

MEETING:	OVERVIEW & SCRUTINY COMMITTEE
DATE:	18 OCTOBER 2010
TITLE OF REPORT:	PROJECT DESIGN AND DEVELOPMENT/FINANCIAL CONTROL OF CAPITAL SCHEMES
REPORT BY:	DIRECTOR OF RESOURCES

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To advise Members on the project management and financial controls in place for Capital Schemes.

Recommendation

THAT: the Overview & Scrutiny Committee notes the controls in place.

Key Points Summary

- A wide range of project types and sizes exist.
- Prince 2 Project Management methodology in place.
- JCT (Joint Contract Tribunal) or NEC (New Engineering Contract)
- Procedures for budget costing are in place
- Final account controls are in place

Alternative Options

- 1 There are no alternative options as this is a report for noting only

Introduction and Background

- 2 In June the Children's Services Scrutiny Committee requested that a full report on how major school building projects had been administered e.g. Riverside Primary School be considered by the Overview and Scrutiny Committee to ensure that learning and good practice was being

Further information on the subject of this report is available from
Colin Birks, Property Operations Manager on (01432) 261980

incorporated into future projects.

Key Considerations

- 3 Asset Management & Property Services (AMPS) is responsible for a wide range of project types and sizes ranging from a minor improvement/maintenance scheme costing a few thousand pounds to a £22 million High School.
- 4 AMPS carries out work for Directorates within the council, external organisations such as Voluntary Aided Schools and projects commissioned by Schools.
- 5 In revenue terms AMPS spends about £3.5 million revenue and £10 to £12 million capital per annum.
- 6 In addition to professionally qualified surveyors, engineers and architects, specific staff are also trained in Prince 2 project management methodology. These trained staff support the projects undertaken.
- 7 Where Prince 2 is used on the larger schemes this involves forming a project team and a project board. The project manager is appointed and he/she leads the project team and reports to the project board. For construction type projects a qualified professional e.g. RICS (Royal Institute of Chartered Surveyors) or RIBA (Royal Institute of British Architects) is generally recognised as the most suitable to act as the project manager.
- 8 The projects are developed upon the RIBA (Royal Institute of British Architects) Outline Plan of work 2007 which is the industry's recognised method of developing construction projects from approval through to completion.
- 9 AMPS subscribes to a number of organisations in order to obtain up to date cost information. The common one used on building projects is the BCIS (Building Cost Information Service). It provides budget and elemental cost information details for many of the common building functions.
- 10 In addition to the services AMPS also purchases industry recognised costing books including Spons and Griffiths pricing books.
- 11 In addition to the standard costing databases there is also a construction and engineering cost index which can be used to inform costs on an annual basis.
- 12 The method used to prepare cost information will vary throughout the project. At the initial preparation and design stages the cost plan is normally based upon a square meter basis. This is then checked against typical similar projects held on the BCIS database. As an example a 630 place Primary School would have an approximate floor area of 3400m² based upon the recommendations of the School Premises Regulations. (The approximate cost of constructing a School in the West Midlands area is in the region of £1950 per m²). Additional costs are then added for professional services, furniture and IT. Costs are also added for the utilities e.g. gas, water, electricity and drainage using actual budget costs, where possible, for approximate costs based on experience.
- 13 Once further details of the site and the design are known an elemental costing is prepared. This is based on the principal elements of the building e.g. roof, walls, foundations, electrics, heating and finishes.
- 14 Any (what are known as) site abnormalities are allowed for e.g. contamination of the site, special foundation requirements or a difficult site to build on.

- 15 The design information is then developed to include the construction detailing specifications, schedules and what are known as prime costs for works that cannot be clearly defined or detailed.
- 16 Depending on the size of the project and its complexity, it is then either presented in the form of a specification and drawings or a Bill of Quantities and drawings.
- 17 The larger and more complex projects tend to be in the form of a Bill of Quantities and the simple projects are a specification and drawing.
- 18 Tenders are then sought for the works using one of the above methods. The method of procurement would be in accordance with the Council's Standing Orders and if the building project exceeds approximately £3.4 million an OJEU (Official Journal of European Union) procedure and European Rules apply.
- 19 There are a number of variations on this standard procedure for procuring works; these include –
- A pre-priced schedule of rates. The Council uses both the OGC (Office of Government Contracts) and Pillar Consultancy schedules for specific types of works.
 - Framework contract – the Council used the Academy framework to procure the new Hereford Academy and a framework called Scape to procure the Livestock Market. In addition it is one of the partnering authorities in the new West Midlands Framework Contract.
- 20 Tenders are sought from approved contractors and opened in accordance with Standing Orders.
- 21 Once the tenders have been opened they are checked arithmetically and technically for errors and a formal tender report is prepared. This will be undertaken by the Quantity Surveyor for the larger schemes and the scheme surveyor for the smaller projects. Any comments will be included in the report on whether the project offers value for money.
- 22 Once it is confirmed that the tender is free of errors and offers good value, on-costs such as fees etc. mentioned previously, are added to the tender and the cost is reported to the Client/Directorate.
- 23 If acceptable authorisation is obtained and a contract placed. The JCT (Joint Contracts Tribunal) tends to be the most common contract used; however, the NEC contract has been used for the Amey partnership and the West Midlands Framework.
- 24 Once the contract is 'live' interim valuations are undertaken as the contract proceeds. These involve valuing the works undertaken to date and materials actually held on site. The normal valuation period is 28 days and a 5% retention is taken off each valuation. The invoice is then passed for payment.
- 25 Under the JCT form of contract only what is known as the 'contract administrator' is allowed to instruct the contractor on any variations to the works. Any omissions or additions to the contract are authorised using a pre-printed variation sheet which is issued to the contractor.
- 26 When the contract reaches the stage of practical completion the contract administrator issues what is known as a 'practical completion certificate' and the retention reduces from 5% to 2.5%.

- 27 This 2.5% is then held for what is known as the 'defects liability period' for 12 months. Should any defects occur in the works during this 12 month period the main contractor should remedy the defects. If they fail to do so another contractor can be engaged to remedy the defects and the costs taken out of this retention.
- 28 At the end of the 12 month period a completion certificate is issued and the retention released.
- 29 Within the contract figure there is usually a contingency item and prime cost item (previously defined). The main contractor is responsible for obtaining fixed costs for the prime cost item(s) and if these are acceptable a variation instruction is given. These contingencies cover unknown items on the contract which sometimes occur e.g. the need to lay extra concrete because of soft spots on the site.
- 30 Different types of contracts have different percentage retentions and the defects period can vary depending on the needs of the Client.
- 31 Final accounts often involve protracted negotiations between both the contractor, Quantity Surveyor and the Client's Quantity Surveyor. If agreement on a final account figure cannot be reached the contract does allow for mediation and arbitration.
- 32 Throughout the contract on the larger projects a monthly report is prepared on any variations to the contract figure. Each valuation will have a projected final account figure. This is reported to the Board on the large projects in accordance with the Prince 2 method of project management.
- 33 Upon completion of the project a pro forma is completed for BCIS cost database and an evaluation is undertaken on the variations. IT costs, fees and furniture costs are added and a total project cost is prepared.

Community Impact

34. The delivery of the various schemes in the programme affects communities in various ways. These projects include improving school sites.

Financial Implications

35. The report does not have financial implications but effective project management assists delivery of schemes to budget.

Appendices

None

Background Papers

None