

Item No.	Classification: Open	Date: 2 nd December, 2003	MEETING NAME Executive
Report Title:		Response to Overview and Scrutiny Committee recommendations on the Charter School review	
Ward(s) or groups affected:		Borough-wide	
From:		Chief Executive Chief Finance Officer	

RECOMMENDATIONS

1. The Executive is recommended to adopt each of the recommendations made by the Overview and Scrutiny Committee – see paragraph 7.
2. The Executive receives a progress report on the implementation of all recommendations in 6 months time.

BACKGROUND

3. The overspend on the Charter School contract was identified earlier in the year by the Executive who asked the Overview and Scrutiny Committee to carry out a review of the reasons for the overspend and lessons that could be learned from the causes. As a part of that review independent advice was sought from the Audit Commission whose report and recommendations have formed part of the conclusions reached by the Committee. The Audit Commission's recommendations together with officers comments are attached to this report.
4. Officers have recently concluded a Best Value Review of Capital Management and that report was presented to the Executive.
5. On 29th July 2003 the Executive received and agreed the report detailing the findings and recommendations flowing from the Best Value Review. A summary of the reviews recommendations is attached to this report.
6. As Executive can see the Best Value review had already picked up the shortcomings identified by the Audit Commission and Scrutiny and officers have already taken important steps to prevent a repetition of the overspend on other projects in the future.

ADOPTING THE OVERVIEW AND SCRUTINY RECOMMENDATIONS.

7. The report from the Overview and Scrutiny Committee has identified the causes and the problems relating to the Charter School. It has made 7 recommendations, some of which are already specifically covered from the work done earlier by the Best Value Review. Officers' comments against each of the recommendations made by the Overview and Scrutiny Committee are set out below.

Overview and Scrutiny Recommendation	Officers' comments
<p>1. That the Chief Executive reviews the Council's approach to managing large capital projects and proposes a corporate methodology which includes clear arrangements for member involvement, project roles and responsibilities, senior management sponsorship, training, monitoring and the role of the corporate centre in supporting and/or intervening in projects which are running into difficulties</p> <p>2. That the Director of Education is asked to report publicly on Atkins' Faithful and Gould's findings and recommendations and his response to them in as far as he can, given the commercially confidential aspects of the report</p> <p>3. That the council cannot rely on external contractors to protect its corporate interests and therefore it is necessary to ensure robust client management structures are in place for major capital projects</p> <p>4. That the executive should ensure adequate protection of the council's interests by employing those with the necessary technical expertise to perform the client role in contract management</p> <p>5. That the Chief Financial Officer is asked to report on the Council's risk management strategy – how ongoing risk is assessed and actively managed; how the risk management strategy should work to trigger support/intervention from the corporate centre; and how it worked in the case of the Charter School project</p> <p>6. That officers are asked to report on how capital projects are reported to members in future,</p>	<p>This was also a conclusion of the Best Value review of capital management. The Assistant Chief Executive has now been given the corporate responsibility, through the Corporate Client Unit (the CCU), to oversee all capital projects and take specific action where individual schemes are running into difficulties.</p> <p>The Strategic Director for Education and Culture will bring forward this report in the new year.</p> <p>This point was also concluded by the Best Value Review. The CCU will be responsible for ensuring this happens for all the Council's capital and other procurements.</p> <p>This point was also concluded by the Best Value Review of Capital. Formal project management procedures will be built into the Council's new contract Standing Orders. They will be overseen by the CCU.</p> <p>The Chief Finance Officer is implementing the Risk Management Strategy agreed by the Executive earlier in the year. The work of recording individual Business Units "risks" and the mitigations associated with them is nearly complete. A further report to the Executive will be presented early in the new year.</p> <p>New reporting structures were agreed as a part of the Best Value review of capital and will be implemented as the</p>

<p>addressing the questions of risk management, overall project progress and clarity of financial reporting.</p> <p>7. That the Chief Executive reports on his proposals for improving the tracking of audit reports, and how the new system will ensure that the council is genuinely learning the lessons of such reports</p>	<p>new CCU develops over the next few weeks.</p> <p>The Chief Finance Officer already has put in place a system for tracking all audit recommendations. All recommendations whether made by the Council's Auditors, Best Value or other Inspections will now be routinely monitored and a summary will form part of the quarterly report to the Executive.</p>
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Background Papers	Held At	Contact
Overview and Scrutiny report on the Charter School		
Best Value Review of Capital	Town Hall	Mike Carroll Best Value Manager.

Audit Trail

Lead Officers	Bob Coomber, Chief Executive Keith Brown – Chief Finance Officer	
Report Author	Keith Brown	
Version	Final	
Dated	22 October 2003	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	Comments Sought	Comments included
Borough Solicitor & Secretary	No	No
Chief Finance Officer	N/a	N/a
Executive Member	Yes	Yes
Date final report sent to Constitutional Support Services	27 th October 2003	

**SCHEDULE OF SUMMARY RECOMMENDATIONS AGREED BY THE
EXECUTIVE FLOWING FROM THE BEST VALUE REVIEW OF CAPITAL
MANAGEMENT (JULY 2003)**

(a) Strategic Improvements

- The Capital Investment Strategy. A definitive Capital Strategy statement – coordinated with the Policy and Resources Strategy - will be produced for 2004/5, and maintained thereafter;
- A central Capital Team. A new Capital Team needs to be established under the Assistant Chief Executive (Performance & Strategy) to coordinate and stimulate change. It will act as an expert advisor and quality assessor to ensure project risk is minimised. It will also, with FMS, have an ongoing role in monitoring management of capital projects.

(b) Financial Improvements

- The Allocation Process. Processes and responsibilities for deciding priorities and allocations are recommended by this Review and need to be implemented for 2004/5;
- The Corporate Monitoring Framework. A robust management framework, involving regular reporting to Executive Members and operation of a corporate senior officer forum, will be re-introduced and maintained;
- Departmental Monitoring and IT systems. An integrated and functioning corporate monitoring system (utilising SAP) will be established for 2004/5;

(c) Operational Improvements

- Project Management. The work of the Capital Team - as proposed by this Review - will be pivotal to introducing a step-change in project management for 2004/5. This will ensure adoption and compliance with recognised project management methodologies, which will complement the new structured monitoring arrangements.
- Organisational Learning. The Capital Team will look to stimulate and develop ongoing learning across the capital programme, drawing in expertise from within the Council, and from other authorities.

THE DETAILED RECOMMENDATIONS AGREED BY THE EXECUTIVE ON EACH OF THESE AREAS ARE SET OUT BELOW (JULY 2003)

Strategic Improvements

- (i) *Developing a coordinated long-term capital investment strategy;*
- A long-term (10-year) capital investment strategy covering all aspects of capital investment across the authority needs to be agreed by January 2004, making plain the matching of expenditure to expected receipts over this period through all potential sources, including third party (private) income streams. It should also set the likely outcomes of expenditure in order that the strategy can be measured. This will be agreed by full Council and will be subject to periodic review.
 - Rolling 3-year detailed plans will supplement the overall strategy. These will be produced on an annual basis and will take into specific account Asset Management Plans and potential receipts from disposals and from section 106 (planning gain) agreements. The plans will be agreed by Executive, following Chief Officer Team (COT) endorsement.
- (ii) *Establishing a central capital function to co-ordinate, support and direct an innovative and efficient capital programme;*
- A Capital Team should be set up under the Assistant Chief Executive (Performance and Strategy) during 2003/4. The main focus of its work in the short-term should be on raising project management capability in the Council and acting as an expert adviser and quality assurer at the initiation stage of high-risk projects put forward for 2004/5.
 - The full remit of the Capital Team will be confirmed by the Assistant Chief Executive (Performance and Strategy) during summer 2003, and will take into account the original remit of the DCSU (paragraph 16), the views from consultation (paragraph 19) and the Leeds 'model' (paragraph 20).
 - Once established, the Capital Team will take responsibility for the overall strategic direction of the capital programme, drawing up the 10-year Capital Strategy and 3-year rolling plans. To ensure appropriate access to information, the Capital Team will require access to project finance information on SAP and asset information on the Asset Register. The Capital Team will implement this in conjunction with FMS and Regeneration.

Financial Improvements

- (i) *Working up clear procedures for the allocation of finances and capital receipts;*

- A coherent process - involving production of business case, risk and sensitivity analysis, economic appraisal and scoring of respective projects using the matrix - needs to be developed by the Capital Team (with FMS) to form an integral part of allocation for 2004/5 budgets and used thereafter.
- The process needs to produce an agreed prioritised list of costed schemes to receive funding as made available through borrowing and allowances or in-year as receipts from disposals come 'onstream'.
- There needs to be two stages to the process:
 1. Members and the officer decision-making forum (Capital Investment Strategy Team (CIST)) will be given an estimate (in a range) of likely spend on capital projects on an indicative costs basis. This will be for provisional approval, and will follow an evaluation of risk and project cost / benefit by the Capital Team (with FMS).
 2. This expenditure estimate will be clarified when tenders and costings are received and assessed by the Capital Team (with FMS) and put to CIST. This is also likely to follow presentation of the project costs to the corporate Contracts Board, to ensure probity and rigour in the letting of any new contracts. Full approval to incur spending will take place when full costings including tender results have been determined. (For both steps the basis of calculation and any assumptions used will be clearly stated).

(ii) *Re-establishing robust corporate mechanisms for allocating and monitoring investment;*

- Monthly reports on projects will be produced by departments for the Chief Officers and the relevant Executive Member(s). These will also be put to the Capital Team and FMS.
- Quarterly reports will be put to full Executive within the Performance Monitoring system. This will be coordinated by the Capital Team and Corporate Strategy, drawing on corporate financial information from FMS.
- Key or high-risk projects will have an Executive Member on the Project Board. Project Board composition will be determined on a case-by-case basis, and will follow advice from the Capital Team.
- The senior officer Capital Investment Strategy Team, chaired by the Chief Finance Officer or Assistant Chief Executive (Performance & Strategy) will be reconstituted (using terms of reference drafted by FMS) and consider departmental reports on at least a quarterly basis.
- The working-level Capital Monitoring Group will continue operation using terms of reference drafted by FMS, reporting any significant

budget variances or project issues to the Chief Finance Officer and CIST.

(iii) *Ensuring consistent and coordinated systems for managing capital investment in departments;*

- The use of SAP will be the project monitoring system for all departments from 2004/5.
- FMS will ensure the provision of advanced and ongoing training on the SAP project management module, and the development of the SAP module as required with departments, to ensure that all necessary functionality can be provided where local systems currently complement SAP.

Operational Improvements

(i) *Developing higher quality project management in departments;*

- The Design & Construction Strategy Unit (DCSU) has been working on improving guidance – notably on the Project Management Procedures Tool - and work on communicating this will be taken forward with the new Capital Team in 2003/4.
- The Capital Team will undertake a skills audit of all project managers and officers involved in the capital programme in 2003/4, to identify how expertise in the organisation can be better utilised and any shortfalls addressed. The aim will be to establish a qualified and full-time cadre of project managers working on schemes in 2004/5.
- Where training needs are identified from the audit, the Capital Team will work with departments to produce timely action plans to address this for 2004/5.
- The Capital Team will ensure – through ongoing audit - that all projects are running appropriately under recognised project management methodologies. While PRINCE2 is expected to be used as the generic Council standard, the use of other methodologies such as RIBA Plans of Work will be used at different stages in projects and the Capital Team will assess how effectively they are utilised.

(ii) *Promoting the sharing of good practice and learning across the Council.*

- The Capital Team will set up structured systems for sharing experience from all departmental projects and best practice elsewhere, including Beacon Councils in 2003/4. This will include assessments of ongoing and completed projects, produced both formally through the reporting system (considered earlier in this

report) and an annual 'lessons learnt' report, and informally through workshops for project officers and the Council intranet.

Page	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Title						
14	<p>R.1 Member Involvement</p> <p>Ensure that Members form part of the strategic decision making process that reviews, monitors and manages the risks of all future significant Capital Projects through regular and timely receipt of reports and where appropriate membership of Project Boards.</p>	3	Assistant Chief Executive Performance and Strategy	Yes	New Procurement Strategy sets out high level role and responsibilities of members in relation to procurement. Target in Strategy of quarterly reports to Executive Members on Strategic and Capital contracts by December 2003. Project Boards will be required for all major projects as part of the formal project management methodology to be introduced in new Standing Orders and Code of Procurement Practice.	December 2003
14	<p>R.2 Project set up, project management and performance management</p> <p>Ensure that appropriately skilled staff and sufficient management and professional resources, including budgetary management, are used on large projects through undertaking a full skills analysis of staff involved when putting the project team together.</p> <p>Ensure that future capital projects are effectively managed through project teams and a clear performance management framework which have clearly communicated protocols and</p>	3	Assistant Chief Executive Performance and Strategy	Yes	<p>Formal project management procedures will be included in Standing Orders.</p> <p>The Corporate Client Unit (CCU) will oversee the management of projects. On major projects the Unit will have a more significant role in ensuring suitably trained and experience staff are used.</p> <p>The New Standing Orders and Code of Procurement Practice should ensure a clear understanding of Council officers' obligations and responsibilities to adhere to the Council rules for procurement.</p> <p>Advice on putting together a team will be included in the Code of Procurement Practice.</p> <p>Procurement skills training courses will be introduced for all staff involved in procurement.</p> <p>The CCU will ensure that the Council's performance management framework is properly applied to contract management across the council</p>	Immediate

Page	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	procedures; separation of duties; responsibilities and clear accountabilities throughout the lifespan of such projects.					
14	<p>R.3 Budget setting and monitoring framework</p> <p>Introduce a rigorous budget setting and monitoring framework that includes a realistic assessment of the full scope of the project and ensure there is appropriate quality assurance.</p> <p>Ensure Standing Orders are properly complied with including authorisation of variations</p> <p>Develop a framework for reporting to Senior Officers and Members on significant projects which:</p> <ul style="list-style-type: none"> • Shows progress of budget versus actual; • Provides reports at appropriate stages; • Accurately reflects the latest assessed position; • Ensures reports are 	3	Assistant Chief Executive Performance and Strategy	Yes	<p>Target in the Strategy is to achieve quarterly reports to Executive Members on Strategic and Capital contracts by December 2003.</p> <p>Project Boards will be required for all major projects as part of the formal project management methodology to be introduced in new Standing Orders and Code of Procurement Practice. These Boards will be responsible for budget setting and monitoring for the project.</p> <p>Requirements for monitoring of all projects will be in Standing Orders and Code of Procurement Practice.</p> <p>The CCU will oversee reporting across the council.</p> <p>The CCU will review the use of lump sum fees and will build the resulting conclusions into the Code of Procurement Practice.</p>	December 2003

Page	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<p>received by the most appropriate decision makers;</p> <ul style="list-style-type: none"> provides the right information on which to make a decision. <p>Consider negotiation of fees on a lump sum basis</p>					
15	<p>R.4 Procurement procedures</p> <p>The initial tender documents should reflect a full assessment of the work to be undertaken to the desired quality requirements</p> <p>Establish realistic lead-in times for undertaking competitive tendering procedures</p>	3	Assistant Chief Executive Performance and Strategy	Yes	<p>The new CCU will ensure that proper rigour is exercised in cost and work estimation prior to project approval.</p> <p>Gateway process to be implemented in 2004.</p> <p>Procurement internet website in October 2003 will provide a mechanism for sharing lessons learned.</p> <p>A senior manager is currently being recruited to head up a new CCU that will have the responsibility to set up management systems, improve co-ordination across the capital programme and ensure that where necessary quality assurance takes place.</p> <p>Standard contracts will be developed.</p>	December 2003
15	<p>R.5 Performance management of external contractors</p> <p>Where outside parties are engaged to assist the Council to manage a project ensure that:</p>	3	Assistant Chief Executive Performance and Strategy	Yes	<p>Formal project management procedures will define roles and have terms of reference for each role.</p> <p>The external consultants role will be clearly specified in their contract with the Council. Rules on the appointment of consultants and the subsequent</p>	Immediate

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	<ul style="list-style-type: none"> Roles are clearly defined contracts clearly state the protocols for performance management, contract compliance and general accountabilities of all parties where consultants work for the same group of companies, ensure there is understanding of separation of duties <p>Develop a performance management framework to ensure that the professional team are complying with their contractual obligations.</p>				<p>management of their performance will be included in the new Standing orders/ Code of Practice.</p> <p>The CCU will oversee the management of external parties.</p> <p>The Council is also committed to taking forward the partnering approach as a way of improving the cost/time control of projects; guidance on this will be given in the Code of Practice.</p>	
15	<p>R.6 Risk Management</p> <p>Ensure that clear and comprehensive risk/issue logs are completed on all capital projects and regularly reviewed in accordance with best practice.</p>	3	Assistant Chief Executive Performance and Strategy	Yes	<p>Risk assessment will be included in Standing Orders/Code of Procurement Practice.</p> <p>The CCU will ensure best practice in risk management on capital projects is implemented.</p>	Immediate
15	<p>R.7 Further investigation requirements</p> <p>Analyse and report</p> <ul style="list-style-type: none"> What items originally formed part of the initial 	3	Strategic Director of Education and Culture	Yes	<p>The Strategic Director of Education and Culture will undertake a review and take appropriate action.</p>	By December 2003

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	<p>tender documents</p> <ul style="list-style-type: none"> • What additional items were added • Why there are discrepancies between what the consultants 's (Atkins Faithful Gould report) advise and what the Property Team believe to be the case 					
15	<p>R.8 Recommendations from previous audit reports</p> <p>Review and implement recommendations made by previous audit reports.</p>	3	Assistant Chief Executive Performance and Strategy	Yes	Procurement Strategy states that the Corporate centre will ensure that the departments implement recommendations within six months.	December 2003