

Swindon Internal Audit Services

Contract Management Review Delivery of the Housing Capital Programme

**October 2016
(FINAL)**

Swindon Internal Audit Services: Contract Management Review - Delivery of the Housing Capital Programme

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Report Distribution – Final Report issued on 27th October 2016 to:

Corporate Director, Communities and Place
Head of Property Maintenance
Capital and External Contracts Manager
Director of Law and Democratic Services
Interim Corporate Director: Resources
Head of Finance, Delivery
Procurement Manager
Head of Finance: Technical
Finance Manager: Housing, Treasury and Growth

Auditor:

Principal Auditor

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Executive Summary

Background

The Head of Property Maintenance requested this audit to assist, him and his management team, as part of a review of the delivery of the Housing Capital Programme. This request follows the reintegration of Swindon Commercial Services Ltd (SCS) into the Council from November 2013. The capital programme was formerly delivered by the Company on behalf of the Council prior to it being brought back in-house to become part of the new Property Maintenance section.

The annual Housing Capital Programme is underpinned by capital funding which is approved by Cabinet and shared with the Housing Advisory Forum. The budget for 2015/16 was £16.9m. In addition there was a £9m underspend carried forward from 2014/15. The Council is responsible for maintaining approximately 10,300 domestic properties. The Capital Programme of works has been prioritised with the aim to deliver major aids and adaptations for tenants with special needs, maintain stock to the Government's Decent Homes Standard and commence a programme of structural repairs and improvement works to non-traditional housing stock. The programme of works is intended to reduce the demand for responsive repairs, improve the thermal comfort and security of homes and enhance the local environment.

The Head of Property Maintenance, his staff and the Auditor have worked collaboratively during this review to promote and develop shared understanding and knowledge. The benefit of this approach has been aimed to make effective and efficient use of resources and to derive best practice solutions.

It is planned that the Head of Property Maintenance, the Capital and External Contracts Manager and the delivery team will undertake a workshop to go through the lessons learnt from the audit review. The workshop will be supported by Internal Audit and Corporate Procurement.

Audit Opinion

Fundamental weakness identified. The impact and materiality of the delivery of the Housing Capital Programme is high and combined with the Auditor's opinion that significant improvements are required in control procedures, giving an overall risk assessment to the Council of '**significant**'.

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Key Messages

The Head of Property Maintenance has welcomed this review as part of an overall service improvement approach for the delivery of the Housing Capital Programme of works. During the course of the review, the Capital and External Contracts Manager, who has also taken interim responsibility for the Delivery Team from January 2016, has worked proactively and collaboratively with the Auditor. The Capital and External Contracts Manager and his staff have been very receptive to the review and committed to ensure any lessons learnt are addressed promptly. At regular meetings during the review, the Auditor and the Capital and External Contracts Manager have shared and discussed findings and recommendations. In many cases recommendations were agreed and have already been implemented.

When the service was transferred back in-house there was a lack of any short or long term contracts in place. Therefore, good progress has been made to deliver the annual programme of work in line with the local offer to tenants whilst letting long-term contracts.

The transition and alignment to long-term contracts is a major shift and good progress has been made to let contracts through the South West Procurement Portal, but delays have occurred with Gateway approval, award and mobilisation and implementation of good working practices to effectively administer contracts. In addition, some short-term contracts or contract extensions have needed to be put in place to ensure the timely delivery of works in line with the local offer. Capacity has been stretched due to staff vacancies, sickness absence and capability issues, which has put a pressure on the service. This context should be taken into account when reviewing the findings of the audit. The Head of Property Maintenance and his team are very committed and are striving to put in place the necessary controls and best working practices. However, this 'journey' of change needs to be acknowledged and seen as such with the provision of further time, staff resources and the right resources to help the service realise the outcomes they want to achieve and which are endorsed through this audit report.

Management arrangements have been found not to be robust to effectively monitor and manage the overall Housing capital programme of works. Although the Housing capital investment programme, approved by Cabinet as part of the annual budget setting, is in place, the stages of procurement, contracting, delivery, monitoring and management of the works are not detailed or fully supported by performance targets / milestones. It is therefore not possible to easily identify, or address on a timely basis, emerging risks and issues which could compromise the achievement of objectives and delivery of best value.

When the service was reintegrated from Swindon Commercial Services two teams were set up with the aim to increase efficiency to procure work and manage delivery. This helped to procure and get programmes of work on site, but identified silo working between the two teams. These teams have been combined since January 2016, which has helped create capacity to deliver programmes of work. In addition, temporary officers have been appointed to help with procurement. The staffing structure of the delivery team needs to be reviewed to ensure that it is fit for purpose to deliver future programmes of work.

A two-year procurement plan was put in place with effect from 1st April 2014, to support the Housing capital programme and to ensure the Council is compliant both legally and with the Council's Contract Standing Orders. This plan has helped with the delivery of programmes of

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work, but still only provides medium term planning. Following the recent Stock Condition Survey, it is important that long-term contracts are put in place to ensure continuity with the delivery of the annual programme of work.

During the last twelve months a number of contracts have overspent their contract award/contract extension values.

The Auditor sample tested twenty-two live works contracts during the review. As part of the audit report clearance process this data was revisited by the Auditor as the Head of Property Maintenance advised that there had only been a small number of overspends. Following retesting, as at 1st September 2016, the Auditor found that five of the twenty-two contracts had a spend value in excess of their approved award values/contract extensions (plus the additional 15% spend permitted under section 28.2 of Contract Standing Orders). Two of the contracts had overspends of £40,000 and £45,000. The other three contracts had significant overspends i.e. £302,034, £285,138 and £522,859. Of the twenty-two contracts tested, fifteen contracts had not had a final account prepared to show the final status of works. These contracts were closed on the 'Open Housing system' at the end of March 2016. The overspends on these contracts during 2015/16 breach the Council's Contract Standing Orders requirements i.e. section 28 relating to Contract Variations specifically relating to works contracts (see action plan point 3.1).

The Head of Property Maintenance advised the Auditor that budgets and performance targets had been monitored during 2015/16 to manage works, but these were based on estimated values of works achieved at any one time. He advised that it had not been easy to effectively track project deliverables and any slippages/variances. Emerging key risks and issues have not been identified within projects and the overall programme of work. The Head of Property Maintenance also stated that the over spend for each contract will now be investigated and the service to work with procurement and legal to regularise any contracts in accordance with Contract Standing Orders.

Waivers granted from Contract Standing Orders for planned maintenance (to provide value for money and aid the service in managing the legacy of contracting non-compliance by SCS) ceased at the end of March 2016. Long term contracts have been let for planned maintenance works to the Railway Village with an initial contract period for three years with possible extension for a further two years. A long-term contract for an initial one year period with possible extension for a further four years has been put in place for planned maintenance works to be carried out to the general housing stock during 2016/17.

Completeness of information in project files (electronic and paper) and data recorded on the Open Housing system was not maintained to a good standard with incomplete management trails. Following these findings, actions to improve processes were agreed. In early 2016 Property Maintenance management started a considerable data cleansing exercise to improve the accuracy, reliability and completeness of job data held in the Open Housing system. This is to improve the control, management, reporting and monitoring of contracts from a delivery and financial perspective. As part of this, work contracts on the Open Housing system were closed at the end of the 2015/16 financial year and relevant contracts opened in the new financial year, 2016/17 i.e. to manage contract spend within contract approvals and ensure compliance with the new Council's Contract Standing Orders.

There have been delays in getting contracts mobilised due to difficulties encountered in clearing contract awards at Gateway three. Testing of four contracts found that these have taken between seven to eight months from the return of tender date until mobilisation of works.

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Contracts includes a 120 day period from date of tender submission during which the contractor is required to honour their contract, after this time they can 'walk away' from the contract.

Property Maintenance has and continues to be strong in engaging with tenants in the contracting process including selection of materials and as part of contract evaluation stages. There is also a strong emphasis on obtaining, and monitoring tenant's views on the quality of works to ensure that this is carried out to a good standard and any issues dealt with promptly.

There are service performance indicators in place including the number of homes benefitting from Decent Home improvement work. Between April 2015 and December 2015 work at 3,259 properties were completed against a target of 1,700. The Head of Property Maintenance advised the Auditor that this was achieved by utilising underspent budgets brought forward to 2015/16 and by accelerating programmes of work.

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Context

Prior to November 2013, the former Housing Services Department, in the role of client, awarded work to Swindon Commercial Services Ltd (SCS) as contractor. This was done both through open market competition and the 'basket of works' (allocation of works permitted under EU Procurement Regulations to SCS as a subsidiary of the Council and approved by Cabinet). Repairs and Maintenance works in the region of £50 million per year, funded from a combination of Housing capital and revenue budgets were awarded.

On reintegration of SCS back into the Council there were insufficient legal contracts in place to support sub-contractors to SCS who had/were delivering the Housing Capital Programme of works. Substantial values of works, relating to repairs and maintenance awarded to SCS in 2008 and delivered for them by sub-contractors, had never been put out to open market tender or subject to a formal contract. Previous procurement and contracting audits conducted by Internal Audit for SCS had identified fundamental weaknesses including persistent breaches of EU Procurement Regulations and poor procurement and contract management practices.

To enable the Head of Property Maintenance to manage the high number and value of works which were required to be contracted to comply with EU Procurement Regulations, the Council's Contract Standing Orders and Procurement Policy, a two year procurement plan was devised in 2014. This was compiled in conjunction with representatives from the Council's Procurement Team and the Principal Solicitor. The two year plan was intended to prioritise and spread the scale of works to be contracted to fit with available contracting resources within the Property Maintenance Department.

To ease the pressure of the initial work load of contracting requirements to be put in place on SCS reintegration, Cabinet Member Briefing Notes (through the use of delegated powers) approved short term waivers from Contract Standing Orders for the period 1st April 2014 to 31st March 2015. This ensured continuity of service provision for the Capital Programme of Works delivered by former SCS sub-contractors, subject to due diligence checks on their capability of delivering the work and meeting the Council's minimum Health and Safety requirements, insurance and financial suitability checks.

Following reintegration, the former SCS management information system (TASK) was 'switched off'. The Housing Services management information system (Open Housing) continues to be developed both in terms of the modules made available for contracting and delivery but also to improve the use of the system and completion of data for monitoring and reporting purposes.

From an external context, the Government's new system of Housing Finance effective from April 2012 requires the Council to plan over the longer term and develop a thirty year Housing Revenue Account (HRA) Business Plan to manage and maintain its housing assets.

The HRA Capital Programme contributes significantly to ensure that homes are maintained to the Decent Homes Standard. However, at this time the Housing Strategy has yet to have clear priorities set in relation to the non-traditional housing stock, high-rise blocks of flats and plans to provide modern facilities such as kitchens and bathrooms. The strategy is also expected to set out the means to manage an overall short-fall in available investment and repayment of debt, but this is yet to be determined. Therefore an annual programme of works

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has been set and agreed with tenants which includes a three year forecast that reflects anticipated spend levels in the absence of a detailed programme of work.

The Head of Property Maintenance commissioned a 10% sample stock condition survey with final reports available from April 2016. At the time of clearing this audit report to final stage the survey has been used to update the Medium Term Resource Plan (MTRP) with the outcomes reported to Cabinet in June 2016. The report sets a significant annual funding shortfall of at least £4m per year to meet the investment need. This funding gap remains since the previous survey Stock Condition Survey carried out in 2011.

The service has started to implement their long-term programmes for structural repairs to the non-traditional housing stock; however this is having a significant impact on the available resources for modernisation work such as kitchens and bathrooms. Consequently, Pennington Choices have been appointed to support the service in developing its five year investment programme.

The service has a key objective in their 2016/17 Business Plan to put together an Asset Management Strategy (AMS), which will include a five year investment programme with links between the different elements of work.

Risk Areas Examined and Findings

In accordance with best practice, a risk-based approach was adopted that identified the key risks to the business objectives and those mitigating actions/controls that should be in place. The auditor then assessed the effectiveness of the mitigating controls through examination of relevant documents, procedures and detailed testing.

The key risks to the achievement of the business objectives were discussed and agreed with the Head of Property Maintenance before the commencement of the audit. The table below summarises the Risk Areas examined during the review and provides an assessment of the adequacy of controls in place for each area of risk examined:

<i>Risk Area Examined and Findings</i>	<i>Audit Conclusion</i>
<p>Risk: Management arrangements for delivery of the capital programme of works.</p> <ul style="list-style-type: none"> A framework is in place for monitoring and controlling delivery of the Housing capital programme. However this is at a high level and does not provide the visibility and detail to ensure there are effective relationships and communications to phase, link, control and monitor the 'life of a project' between the stages from strategy, asset management, contracting, contract mobilisation and delivery. 	<p>Significant improvements required</p>

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Risk Area Examined and Findings	Audit Conclusion
<p>Risk: The Property Maintenance service structure has the right people in place, with the authority, responsibility and knowledge and ability to deliver the programme of works to time, cost and quality.</p> <ul style="list-style-type: none"> • Officers in the delivery team have a mix of qualifications and experience of contracting and project management which need to be reviewed to ensure that there is adequate capacity and capability to effectively and efficiently support delivery of the Housing capital programme of works. • Appointment of a Delivery Team Manager (or similar) is required to take forward the delivery team and to build on and assist in implementing the findings from this audit and the service review to improve service controls and outcomes. • Capacity, capability and resourcing within the contracting team require review. The team needs to put in place process and procedures to enable effective contract management to deliver long-term programmes of work and enable a step up between short, medium and long term contracts to fit the two year procurement plan. This is impacting delivery and putting the service at risk of not achieving business objectives to time, best value and quality. 	<p>Significant improvements required</p>
<p>Risk: Accountability and compliance with Contract Standing Orders and Procurement Policy.</p> <ul style="list-style-type: none"> • The service has a strong tenant focus and desire to deliver the Housing Capital Programme of works. • Testing indicated a level of non-compliance with the Council's Contract Standing Orders. Overspends were identified in five of twenty-two contracts tested i.e. exceeded Form C/Pad approval and any contract extensions permitted using Cabinet Member Briefing Notes or Procurement Approval Documents. Three of these contracts had significant overspends ranging from £285,138 to £522,859. Budget and contract monitoring controls exercised during 2015/16 failed to manage and prevent these overspends occurring. Consequently, to continue delivery of the programme of works, existing approvals had been overcommitted. This represents a breach of the Council's Contract Standing Orders, s28 relating to contract variations for works. • The planned stepping up from short to long term contracts has gained momentum but further work is still required for the next phase of contracting for mobilisation works. • It is evident that new contracts, i.e. works for upgrades to Electrical, Central Heating and Bathrooms, are taking between seven to eight months from return of tender to mobilise and start work on site, which is far too long and beyond the contract time line for this process. The delays in this process have in part been due to problems encountered by the contracting team in achieving approval at the Gateway three stage which has taken at least three months for each of the contracts tested. 	<p>Fundamental weaknesses identified</p>

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Risk Area Examined and Findings	Audit Conclusion
<p>Risk: Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</p> <ul style="list-style-type: none"> The number of Council homes benefitting from Decent Homes improvement work for the period April 2015 to December 2015 was 3,259 which significantly exceed the target of 1,700. Formal and comprehensive performance measures and standards are not embedded across the service or with contractors to allow effective reporting, monitoring and management of the delivery of the Capital Programme. The management team undertake high level monthly budget monitoring with the Finance Manager Housing, Treasury and Growth. Consequently, this does not currently provide effective visibility and reconciliation between the value of job commitments / payments for individual projects on the Open housing system and that processed in the Oracle Financial accounting system. This compromises the ability to monitor commitments/spend within that approved by either the internal form of approval (Form C) of the new Procurement Approval Document. In the absence of wider performance management framework i.e. for key operational targets, milestones and contract measures for both the contract and delivery teams the service cannot demonstrate the achievement of business objectives, best practice or value for money. A robust set of standard reports can be produced from the Open Housing system; however these are not in place for regular reporting of contracting and delivery performance at an individual project and overall programme level. Standard Forms of Contract do not include performance criteria for delivery of works including key performance targets and required documentation for monthly contract management meetings between the client and contractor. However, KPI targets are detailed in section 5, Employers requirements, of the invitation to tender documents. Effective risk management is not formally demonstrated at a contracting or project delivery level from which to manage emerging risks or issues and mitigate risks. There is no evidence of escalation of risks to the service risk register or any acknowledgement of risks found in this audit review i.e. fundamental breach and non-compliance with Contract Standing Orders. The Open Housing system, whilst being developed, is not being used fully to capture and monitor job information within projects to help the management of delivery. The value of commitments (order at job code 06) has not been found to be reliable and there is need for data cleansing to ensure data integrity for reporting and monitoring. 	<p style="text-align: center;">Fundamental weaknesses identified</p>

Overall Opinion

Materiality and Impact: High. The annual Housing Capital Programme budget for 2015/16 is £16.9m with a £9m underspend carried forward from 2014/15. The Council is responsible for maintaining approximately 10,300 domestic properties. Materiality is therefore **high**. The Capital Programme of works has been prioritised with the aim to deliver major aids and adaptations for tenants with special needs,

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maintain stock to the Government's Decent Homes Standard, commence a programme of structural repairs and improvement works to non-traditional housing stock. The programme of works is intended to reduce the demand for responsive repairs, improve the thermal comfort and security of homes and enhance the local environment. Impact is therefore **high**.

Opinion on system controls: Fundamental weaknesses identified (see Appendix A) i.e. the auditor completing the review concluded that the matters arising from the review are sufficiently significant to place doubt on the reliability of the procedures reviewed. Implementation of the recommendations made is a priority to ensure that reliance can be placed on the system.

Overall Assessment of Risk: the combination of the high impact of the system, along with the opinion on the system controls gives an overall risk assessment to the Council as being '**Significant**':

		MATERIALITY AND IMPACT		
SYSTEM CONTROL		High	Medium	Low
1	High standard	Moderate	Minimal	Minimal
2	Satisfactory	Moderate	Moderate	Minimal
3	Significant improvements required	Of concern	Moderate	Moderate
4	Fundamental weaknesses identified	Significant	Of concern	Moderate

Action Plan

The purpose of this action plan is to provide a summary of the matters arising during the audit of the Contract Management review for Delivery of the Housing Capital Programme, together with the recommendations to mitigate risks, the manager's response to the recommendations, along with the officer responsible and timescale for implementation. In order for you to identify the most significant matters arising, which affect the reliance that can be placed on the controls reviewed, the recommendations have been prioritised.

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Ref.	Finding	Recommendation
1	<i>Management arrangements relating to delivery of the capital programme of works</i>	
1.1	<p>The framework in place for monitoring and controlling delivery of the Housing capital programme has fundamental control weaknesses which are challenging the achievement of business objectives.</p> <p>Connectivity and co-ordination of the programme is not in place to ensure that the outcomes required from delivery of works are achieved. This is because the pace and volume of work is not effectively phased, linked, controlled and monitored between the stages from strategy, asset management, contracting, contract mobilisation and delivery.</p> <p>There is also a low level of understanding and appreciation of the importance of the 'golden thread' necessary to unite the overall control and risk environment i.e. Enterprise Management (vision, mission and strategy), Portfolio Management (resource allocation, project prioritisation and performance tracking) and Project Management (needs assessment levels, project proposals and project deliverables).</p>	<p>The connectivity, roles and responsibilities and fit of the enterprise, portfolio and project management model set out below should be evaluated and embedded for the delivery of the Housing Capital Programme of works. This management process should be applied to phase, link, control and monitor the 'life of a project' between the stages from strategy, asset management, contracting, contracts mobilisation and delivery.</p> <div style="text-align: center;"> </div> <p>Priority: High Responsible Officer: Head of Property Maintenance. Timescale: April 2018</p>

Management response: Agreed. Detailed five-year investment programme to be developed, which will reshape the procurement plan.

At present, we are only operating on annual targets and haven't set out the different phases or packages of work, but we have already implemented some long-term contracts which will enable us to deliver the work more smoothly on an annual basis. Please note that these contracts are let on the basis of the available annual budget. Contracts have sufficient break points to enable us to reshape these, as needed, when we have developed our five year investment programme.

We have already started to introduce more control measures to manage the phasing for the different packages of work, which includes a monthly / quarterly review on any contract issues. Also design risk assessments and a risk register are in place which are reviewed and updated at monthly progress meetings. We have also revised our Project Quality Plans (PQP's) to ensure that our team fully understand the link with the Council's priorities and delivery of our programme of work.

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Ref.	Finding	Recommendation
1	Overview of management arrangements relating to delivery of the capital programme of works	
1.2	<p>A programme of projects is in place. The Head of Property advised the Auditor that weekly meetings took place during 2015 to monitor the estimated delivery of individual projects as part of the overall programme for 2015/16. However, there are no consistent governance arrangements in place for each project i.e. budget monitoring, milestones and other performance measures that allow management of the whole programme.</p> <p>Performance is monitored for customer feedback and achievement of works completed against a global figure of improvements against the overall programme. There is a lack of performance targets set to monitor the stages of works from the strategy through to the contracting and delivery stages.</p> <p>With service information retained in a variety of paper and electronic files there is no easy means to establish the status of contracting and delivery for works in the programme. The Open Housing system has and continues to be developed to improve the management information, but this is not being fully or effectively used to monitor the overall service.</p> <p>At a detailed working level contracting time lines and delivery targets/milestones are not brought together from which to help measure and monitor the whole programme.</p> <p>There is evidence of monitoring at an individual project stage but this is not consistently applied across all projects. A standard suite of reports from the Open Housing system that could provide a dash-board of overall and individual project status, i.e. for performance and financial commitment / spend at key reporting dates within the contract is not in place.</p>	<p>The Housing Capital programme should be supported by a comprehensive delivery plan. This should be utilised for monitoring and managing individual projects and the programme as a whole. Stages of monitoring for the programme of projects should detail:</p> <ul style="list-style-type: none"> • the project delivery plan and key milestones for contracting and delivery of each new contract and any permitted contract extensions, • procurement arrangements entering their final stage of delivery period/spend including procurements under waiver which are reaching their end date/value. • the stage of each contract in the step-up procurement plan i.e. short, medium or long term contract. • for each works the contract period, number of properties to be repaired/refurbished and the approved contract award value i.e. as agreed in the relevant Form C or Procurement Approval Document. • the contracting lead time required for going to market for each procurement. • key reporting dates/values and milestone dates within the contract and delivery to ensure these are achieved. <p>All relevant staff should be provided with training on completing and maintaining performance data and the importance of this in managing the service.</p> <p>From the Open Housing system compile a standard set of reports which can be refreshed to monitor performance and financial spend/commitments against the project plan. Also set up an early alert system to notify projects nearing their spend limits/contract period to prevent delivery exceeding authorised limits/waivers.</p> <p>Priority: High</p> <p>Responsible Officer: Capital and External Contracts Manager</p> <p>Timescale: April 2017</p>
<p>Management response: Agreed – revised project plan with key milestones to be put in place for all projects.</p> <p>The Project Team identified a problem to control actual commitment, through different financial years. Therefore, from March 2016 the Project Team has implemented a procedure to close all contracts on the Open Housing system on an annual basis at the end of each financial year end. Consequently, live capital contracts for 2015/16 were closed at 31st March 2016. Where necessary, new or on-going contracts which span financial years contracts have been initiated for 2016/17.</p> <p>Monthly financial/quantity reports are provided by officer leads for each contract they are responsible for have been initiated from the start of the financial year 2016/17. This provides a clear commitment of spend for all contracts.</p>		

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Ref.	Finding	Recommendation
1	<i>Overview of management arrangements relating to delivery of the capital programme of works</i>	
1.3	<p>An overview of the Housing Investment Programme is presented to Cabinet for approval annually as part of the budget setting process. This is also presented to the Housing Advisory Forum.</p> <p>Whilst the 2016/17 – 2018/19 programme covers new spend authorisations it does not provide a position statement for unspent funds that will be carry forward from 2015/16 or whether these funds will be used as originally approved. The Auditor has sought to trace a sample of 2016/17 Housing Investment Programme works through the procurement Gateways process (gates 1, 2 and 3) from strategy and budget approval, going to market and contract award, to ensure that business objectives are achieved.</p>	<p>To improve the governance and visibility of the Housing Investment Programme, any unspent budget to be carried forward into the next financial year should be explained and presented to both Cabinet as part of the budget setting process and also to the Housing Advisory Forum.</p> <p>If the use of any financial underspend is expected to change from that agreed in the Housing Strategy this should also be recorded and approved by Cabinet. This will provide an effective management trail and link to Gateway papers for procurements which include the use of underspend from previous or the current financial year.</p> <p>There should be consistency of procurement intention with regard to the type of works; value of contract being put to market and the value of award which the service is actually seeking to make.</p> <p>Any changes to the nature or value of works put to market to that to be offered should be recorded on the Procurement Approval Document and approved by Corporate Procurement, Legal Services and Corporate Finance.</p> <p>Priority: High Responsible Officer: Finance in conjunction with Head of Property Maintenance Timescale: April 2017</p>

Management response: Agreed – any significant changes to future programmes of work to be reported to Cabinet

We have monthly budget monitoring meetings with our Finance Team. We agreed and took a revised budget alignment report to Cabinet in September 2016. Finance advised that it would be more appropriate to vire any budgets in 2016/17 as this would provide actual outturn spend position and carry forward rather than projection on estimated spend. Our contracts are let within the available budget to provide flexibility to enable us to develop the programme on annual basis. We currently have an investment need of approximately £30m per year and available budget of £26m per year, which means at least an annual shortfall of approx. £4m per year.

We currently develop the annual programme with tenants and leaseholders and have a need to reduce spend for this element work to enable us to commence the External Wall Insulation (EWI) programme.

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Ref.	Finding	Recommendation
2	<i>Risk: The Delivery team structure has the right people in place, with the authority, responsibility and knowledge and ability to make decisions in a timely manner.</i>	
2.1	<p>A restructure was implemented when the service returned from Swindon Commercial Services in 2013. At the time, virtually no contracts were in place for the delivery of the capital programme and there was additional funding for works as part of the Housing Revenue Account self-funding process.</p> <p>Separate service teams were instigated for Contracting (to procure and appoint contactors as quickly as possible) and also Delivery (to deliver the programmes of work and to be proficient in compiling specifications and contract documents to go to market).</p> <p>However, the continuity of contract knowledge and understanding gained through the procurement of work as part of the review and evaluation of tenders was not effectively carried over into the Delivery team to more effectively manage and monitor delivery. As part of this audit review and the findings it is not apparent whether the Delivery Team is fit for purpose and has the following :-</p> <ul style="list-style-type: none"> • working practices and standards to effectively deliver the Housing Capital programme of works. • necessary technical qualifications, skills and knowledge required, • the necessary professional and commercial behavioural skills so that Officers can competently manage the high value of works being delivered. 	<p>The purpose, working practices and standards required from the Delivery Team and the Service Manager in delivering the overall capital programme of works and individual projects should be assessed to determine if the Delivery Team is fit for purpose and has the necessary capacity and capability.</p> <p>From this assessment the relevant service roles and responsibilities should be determined including the necessary technical qualifications, skills and knowledge required from Officers. The necessary professional and commercial behavioural skills should be determined and specified so that Officers can competently manage the high value of works being delivered.</p> <p>Staff appointed to jobs should have the necessary level of capacity and competency to achieve business objectives. Where necessary, training should be put in place to enable staff to continuously develop and demonstrate best practice.</p> <p>Priority: Medium</p> <p>Responsible Officer: Head of Property Maintenance in conjunction with the Capital and External Contracts Manager</p> <p>Timescale: Sept 2017</p>
<p>Management response: Agreed – skills matrix to be undertaken to assess existing capability of Delivery Team.</p> <p>We have role profiles in place for the project delivery team. We have also appointed two temporary members of staff to support our procurement whilst we review the proposed structure to procure and deliver the annual programme of work. A temporary project delivery manager has been appointed whilst we work with HR to combine the two teams and provide a structure with capacity to deliver the programmes of work.</p>		

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Ref.	Finding	Recommendation
2	<i>Risk: The Delivery team structure has the right people in place, with the authority, responsibility and knowledge and ability to make decisions in a timely manner.</i>	
2.2	<p>The Delivery Team is located at the Waterside Depot working remotely most of the time from managers and contracting staff based in Wat Tyler House, on the Civic Offices campus. This silo working has not promoted effective development and learning or reintegration of staff.</p> <p>There has been a relatively high turnover of staff in the position of Delivery Team Manager. From interviews conducted by the Auditor, with a sample of four team members, management practices applied under the last two managers appear to have been inconsistent e.g. the treatment of raising cost commitments at financial year-end in the Open Housing system without issuing the orders raised to contractors (significant control issue detailed later in this report).</p> <p>The Auditor believes these factors have contributed to a low level of staff morale and value in terms of job satisfaction, outlook, and feelings of well-being amongst staff in the Delivery Team.</p> <p>At the time of Audit, 1:1 meetings were not in place and team meetings had just started on a monthly basis.</p>	<p>Where possible promote joined up working between the contracting and delivery roles for the Capital Programme. This could include:</p> <ul style="list-style-type: none"> • rebranding the two teams as one group, • locating staff together on one site, • having an early 'buddy' working relationship between Officers responsible for undertaking contract procurement and the Officer responsible for delivering this. <p>This should achieve greater visibility of contracts and understanding at the hand over stage. It will also ensure that both parties have an overall appreciation and understanding of the whole process and both able to learn each other and bring further efficiencies and effectiveness to the process.</p> <p>Hold regular 1:1 meetings between delivery staff and the Manager i.e. at least every two-weeks, with a focus on performance against work based performance objectives/ indicators for each contract together with personal development objectives. This will also provide individual members of staff an opportunity to discuss any concerns/issues or seek assurance as well as agree any necessary action. Building of strong officer and manager relationships should improve staff morale, value and improve job satisfaction and outcomes.</p> <p>Priority: Medium</p> <p>Responsible Officer: Capital and External Contracts Manager;</p> <p>Timescale: April 2017</p>
<p>Management response: Agreed – 1-1s to be focused on measuring performance against contract objectives. Both the Procurement and Delivery teams were based at Waterside and staff raised concern about the quality of accommodation and need to be based at Waterside. This was not required, but at the time we only had sufficient space to bring the Procurement team back to Wat Tyler House, East.</p> <p>We appointed a Delivery Manager on secondment position for up to 12 months to enable development within our team, but this didn't work out. Since December 2015 we have combined the Contracting and Delivery teams so that we can try to alleviate the problem of the delivery team not fully knowing what contractors have committed to delivering when they are appointed. We have far exceeded our targets for delivery of individual projects and overall programme of works for 2015/16.</p> <p>The previous manager instigated delivery of work elements outside of the programme, which meant that the project team was dealing with repair enquiries, which put unnecessary pressure on them. When we ceased the secondment role and reverted back to delivering the programmes of work the team became much more settled again and able to focus on contract administration of the works. 1:1 and team meetings and weekly training sessions are taking place and the team has been transferred back to Wat Tyler House East on a gradual basis over the last few months.</p>		

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Ref.	Finding	Recommendation
2	<i>Risk: The Delivery team structure has the right people in place, with the authority, responsibility and knowledge and ability to make decisions in a timely manner.</i>	
2.3	<p>The Delivery Team has a mix of staff including Project Surveyors, Contract Manager, Housing Responsive Supervisor, Electrical Surveyor, Gas Engineer etc.</p> <p>A review of Corporate Financial Signatory limits and Open Housing access rights found, on the whole, delivery officers had an appropriate and consistent level of order and variation approval for £10,000 per property. There was a segregation of duties between the order and payment approval stage.</p> <p>On the Financial Authorised Signatory list the Electrical Surveyor has approval to raise orders up to £20,000 and authorise payment of invoices up to £10,000. The system does not enforce a segregation of duties and the order limit is higher than Project Surveyors.</p> <p>The former Delivery Manager, who moved to another post within the Council on 1st January 2016, has approval levels in both the Financial signatories set in Open Housing i.e. £50,000 for orders and £150,000 for payments. These access rights and authorisation limits have not been reviewed following his change of job role.</p>	<p>Review the Corporate Finance authorised signatories for Officers in the Contract Delivery Team to ensure there is segregation of duties between the stages of ordering and approving invoices for payment, adequacy of financial limits and consistency of limits throughout the team.</p> <p>Following the review of financial signatory limits, for consistency, apply these to the access rights and financial limits set with the Open Housing system.</p> <p>Priority: Medium</p> <p>Responsible Officer: Head of Property Maintenance</p> <p>Timescale: September 2016</p>
<p>Management response: Agreed and implemented. New signatories are now in place for the officers responsible for delivery of each contract. Addresses are raised on the Open System as inspections (job stage 02) for individual properties and then converted to orders (job stage 06) once the schedule of works has been approved. Work is not to commence on site before receipt of the order.</p>		

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Ref.	Finding	Recommendation
2	<i>Risk: The Delivery team structure has the right people in place, with the authority, responsibility and knowledge and ability to make decisions in a timely manner.</i>	
2.4	<p>The project delivery team's working practices and standards have not been determined to establish if the right contract and project management skills, IT systems knowledge/skills, professional and commercial behaviours, quality assurance and performance management are currently in place.</p> <p>However, from this audit review gaps have been identified in:</p> <ul style="list-style-type: none"> • the standard and consistency of effective contract, programme, project and financial management, • familiarity and use of the Open Housing system • commercial skills to effectively manage contracts at monthly contract management meetings and in the event of arbitration. <p>There is a lack of written working procedures and guidance to support the delivery team.</p> <p>The former Delivery Manager produced a step by step checklist for members of the delivery team to use to embed good practice. This was found by the Auditor to be a good base document to work from.</p> <p>Working practice in the delivery of the UPVC window contract provided the best working approach seen by the Auditor during the review.</p>	<p>Standard and consistent working practices should be established for the delivery team. This should be captured in written working procedures and supported with examples of good practice including the checklist produced by the former Delivery Manager and UPVC window contract management.</p> <p>All staff should be issued with the written procedures and provided training to support the roll out of the new standard.</p> <p>Training in project and contract management should be provided to all relevant staff to ensure they know and understand the level of performance standard required in performing their duties.</p> <p>As part of the staff appraisal process, delivery team staff performance should be assessed against these standards and working practices.</p> <p>Contractors should be issued with copies of relevant procedures i.e. dealing with contract variations, extensions, other potential changes to the contract and contract closure.</p> <p>Priority: Medium</p> <p>Responsible Officer: Capital and External Contracts Manager</p> <p>Timescale: April 2018</p>
<p>Management response: Agreed – new procedures to be implemented in line with good working practices.</p> <p>Project quality plans (PQP) have now been introduced to ensure the project officer has a clear understanding of the available budget and expectations for the monitoring of delivery. Risk registers and Project Quality reports and also completed on a monthly basis through the delivery of the contract and any actions identified and discussed at the monthly progress meetings.</p> <p>Contract administration training has already been implemented.</p> <p>An Employers Agent is also being appointed to provide support with the Contract Administration of the major works.</p> <p>A monthly reporting process is now in place which includes financial and quality information.</p>		

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Ref.	Finding	Recommendation
2	<i>Risk: The Delivery team structure has the right people in place, with the authority, responsibility and knowledge and ability to make decisions in a timely manner.</i>	
2.5	<p>The Keepmoat contract for kitchen refurbishments has resulted in an arbitration relationship between the contractor and the Council. (This is still ongoing to agree the final account.)</p> <p>The Contract Manager allocated delivery of this project went on long-term sick leave. There was a lack of adequate business continuity arrangements to assume day to day project management arrangements in his place. This was a contributory factor that led to the arbitration type relationship.</p>	<p>Adequate business continuity plans should be put in place and tested to ensure these are effective in the event of long term staff absence in either the contracting or delivery team.</p> <p>As part of weekly/two weekly 1:1 meetings, between the respective Manager and officers in the contracting and delivery teams, the status of projects should be recorded and supported by documentation, including minutes of the latest contract monitoring meetings.</p> <p>Priority: Medium</p> <p>Responsible Officer: Head of Property Maintenance in conjunction with Capital and External Contracts Manager</p> <p>Timescale: April 2017</p>
<p>Management response: Agreed – resource allocation to be finalised to enable continuity plan to be implemented and tested to cover any long-term sickness absence.</p> <p>We always had a Project Surveyor assigned for the contract administration of the kitchen refurbishment. Keepmoat failed to fully complete snagging work and payment was withheld until work was completed to a satisfactory standard. Keepmoat also changed their management team and took a much more contractual and adversarial approach with the delivery of this contract.</p> <p>Business continuity plans are to be implemented to ensure that we have appropriate cover in place for any long term staff absence.</p>		

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Ref.	Finding	Recommendation
3	<i>Risk: Accountability and compliance with Contract Standing Orders and Procurement Policy.</i>	
3.1	<p>The service has a strong tenant focus and desire to deliver the Housing capital programme of works. However, there has been a breach of the Council's Contract Standing Orders where contracts have been significantly over committed against approved values i.e. by more than £100,000.</p> <p>From sample testing of twenty-two works contracts, five have overspent their approvals/contract extensions (plus 15 % additional spend permitted under the revised Contract Standing Orders, subject to conditions). Two of the contracts had overspends of £40,000 and £45,000. The remaining three contracts had significant overspends, £302,034, £285,138 and £522,859. This unapproved spend is a breach of the Council's Contract Standing Orders as detailed out below.</p> <p><i>28. Contract Variations</i> <i>28.1 During the course of a contract, factors may arise that may result in the need to vary a contract. Senior Officers are empowered to investigate and negotiate potential variations to a contract after contract award, subject to the provisions of the Public Contracts Regulations 2015.</i> <i>28.2 Contract variations can be made by Senior Officers, subject to formal budget approval, in accordance with the scope of the original Contract as follows;</i> <i>i) Goods and services up to 10% of the original total contract value</i> <i>ii) Works up to 15% of the original total contract value</i> <i>28.3 All contract variations proposed to be <u>in excess of the quoted percentages</u> in 28.2 above, must formally consult with the Director of Law and Democratic Services and the Head of Procurement as EU laws may apply.</i> <i>28.4 Any changes deemed to be "substantial" will require a tender process for a new Contract.</i> <i>28.5 All variations or changes that are agreed will need to comply with the Council and Cabinet Schemes of Delegation and these Contract Standing Orders.</i> <i>28.6 Subject to the original provisions of the contract, every extra or variation must be evidenced and authorised in writing by the Council Officer responsible for the contract (or the agent acting on behalf of the Council) and a copy kept with the Contract File. <u>For all contracts exceeding £100,000, a copy of the variation must be forwarded to the Director of Law and Democratic Services for filing with the original contract.</u></i></p> <p>None of the 22 contracts tested, with the exception of the one (Roof Renewal works 2015/16) had a final account prepared at the end of the contract as a final status of works so the accountability and visibility of the contract outcome</p>	<p>All projects in the Housing capital programme of works must comply with Contract Standing Orders, with specific reference to the requirements of section 28 relating to Contract Variations.</p> <p>A gap analysis should be conducted across all Housing Capital Projects in the Programme of works to identify any spend/commitments in excess of authorised contract awards. An amnesty should be sought on all contracts which have exceeded the contract award value/waiver period. The value and reasons for any overspends should be identified and reported to Cabinet.</p> <p>A revised procurement plan should be devised going forward for the next three years, including the step ups from short to medium and long term contracts, which should be monitored at a corporate performance level to ensure that this is managed and achieved.</p> <p>Adequate contract lead time must be put in place and observed when taking individual procurements to market at a local or EU level. Medium and long term contracts should be upheld and not replaced with short-term arrangements which impact and frustrate contracting and ultimately delivery of the Housing Capital Programme of works.</p> <p>Priority: Critical Responsible Officer: Head of Property Maintenance in conjunction with the Procurement Manager and the Director of Law and Democratic Services Timescale: April 2017</p>

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Ref.	Finding	Recommendation
	<p>against the approved contract and budget are lost. See Appendix C for details.</p> <p>The planned stepping up from short to medium and eventually long term contracts has not yet gained momentum, hence there are gaps emerging between many current arrangements ending and the next phase of contracting being put in place and mobilised. Consequently, to continue delivery of the programme of works, existing contracts are being overcommitted.</p>	
<p>Management response: Agreed – long-term contracts already being put in place for replacement and renewal works.</p> <p>A full investigation is to be undertaken to identify the cause of overspend without appropriate authorisation.</p> <p>Established procedures are in place for ordering replacement and renewal works within the Open Housing system with single orders for individual properties.</p> <p>It is clear that the keeping contracts 'live' in the Open Housing system spanning different financial years caused difficulty with monthly monitoring of commitment and spend for the Financial Year, 2015/16.</p> <p>New contracts have been set up on the Open Housing system for all capital works to be delivered during 2016/17. Monthly Project Quality Reports (PQR's) have also been put in place to improve monitoring of delivery and spend to date against the available budget.</p>		

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Ref.	Finding	Recommendation
3	<i>Risk: Accountability and compliance with Contract Standing Orders and Procurement Policy.</i>	
3.2	<p>A sample of contract delivery arrangements tested, found contract extensions, where provided, had not been formalised on a timely basis and in some instances, the value of works (committed and spent) had also exceeded the available contract extension value.</p> <p>In one case tested, an initial contract award was made of £500,000 with the option to extend to £750,000. However, the contract extension option was not formally applied to the contract before the value of spend was incurred.</p> <p>At the beginning of March 2016 the value of commitments and spend against this contract was reported from the Open Housing system as exceeded £1 million. There was no approval in place to support this increased value of spend.</p> <p>Following the review of Contract Standing Orders and approval of the new version in October 2015, a Procurement Approval Document (PAD) was introduced and replaced the old internal form of approval Form C. This new form enables extensions of contracts to be sought and subject to approval by both Procurement and Legal can be applied. This form was used in March 2016 to apply for a retrospective extension to the contract. This was awarded on Best Value grounds and the overall spend increased to £1.125m.</p> <p>As at 1st September 2016, the reported final account and spend on this contract has risen to £1,379,275. This represents an overspend of £302,034 against the £1.125m PAD approved value. This significant overspend is a breach of the Council's Contract Standing Orders.</p>	<p>Contracts which include the option to extend must be noted on the contracting and project delivery plan, including the number and period of these extensions.</p> <p>The need to put these arrangements in place should be acted upon at least, say four to six months, prior to the current contract period coming to an end. Contract extension should be communicated and formalised in writing to the contractor by way of a legal extension as required by Contract Standing Orders.</p> <p>Contracts and related schedule of rates should be closed on the Open Housing system to coincide with the end date and award value of contracts. This is to ensure that contracts are not used beyond the approved contract period and value.</p> <p>Priority: High</p> <p>Responsible Officer: Capital and External Contracts Manager</p> <p>Timescale: April 2017</p>
<p>Management response: Agreed – critical dates to be identified to extend or let new contracts.</p> <p>The contract extension was agreed with Procurement and Legal prior to any additional works being issued to them. The proposed extension of work was formalised through a procurement surgery meeting, which was followed-up with PAD authority to proceed. This was put in place to help us achieve our local offer to tenants due to Keepmoat failing to keep to their contract conditions. The extra spend with Smiths Roofing was discussed and agreed with Procurement, which related to external planned maintenance and emergency storm damaged roofs. It was agreed that we would utilise the scaffold being erected and delivered external planned maintenance works, but this was not part of the PAD documentation.</p> <p>Audit comment: The proposed extension of the contract was discussed with both Procurement and Legal, but this was to agree the process to seek approval. The extension was not agreed verbally or otherwise at this time. Approval was obtained retrospectively in March 2016 for a spend value of £1.125m. However, a further £300,000 was spent using this contract. This additional spend was not approved and the opportunity to achieve an extension to cover this value are unlikely.</p>		

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Ref.	Finding	Recommendation
3	<i>Risk: Accountability and compliance with Contract Standing Orders and Procurement Policy.</i>	
3.3	<p>The pre-contract stage for setting up procurements required to go to market are not timely to provide compliance and continuity of contracting to support the pace of delivery required.</p> <p>The reasons for this are in part due to capacity and capability of the contract team to manage a backlog of contracting work.</p> <p>This is impacting lead times to put planned contract works to market.</p> <p>A reoccurring 'sticking point' is the considerable delay in achieving the Gateway three procurement stage. It is understood that this is due to differing views and changes required by Officers to the gateway three paper. The Gateway three stage has taken three months for each of the contracts reviewed i.e. including works for upgrades for Electrical, Central Heating and Bathrooms. These contracts have taken between seven to eight months from return of tender to start of work on site.</p> <p>There is a lack of performance indicators set to monitor the contracting period and contract mobilisation stages.</p>	<p>The project plan should cover and monitor the stages of contracting and delivery, with performance indicators set to ensure that contracts are mobilised within 120 days from the date of contract submission and the date of mobilisation. Within this time period a target should be set for achieving the Gateway 'three' process to support the contract award.</p> <p>The Contract Team and the Corporate Procurement Team, Legal Services and relevant Finance Officer should meet to clear the Gateway three process at one or two meetings. These meetings should be booked in advance to secure all necessary staff are present and any changes required are made to agree the Gateway three process promptly and within timescales.</p> <p>In the event of any delays mobilising contracts within 120 days of receipt of tender these should be raised with the Board Director, Service Delivery for resolution.</p> <p>The Procurement Team and the Housing Capital Programme Contracting Team should resolve any lessons learnt from the Gateway process to ensure the content and timeliness of the papers submitted to this process are reasonable to support contractor award.</p> <p>Handover arrangements between the contract award (by the contracting team) and project mobilisation process (by the delivery team) should be reviewed with both teams. This is to ensure that adequate awareness, timing and communication are in place to implement.</p> <p>Priority: High</p> <p>Responsible Officer: Capital and External Contracts Manager</p> <p>Timescale: December 2016</p>

Management response: Agreed – already working closely with Procurement to ensure that Gateway papers are cleared within 10 weeks of tender evaluation being completed. We are making good progress to go to market and let contracts as previously advised. Due to the volume of work we are always likely to be going to procure work, but wouldn't refer to it as backlog work. We will need to investigate the reason for delays and will report back on any that passed the 3 month stage. Gateway three papers are not cleared due to them not being specific in relation to the contracts being let. Service area leads need to take responsibility for obtaining internal clearance including the Gateway process.

When tenders are returned there is quite often a need for tender clarifications etc. We should not set performance indicators for the contract period as we have to comply with procurement legislation and good practice. Mobilisation should be agreed with the contractor for the type of work to be delivered in line with the CDM regulations.

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Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.1	<p>The Open Housing system can be used to order jobs and to also provide reports i.e. on the status of individual jobs and by contract /project codes. However, the project team have not had sufficient training to support them to use Master Query or the Planned Maintenance module which means that they are unable to fully report, monitor and manage the status of work across the life cycle of the current Capital Programme of Works (or works carried forward from previous financial years).</p> <p>In the Open Housing system it is not possible to track property repairs required in the asset management plan through to the high level strategy and subsequent stages of contracting and delivery of individual work projects.</p> <p>The Open Housing system is being developed and currently holds asset management data, tendered contract schedules of rates from which to generate orders and also the status of works at individual properties. However, there is no contracting or project management functionality within the Open Housing system.</p> <p>Microsoft project is available within the service but this has not been explored to define, manage and report the stages of contracting and delivery of projects in the overall programme of works. It is therefore not possible to report and demonstrate whether works are completed on time, to cost and quality and achieved within contract award values and permissions or extensions of contract where approved.</p>	<p>Provide training to the project team to enable them to use Master Query or the Planned Maintenance module so they can effectively manage and monitor their projects.</p> <p>Evaluate the feasibility of developing the Open Housing system to add functionality to provide contract and project management so that a comprehensive management information system supports delivery of the capital programme of works for the Housing asset.</p> <p>Evaluate utilising Microsoft Project for management, reporting and monitoring of the contracting delivery stages and seek to link this information with asset management, contracts and individual property job status information in the Open Housing system.</p> <p>The above actions are required to:</p> <ul style="list-style-type: none"> • provide the service with an effective management information system from which to report, monitor and manage the life cycle of the Capital Programme of Works i.e. to track property repairs required in the asset management plan through to the high level strategy and subsequent stages of contracting and delivery of individual work projects. • enable the defined stages required for contracting and project management to be set out and monitored to ensure that these are achieved to time, cost and quality and in accordance with contract award values and permissions or extensions of contract where approved. <p>This recommendation links with action plan number 1.2.</p> <p>Priority: Medium</p> <p>Responsible Officer: Capital and External Contracts Manager in conjunction with the Systems Development Manager and the Head of Information and Technology.</p> <p>Timescale: March 2018</p>
<p>Management response: Agreed – to deliver training, but IT Housing Management system being put out to tender for market testing.</p> <p>We have operated the Open system to ensure that each property has a job logged for each element of work. This is particularly important for maintaining information and status of components for individual properties (on the basis that every element has an order to show that it has been completed). It should be acknowledged that we have good records for completed work over the last 15 years. We also have a project to update components in Open which is planned to go live in Aug. 2016. It is agreed that we need to implement Microsoft Project/Excel for managing all contracts, particularly during the procurement stage.</p>		

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Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.2	<p>At a high level, the service reports delivery of the number of works completed each year against an overall Decent Homes target which includes refurbishment works for Roofing, Bathrooms, Kitchen, Windows and Electrical Upgrades. This data is sourced from the relevant job status codes recorded on the Open Housing system.</p> <p>However, there is a lack of performance indicators / measures in place to effectively monitor the contracting and delivery stages of the Housing Capital Programme of works to time, cost and quality (not including tenant satisfaction). Therefore, in the event of any delays, slippage or overspends these are not promptly identified or reported for management action.</p>	<p>Additional performance indicators should be evaluated to improve visibility and overall delivery of the Capital Programme of works, from the Gateway process through to delivery.</p> <p>Examples of performance targets include:</p> <ul style="list-style-type: none"> • each of the Gateway stages, • the value of commitments/spend compared to the contract award value approved and any overspend identified against relevant contracts including justification and approval, • contract delivery against an agreed and phased delivery plan, • timely provision of property addresses for inclusion in the tender document, • timely contract hand over and mobilisation stage (within 120 days), • the level of both pre and post work inspections required across each contract, <p>Evaluate a Best Value measure to drive 'added value' from contracts i.e. the number of properties refurbished above the contract target but within the contract award value.</p> <p>Priority: Medium</p> <p>Responsible Officer: Head of Property Maintenance in conjunction with the Capital and External Contracts Manager</p> <p>Timescale: April 2017</p>
<p>Management response: Agreed – performance targets to be set against each contract.</p> <p>From the start of this financial year 2016/17 monthly monitoring is being undertaken on spend and the number of units completed. This information is taken from reports from the Open Housing System to ensure a consistent approach.</p>		

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Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.3	<p>From a report of Capital contracts set up in the Open Housing system, the Auditor has reviewed the value of works at the order status for a sample of twenty-two contracts. Of these, nine contracts had orders (job status 06) raised for an aggregated value in excess of £100,000 each although this did not necessarily represent a true statement of work in progress (please refer to appendix C for details).</p> <p>The status of orders for the roofing contract (£636,000) and the kitchen refurbishment contract (£205,449) were not true orders, but committed values instead. These values do not represent work in progress.</p> <p>Year-end creditor provisions based on the order values with the Open Housing system for work in progress could consequently be compromised and/or overstated.</p>	<p>Open Housing job status data should be reviewed and cleansed as a one off exercise and regularly thereafter to ensure this is reliable and complete for reporting and monitoring the service.</p> <p>Spot checks on a sample of jobs should be conducted by an independent Officer to ensure jobs are progressing and the job status correctly reflects the job stage and financial commitments. These checks should be recorded and used to support a quality assurance process.</p> <p>The Auditor estimates that in excess of £2 million will be realised from the order status review and be shown in the value of underspend for the 2015/16 financial year.</p> <p>Priority: Medium</p> <p>Responsible Officer: Capital and External Contracts Manager</p> <p>Timescale: April 2017</p>
<p>Management response: Agreed – quarterly independent checks to be carried out.</p> <p>We have previously agreed with Finance that we would implement new contracts for capital works to be undertaken during each financial year (contracts are ceased at year-end). This has already been implemented to ensure that commitment is not over stated and provide a true assessment on available resources for the current year.</p> <p>This statement is misleading – when contractors have been appointed work orders have been raised with a commitment, which was rescheduled when actual surveys were complete.</p> <p>The orders can be placed with contractors at the start of the programme or in phases, as needed. Performance is not measured against commitment and is only measured on outturn.</p> <p>We have reviewed our process to control the level of work issued to contractors to help with the control and management of contractors. If they fail to perform we can utilise this tool to control the level of work that is being issued to the contractor. For example, if a contractor failed to clean up after themselves and we were continually getting complaints we would want this resolved before we issued them with further works, accepting that this may cause some contractual issues.</p> <p>We issued the work orders to the contractor as detailed above. Subsequently, the contractor failed to deliver the programme and SBC is citing that they had issued the programme to get on with the work. In this case, if we had not placed orders SBC may have been more at risk of a claim by not providing the orders.</p> <p>We will investigate the issue of the kitchen units, but this is going to be the same as the other contracts.</p>		

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Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.4	<p>The current JCT Standard Form of Contract used for delivery of the Capital Programme of works was reviewed by the Auditor. Relevant performance indicators and reporting requirements to support monthly contract management and monitoring meetings are not included in contracts.</p> <p>Individual key performance indicators were noted in the contract management and monitoring meetings, however these are not contractually enforceable as they are outside of the contract.</p> <p>The Auditor contacted the Service Manager Planned Programme at Bristol City Council and established that they use a mix of JCT and NEC standard forms of contract. NEC contracts were used for contracts over £3 million but the Manager advised that officers using these contracts require a robust working knowledge and understanding to operate this contract form.</p>	<p>Review the appropriateness of the current JCT Standard form of contract used for the Housing Capital Programme of works to establish if the current form is:</p> <ul style="list-style-type: none"> • fit for purpose and fits with the procurement cycle to step up from short to medium and then to long term contracts. • appropriate for the value of contract award, • suitable for implementing project management principles and practices. <p>In future, contracts should detail the required monthly contract monitoring arrangements and documentation required to be provided by the contractor. Contract monitoring templates should be published on the Internet for easy access by contractors. Templates should include reporting of actual achievement against the agreed phased delivery plan and budget.</p> <p>Key risks should be discussed with the contractor and documented. These should be at contract management meetings and where necessary risks carried into the client officer's risk register. Mitigating actions should be agreed and reviewed for implementation.</p> <p>Evaluate if the NEC suite of contracts could offer a better fit for larger value, medium/longer term contracts which require strong project management principles and practices i.e. to empower project officers to deliver projects on time, on budget and to the highest standards.</p> <p>If the NEC contracts are deemed a option for contracting specific works, ensure Officers responsible for delivery are trained and competent in the use of relevant contract forms.</p> <p>Priority: Medium</p> <p>Responsible Officer: Capital and External Contracts Manager;</p> <p>Timescale: September 2016</p>
<p>Management response: Agreed and implemented. We have worked with Procurement and Legal to agree on the most suitable contracts to be used for the type of work that is delivered through our contracts. Procurement also attended the recent external training on JCT contracts to ensure that we are using the correct form for replacement components and planned maintenance. We also recognise the need to improve our CA arrangements, therefore we would not, at this stage, want to introduce further complexity by using NEC contracts. The option for the selection of contract should remain within the Gateway1 and 2. Risk registers are being provided for all contracts.</p>		

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Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.5	<p>In the four contracts reviewed during the audit (refurbishment contracts for gas central heating, roofing, UPVC window and kitchens), there had been considerable delays in notifying the appointed contractor of the properties allocated to their contracts. This information is obtained from the asset management module in the Open Housing system.</p> <p>The lists compiled by the Property Maintenance Asset Manager and provided to the delivery team were found to be unreliable. Works previously completed were included as the asset management module had not been updated.</p> <p>The Gas Engineer explained that before he released the property list to the contractor he checked addresses against a spreadsheet he maintained of gas installations completed. From a list of some 200 properties sourced from the asset management for Gas Central Heating refurbishments, the Gas Engineer established that approximately 150 properties had to be discounted either because a new heating system had been installed (P H Jones heating contract, 2013-2014) or the tenant declined works.</p> <p>The late provision and notification of property addresses attributed to contracts is compromising the prompt mobilisation of the contract, the ability of the contractor to plan works and where possible arrange welfare facilities centrally to work locations.</p>	<p>The management module within the Open Housing system should be updated promptly on satisfactory completion of works and provision of completion certificates/quality assurance inspections. This is to establish the link between delivery, maintaining decency and providing robust data for futures programmes of work.</p> <p>The gas central heating spreadsheet of completed works as maintained by the Gas Engineer should be used to update the asset management module. This should be undertaken in conjunction with the necessary property gas completion certificates etc.</p> <p>The property lists or street names for each contract should be produced and included at contract award. This will enable contractors to plan works and welfare facilities and mitigate related delays in mobilising contracts.</p> <p>Priority: Medium</p> <p>Responsible Officer: Project Surveyors in conjunction with Capital and External Contracts Manager</p> <p>Timescale: September 2017</p>
<p>Management response: Agreed – new components set up in Open Housing system and process to be implemented to update data from surveys and completed programmes of work. At present, we have a standalone data base, but are implementing the component module within the Open system and this is planned to be implemented during August 2016. Consultancy days have been booked to start this work in June 2016.</p> <p>As this is a one-off piece of work and should be implemented within the project to use the component module within the Open system.</p> <p>We are delivering works on an area basis, but don't need to include this level of detail when we go to tender – it could delay going to market.</p> <p>Our Asset Manager was taking the opportunity to revisit properties that had previously declined works, but we accept that this is frustrating for the appointed contractors.</p> <p>Audit response: The lack of timely and detailed address information is a frustration throughout the contracting and delivery process. The instruction of addresses at the contracting stage is viewed by the Auditor as a catalyst and it is not perceived that with proper planning this should cause any delay in contracting.</p>		

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Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.6	<p>There is a lack of visibility and alignment of capital contract budgets to individual contracts set up on the Open Housing system.</p> <p>Capital budget management is conducted monthly by the Head of Property Maintenance and relevant managers. However, this is performed at a high level as capital budget codes cover a number of projects, i.e. three projects are funded from one roofing repair budget, for which there are no individual project analysis codes to align each project.</p> <p>It is therefore not possible to align and monitor the status of contracts 'live' in the Open Housing system with a specific and related budget allocated within the Housing Capital programme. This compromised budgetary control and management.</p>	<p>Further analysis codes should be provided under each Housing Capital Programme budget code to achieve visibility for individual projects which make up the overall budget. An example is the capital budget code for roofing works which has been split over three contracts. Each contract should have a further analysis code allocated under the main roofing capital code and the budget split across the contract budget sub-codes in accordance with approved award value (Form C or Procurement Approval Form).</p> <p>When aligned to the further analysis code for individual contracts this will enable a reconciliation of payment made and to forecast commitments (to cover work in progress and complete but not paid). This will provide a greater degree of control and allow challenge on variances on a timely basis.</p> <p>Any emerging risks and issues should be captured in the project and where significant escalated to the service risk register with mitigation actions with timescales agreed.</p> <p>Priority: Medium</p> <p>Responsible Officer: Finance Manager in conjunction with Capital and External Contracts Manager</p> <p>Timescale: April 2017</p>
Management response: Agreed – contract reference or coding structure to be used to identify specific contracts for different elements of work.		

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Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.7	<p>New contracts and their schedule of rates have to be independently checked for correctness and approved by the Capita Contracts Manager before they 'go live' in the Open Housing system.</p> <p>The Auditor observed, from Open Housing contract screen that contracts were not closed down promptly once the award value and/or period of works had either been reached and/or contracts fulfilled. Consequently, contracts have been overspending and being used beyond approved dates/values e.g. M2010, LX1404 and LX1405.</p> <p><i>The Head of Property Maintenance and the Capital and External Contracts Manager acknowledge this finding.</i> They are now applying close dates to contracts which have come to an end/spent to the full value of the contracts award/waiver. Also, going forward all contracts will be closed down at the end of each financial year and only valid contracts will be set up on the Open Housing system and subject to quarterly review.</p> <p>It is evident during the audit that contracts have been closed to prevent further use, however from further sample testing thirteen 'live' contracts have over spent their contract award/approved waivers, (see Appendix B for contracts with spend in excess of Form C approval).</p>	<p>A financial limit should, where possible, be applied to each contract in the Open Housing system. The limit should be the contract award value. This limit should prevent works from being ordered when the combined value of commitment and payments on a contract has reached the limit value (contract award value).</p> <p>All contracts and related schedule of rates should be closed down on the Open Housing system once the approved contract spend or contract period has been reached.</p> <p>At the end of each financial year close all contracts on the Open Housing system to improve governance and management of contracts. At the start of each new financial year, where necessary, enliven contracts in the Open Housing system, which have approval to continue and available budget.</p> <p>Conduct quarterly reviews of the contracts 'live' in the Open Housing system to ensure that spend is within the total budget and period of contract is valid.</p> <p>Priority: Medium</p> <p>Responsible Officer: Capital and External Contracts Manager in conjunction with Finance Manager</p> <p>Timescale: April 2017</p>
<p>Management response: Not agreed – This function is not available in the Open system, but we are implementing monthly review meetings and only making contracts live for short periods to enable more robust control on commitment and spend levels. We are to give an update on the spend levels against the list on contracts.</p> <p>Audit Comment: The alternative solution offered here is acceptable, subject to the value for monitoring being compared to the approved Form C/Procurement Approval Document, to ensure the contract award value is not exceeded. The figure to be used for job monitoring should be extracted each contract set up on the Open system and comprise of the value of work completed and paid (job status 93), work completed but not paid (job status 90) and the value of orders/commitments (job status 06). For each contract the value of work completed at survey stage (job stage02) should not be released to order stage if the overall monitoring figure (as outlined above) reaches the contract award value (subject to any approved tolerances).</p>		

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Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.8	<p>Risk registers are not maintained or linked to performance at the mobilisation and delivery phase of each contract to demonstrate and provide assurance on the effectiveness of controls in place and operating for delivery.</p> <p>There is little risk escalation at this level to the Service risk register. The Service risk register is very outcome and tenant focussed and silent with regard to the fundamental risks of compliance with Contract Standing Orders, service capacity and capability, effectiveness of management and monitoring arrangements, staff morale and 'sticking' points in achieving delivery of the Capital Programme or works etc.</p> <p>Decision making is therefore compromised and assurance on the efficiency, effectiveness and efficacious strategy is heavily compromised and this in itself is a fundament risk.</p>	<p>Programme and project risk registers should be maintained throughout the life of the Capital Programme of works. In the event of a significant emerging risk or issue it should be escalated to the Delivery Leadership Team Risk register.</p> <p>Risk registers should be proactively used, as part of contract management, with the delivery officer recording any risks/issues to the achievement of projects and/or the overall programme of works. Mitigating actions should be agreed and put in place to manage risks and reviewed periodically for implementation.</p> <p>Risks identified in this review should be included in the relevant risk registers.</p> <p>All Project and Portfolio management staff should complete the on-line managing risk training to ensure they are aware of the risk management documentation and process.</p> <p>Priority: High</p> <p>Responsible Officer: Head of Property Maintenance in conjunction with Capital and External Contracts Manager</p> <p>Timescale: April 2018</p>
<p>Management response: Agreed – risk management training is required to ensure that contract risks are identified and mitigation actions are put in place.</p> <p>We have exceeded our delivery targets during 2015/16 and are reviewing the list of contracts that have been cited as being over spent. At the monthly contract progress meetings a standard item on the agenda has been included to review and update the risk register.</p>		

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Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.9	<p>From a sample of twenty-two NJC standard form of contracts tested to see if contract final accounts were being or had been prepared, seventeen contracts had ended for which only one final account was prepared, this was for the Roof Renewal contract 2015/16, awarded to Smiths Roofing Contractors.</p> <p>In the absence of a final account type process there is no wrapping up of all that has gone on over the term of the contract i.e. including a final statement setting out the sum of payments made against the original contract value and any contract variations or extensions awarded. Consequently, there is a lack of transparency of activity and closure of the contract.</p>	<p>Each Project Manager should prepare, on completion of their relevant contracts, a final account. This final statement should include a final statement setting out the sum of payments made against the original contract value and any contract variations or extensions awarded.</p> <p>To improve transparency, details of contract final accounts should be reported to Housing Advisory Forum and Cabinet to demonstrate completion of works in accordance with contract approvals and the Capital Programme of Works.</p> <p>Responsible Officer: Capital and External Contracts Manager</p> <p>Timescale: September 2017</p>
<p>Management response: Agreed – Final account to be finalised within six months of contract completion date.</p> <p>Contracts have been closed in the Open Housing system and final accounts are to be agreed upon completion of the works. Formal notice is to be issued in accordance with contract conditions to confirm full and final payment.</p>		

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Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.10	<p>Contract variations invoiced by Keepmoat for kitchen refurbishment works (agreed post completion of works) were being coded to adjustment codes in the Open Housing system.</p> <p>This was to reduce the time taken to process invoices for payment. However, this has reduced visibility of works paid and whether these related to the items set up from the contract schedule of rates or subsequent rates agreed (as part of arbitration).</p> <p>During 2015/16 £29,966 had been charged to adjustment codes (code set upon the Open Housing system - ADJSOR, ADJSORNEG, ATCOST and ATCOSTNEG).</p> <p>Following a further sample of contracts it was evident that this practice is also happening on other contracts including:</p> <ul style="list-style-type: none"> • M0715, Bathrooms - £71,283 • M0624, Kitchens - £29,966. • M0210, Roof repairs - £220,862 • M313, UPVC Windows - £281,950 	<p>Evaluate deleting or limiting access to and use of adjustment codes in the Open Housing system for coding works for payment i.e. ADJSOR, ADJSORNEG, ATCOST and ATCOSTNEG.</p> <p>Priority: Medium</p> <p>Responsible Officer: Capital and External Contracts Manager</p> <p>Timescale: September 2016</p>
<p>Management response: Agreed and implemented.</p> <p>From the start of the new financial year 2016/17 ATCOST adjustments cannot be used for additional payments on any contracts.</p>		

Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

APPENDIX A

Standard Audit Opinions	Standard Audit Opinion System Control
<p>The audit opinion is based on two different criteria the first is materiality of the system and its impact on the Council if there was a system failure. This has been split into High, Medium or Low.</p> <p>The second criteria is the standard of control found within the system audited. This has been categorised into 4 different levels i.e. high; satisfactory; significant improvements required and fundamental weaknesses identified. Each of these categories has a standard opinion (see below).</p> <p>The combination of these two factors gives an overall risk assessment to the Council of one of four scores i.e. significant, of concern, moderate or minimal (see Overall Opinion section in the main report).</p>	<p>Audit Opinion 1. High standard</p> <p>The auditor completing the review concluded the significant controls are in place and operating effectively and only minor recommendations have been made</p>
	<p>Audit Opinion 2. Satisfactory standard</p> <p>The auditor completing the review concluded that most of the significant controls are in place and operating satisfactorily although some non-compliance was identified and therefore there is scope for improvement.</p>
	<p>Audit Opinion 3. Significant improvements required</p> <p>The auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.</p>
	<p>Audit Opinion 4. Fundamental weaknesses identified</p> <p>The auditor completing the review concluded that the matters arising from the review are sufficiently significant to place doubt on the reliability of the procedures reviewed. Implementation of the recommendations made is a priority to ensure that reliance can be placed on the system.</p>

APPENDIX B

Acknowledgements

Internal Audit would like to acknowledge and thank the following Officers who contributed to the review:

Job Title

Head of Property Maintenance
Capital and External Contracts Manager
Senior Quantity Surveyor
Procurement Manager
Senior Procurement Officer
Head of Technical Finance
Finance Manager for Housing, Treasury and Growth
Senior Project Surveyor
Senior Project Surveyor
Gas Engineer
Contract Manager
Commissioner Supporting People
Business Services and Support Officer
Systems Development Manager
Systems Development Officer
Strategic Commissioner Adults