



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
28 JUNE 2007**

ITEM XX

Report of the Acting Corporate
Director -Resources

PARTNERSHIP ARRANGEMENTS FOR MAJOR CAPITAL PROJECTS

RECOMMENDATIONS

1.1 To note the report.

SUPPORTING INFORMATION

2.1 At its meeting on 19 February 2007, the Committee debated the risks associated with partnerships and partnering arrangements. One of the areas of concern expressed at the meeting was the risks of major capital projects. Appendix 2 is a note which explains how it is proposed to manage the risks of such ventures.

For more information contact: Don McLure, Acting Corporate Director - Resources
don.mclure@derby.gov.uk 01332 256263

Background papers: None
List of appendices: Appendix 1 – Implications
Appendix 2 – Note on partnership arrangements

IMPLICATIONS

Financial

1. None directly arising.

Legal

2. None directly arising.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate priorities

5. None directly arising.

Note for Audit and Accounts Committee Members Partnership Arrangements for Major Capital Projects

Purpose of the Report

At the Audit and Accounts Committee in February and the Cabinet meeting in February, when members debated the 2007/08 budget, some concern was expressed by members regarding the risks of entering into major capital projects e.g. the East Street project as part of our Public Realm Strategy and views were expressed by some members for the need for robust contract procedures with strict penalty clauses should the contractor not deliver against specification.

Background

Traditional contracts of this nature are becoming less prevalent in the delivery of major capital project schemes, particularly around highways and transportation infrastructure. 'Partnership' arrangements between client and contractor, with emphasis on trust relationships is producing much better results where more focus is spent on delivery and less time and cost on drawing up detailed contractual arrangements.

In the past 12 months or so, and moving forward, the Council is entering into more Partnering Arrangements with Contractors for major projects and schemes.

Partnering is a departure from the traditional method of delivering a major project through a client/contractor split. Throughout the industry, for major capital schemes, traditional contracts are being replaced by 'partnering' with 'open book' accounting. The aim is for absolute commitment from both client and contractor with the common goal of delivering a successful project in terms of:

- Cost
- Quality
- Timeliness

The emphasis is on continuous improvement focusing on team working to achieve success rather than a hard client/contractor split with the threat of penalty clauses should things go wrong, or time consuming claims in the case of the contractor attempting to maximise profit.

Major building construction projects have also in the past sometimes followed a similar partnering process where the benefit has been gained through repetition of work. For example, the contract for Derby Homes for £120m over three years was a partnering arrangement. This approach was successful and would be considered should this type of contract re-occur.

Most building construction projects however are 'unique' therefore partnering arrangements are not generally suitable. In most cases traditional procurement by competitive tendering routes are followed.

Experience of Partnerships to Date

Based on the relative success of the IRRIMS project which was delivered with our partners under a 'costs reimbursable contract' arrangement where the price to the Council was based on the contractor's cost plus an agreed overhead rate and profit margin, this is considered to be an appropriate type of partnership contract going forward for the Council and a similar contract arrangement has been negotiated and put in place for the Public Realm 'East Street' project with Tarmac. Target price and lump sum are two other types of financial payment models developed within partnering contracts. Target price can be used when designs are sufficiently developed to build up detailed costings against which a pain/gain cost share may be employed. In each case, the on-going performance and

financial management of a contract by both client and contractor is a key component. The new Highways Maintenance Term Contract is currently being developed and a partnering approach is being followed on a weighted quality/price basis, with different payment models for various types of work within the contract. This contract process has considered the control and risk management processes by tenderers.

All of these types of partnership contracts are based on one of the recognised 'standard form' contracts for the industry.

Safeguard Arrangements for the Council

We are moving forward in our partnership working in compliance with the Audit Commission's key line of enquiry guidance for the 'Use of Resources' which specifies that:

- The risk management process specifically considers risks in relation to significant partnerships and provide assurances to be contained about the management of those risks
- The financial performance of significant partnerships is reviewed
- Governance arrangements are in place

By doing so, we are looking to ensure that the partnering approach is a success and the risks minimised. Robust procedures and processes are being put in place for each project with a project board structure in place in accordance with the Council's Prince 2 project management methodology.

Where appropriate, these procedures and processes will include:

- Agreement in advance for the basis for the cost of each scheme with the partner and that this is implemented and monitored.
- Stringent arrangements for financial monitoring and reporting through highlight reports to the Project Board to enable corrective management action to be promptly taken to address areas of concern.
- Robust project management arrangements that specifically control project changes through appropriate consultation, project board approval, monitoring and reporting procedures.
- An appropriate delegation of authority scheme so officers are readily aware of the powers and duties afforded to them.

Recommendation

To note how partnership arrangements are being put in place for some major capital projects and how risks are being managed through our project board structure for each project in accordance with the Council's project management methodology.