

Report to: Audit Committee

Date of meeting: 17 September 2021

By: Chief Operating Officer

Title: Property Service update - Capital Project delivery

Purpose: To outline management actions being taken following an internal audit of the management of capital projects.

RECOMMENDATIONS

Audit Committee is recommended to:

- 1) Note the contents of the report outlining key findings of the audit report into Capital Projects; and**
 - 2) To consider the agreed management actions taken to date in response to findings in the report.**
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1 Background

- 1.1 The Council has an agreed capital programme for major infrastructure and capital projects, which is approved by Full Council each February and reported to Cabinet as part of quarterly monitoring reports. The Council's Property Service delivers most of the capital projects in respect of schools and other operational assets, being either the expansion of existing schools or brand-new schools under the Basic Need programme, with other operational assets having smaller capital investment projects. Infrastructure, highways, and IT capital programmes are not managed by Property Services.
- 1.2 In summer 2020, Strategic Capital Asset Board raised concerns on the delivery of capital projects where there were cost overruns and delivery timelines that had not been met. The Council's Chief Operating Officer and Chief Finance Officer commissioned an internal audit of capital projects. The internal audit focused on capital project delivery in the financial year 2019/2020. The audit was undertaken with the final report being issued on 13 April 2021. The reports contained several management actions, and these are summarised later in this report. Internal Audit and Property Services have been working together to monitor and track the management actions. All the management actions are programmed to be completed by November 2021. A follow up review by Internal Audit will occur in November 2021.

2 Supporting information

- 2.1 A summary of the main audit review is outlined below.
- 2.2 The review focused on the commissioning, planning, and delivery of a sample of projects, to provide assurance that adequate arrangements exist to ensure:
 - Only projects that meet the strategic needs of the Council are commissioned;
 - Project initiation documents for property works are aligned to Council priorities and are supported by clear and robust plans covering specification, timescales, costs, and cash flow;
 - Outline and detailed project design to take into account all relevant factors to enable accurate costs to be calculated;
 - Project governance arrangements deliver projects on time, to the agreed specification and within budget;

- Procurement at all stages in the project delivers value for money; and
- Project slippage and potential cost variations are reported in sufficient time to allow effective decision making.

2.3 Internal Audit reviewed a sample of property projects that were at different stages of the project lifecycle and were being delivered across Council departments.

2.4 The audit was undertaken for commissioning and delivery of projects in 2019/2020 and this was during a period when the pandemic commenced so there were national implications for the construction industry.

2.5 The agreed management actions are outlined below and were agreed with the Assistant Director - Property who joined the Council in November 2020.

2.6 The main management actions are outlined below and taken from the internal audit report:

- Roles and responsibilities for Council officers and consultants were not sufficiently well defined, weakening accountability and project governance arrangements.
- A robust project management framework that outlines the project lifecycle and processes is not always followed for all property projects undertaken. This has led to inconsistent and ineffective project management.
- Key project documentation, including the Project Initiation Document (PID) and project management plan, were not used to support the delivery of all the projects.
- Engagement, collaboration and communication between client departments and the Property team is not always timely and effective. Feasibility studies are not always completed to provide cost estimates for business cases and, where they are, their limitations are not always understood by client departments. Greater collaboration between Property and client departments is needed to reduce incidences of projects being approved, based on significantly underestimated costs.
- Change control processes are not always clear. Some changes are approved where no costs or cost estimates had been produced. This is particularly significant where foreseeable costs have not been included as part of the planning process, and prior to the contract being let, which can lead to contract variations throughout the project, increasing the overall cost. In some cases, consultants can agree changes, certify that work has been completed, approve costs of the work and are paid on a percentage of the contract value, reducing their incentive to control costs.

2.7 Significant work has been undertaken for all the management actions. The Assistant Director Property has worked with all stakeholders to respond swiftly and a summary of the themes relating to the management actions and a summary is shown below:

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| <p>Understanding the exact service requirements</p> | <p>All stakeholders spend more time understanding service needs and ensuring this is captured in scoping documents. External consultants are now involved earlier in projects to bring wider technical and professional expertise. There is revised sign off process for each stage of a project at a senior level for Property, Finance, and the client lead. For new projects commenced since Spring 2021 this has worked well.</p> |
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| Project management improvements | Consistent project management documents are now implemented with increased updating and reporting to key stakeholders. Detailed highlight reports are prepared monthly covering all key information and reported to Schools and Asset Board. |
| Clearer instructions to external consultants on feasibility options | Securing external advice from consultants into the project team allow options to be outlined and for Property, Finance and the client to review this. Agreeing the final scheme with a sign off is crucial. This avoids significant variations to the project with client requests to alter the design once contractors are on site and this has cost implications. |
| Managing the contractors | Enhanced Property client-side management of the onsite contract team is now in place with weekly reports, stronger project and financial management. |
| Clearer communication | There are several step changes that have occurred including a revised Schools and Asset Board, providing greater scrutiny of capital projects. Agreeing roles and responsibilities within the Council and also lines of communications with schools have been improved. Property is providing robust advice on delivery of projects using their expertise and outlining risks and mitigations at each part of the project. |
| Financial management | Budget setting for projects has been improved so detailed advice on costs are provided from detailed feasibility studies and tender cost reports. Property and Finance have increased dialogue to ensure financial monitoring is reported more regularly and with more detail. |

2.8 It is also proposed to restructure Capital Projects team, within Property Services, so the Council can ensure it has the best resources in place to deliver capital projects going forward.

3 Conclusion and recommendations

3.1 To note the internal audit report provided a minimal assurance rating of capital projects commissioned in 2019/2020. Key management actions were compiled in April 2021 and it is proposed these will all be completed by November 2021. There are regular meetings with Internal Audit and Property Services to monitor and track the management actions.

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