, which include areas we feel there is still room for further enhancement. The following table sets out additional key findings noted as part of the review:

Finding	Risk	Recommendation	Management response
<p>Recording of information in relation to capital projects</p> <p>During the review four capital contracts were selected for testing. The required documentation, as set out in the project management handbook and in the required Control Point (CP) templates were reviewed for each contract selected to ensure the required information was recorded in line with requirements. A small number of more minor process points were raised as a result of the review however management has since been able to provide satisfactory responses and</p>	<p>Information in relation to capital contracts is not recorded appropriately or is not signed off resulting in control not being maintained over the monitoring and management process of the delivery of capital contracts.</p>	<p>Based on our work we have identified a number of improvements being made to capital management processes. We have recommended that consideration be made as to how the current process can be further developed to ensure that all required information is held in relation to capital contracts and each key stage is completed in line with requirements before sign off. This could be implemented through one of the following:</p> <ul style="list-style-type: none"> • Developing the current PPS spreadsheet to ensure appropriate information is held on each contract, including recording when sign off of each CP stage has been obtained, and ensuring appropriate control can be maintained 	<p>The Project Management Handbook is a generic guide to ensure Project Managers consider all key control processes and gateways as part of developing and managing a project. The Council manages a wide range and scale of projects and as such some controls may not be relevant for all projects. The project sponsors review control documents and will only sign them off if they consider the project risks and controls have been adequately developed.</p>

Finding	Risk	Recommendation	Management response
are positively responding to any actions arising.		<p>over the historical information recorded within the spreadsheet.</p> <ul style="list-style-type: none"> Developing an electronic system for recording information in relation to capital contracts. This would ensure all information on each key CP stage was recorded before sign off was obtained, and that the process for delivering capital contracts was followed in line with the requirements as set out in the guidance. This may also allow more detailed information to be extracted in relation to the progress of capital projects, the monitoring of project costs against budget, and provide a more efficient means of recording key information, for example correspondence with suppliers. 	This recommendation forms part of the improvement/development action plan and is within Xentrall's ICT work programme.
<p>Review of compliance with internal capital contracts process</p> <p>It was noted that as part of the development of the process, capital project Health Checks were performed on contracts to assess whether information had been recorded in line with the documentation requirements for each Control Point stage as set out in the Project Management Handbook. It was noted that the last internal audit review advised that health checks should no longer be carried out within the Capital Projects Team on schemes delivered by the Team but should be devolved to management arrangements.</p>	Capital projects delivered by the Capital Projects team are not appropriately reviewed. Where key stages are not followed or appropriate documentation is not obtained or recorded, this may not be identified resulting in contracts not being managed appropriately.	<p>It is acknowledged that as part of the internal management arrangements for capital contracts, there are regular team meetings with the capital projects team staff, and there are one-to-one meetings with staff in the team to encourage quality within the process.</p> <p>However, it is recommended that independent checks should be performed on contracts delivered by the Capital Projects Team regularly to ensure documentation for each key Control Point stage is documented, and there is appropriate monitoring of the capital projects throughout. The implementation of an integrated control point system would ensure each Control Point is documented appropriately. The information gathered from the checks performed should be fed back to the Capital Projects Team for improvement, and should also feed into gathering information</p>	Since the inception of the Capital Projects Team there have been numerous self audits of the Team's management of capital projects which resulted in the recommendation from internal audit to cease 'health checks' within the Team and build this process in to the Team's management review arrangements. The Team operates to the principles of a Quality Management System which involves independent internal surveillance visits to ensure processes are being managed. The Team generally provide services to other departments and as such have independent client sponsors and Boards to report to which results in monitoring and checking throughout the contract process. In addition, any deviation outside a defined range of tolerances results in exception reports to the

Finding	Risk	Recommendation	Management response
		<p>in relation to the lessons learned log to ensure issues raised regularly are addressed and communicated to the team. While these do not necessarily need to be in the form of a 'health check' we do recommend an ongoing level of independent scrutiny, perhaps on a sample basis.</p>	<p>AMG, which results in additional independent scrutiny.</p>