Item 6

Corporate Services Overview and Scrutiny Committee

17 September 2015

Capital Programme Slippage

Recommendations

The Corporate Services Overview and Scrutiny Committee is recommended to:

(i) Note the analysis of slippage outlined in the report,
(ii) Refer any individual projects, where the Committee believe further scrutiny is required, to the relevant Overview and Scrutiny Committee, and;
(iii) Comment on any further actions they believe are needed.

1. Introduction

1.1. When the end-of-year 2014/15 One Organisation Plan Progress Report was considered by the Committee in July the extent of slippage in the capital programme was raised. It was agreed a report would be brought back to this Committee that enabled Members to understand why slippage had occurred and the mechanisms put in place to manage and monitor that slippage.

1.2. This report provides the information requested by Members. It covers:

- Understanding what is meant by the term ‘slippage’
- The level of slippage in Warwickshire
- Consideration of whether it matters if there is slippage in the capital programme
- Why slippage can occur, and
- The current governance arrangements around the management of the capital programme.

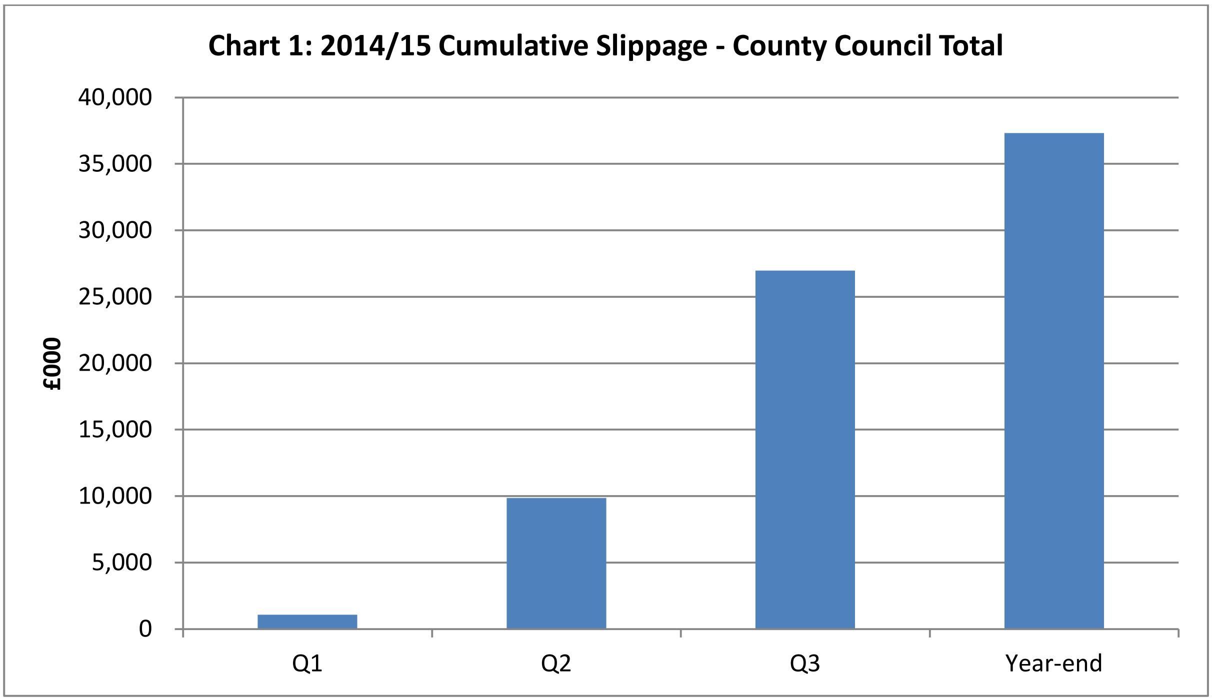
2. Definition of Slippage

2.1. When capital schemes are approved their inclusion in the capital programme is based on a ‘best estimate’ of when completion should be achieved and a profile of expected spending across the financial years. Slippage reflects delays in the physical progress of a project against this approved profile and is measured in financial terms by comparison of actual against anticipated payments. The end of each financial year (i.e. 31 March) is used as the fixed point in time against which the extent of progress on the delivery of a project is assessed.

3. Level of Slippage in Warwickshire

3.1. Like most public sector bodies the County Council has experienced significant slippage in capital projects in most financial years. We know this because at the end of the financial year the level of borrowing needed has been less than planned, even after adjusting for changes in the amount of external grant funding or capital receipts. However, it was not until developments in the financial systems and reporting that were introduced in April 2014 that it has been possible to calculate slippage on a service-by-service and scheme-by-scheme basis in a systematic way. Therefore the detailed analysis in this report is based on the 2014/15 financial year only.

3.2. Last year the total slippage of capital spending from 2014/15 into later years was £37.3 million, equivalent to 33% of the budget.

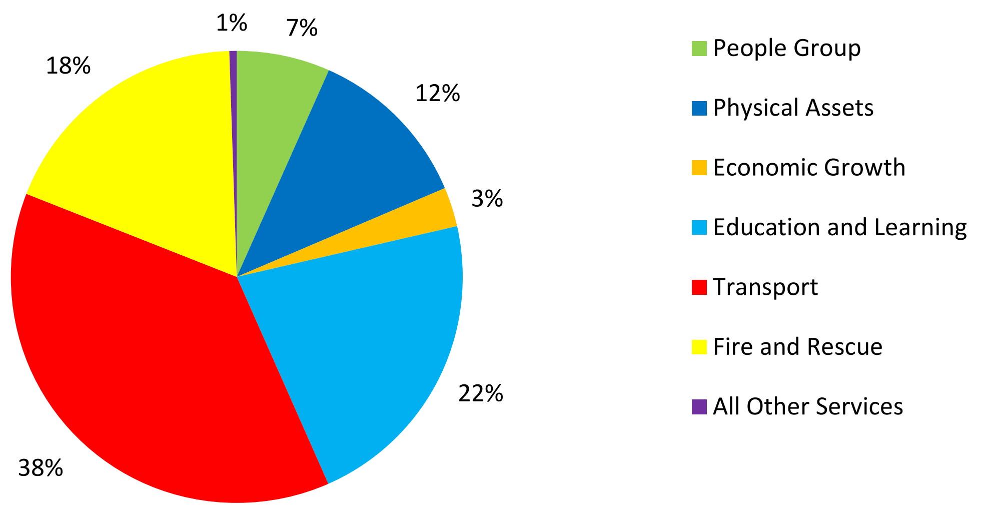


3.3. As shown in Chart 1 these delays in capital spending increased on a quarterly basis each time a revised capital forecast was prepared. The reasons why this may have occurred are discussed more fully in Section 5 below. To scrutinise this slippage in a systematic way it is necessary to break it down further beyond the overall total first to Business Unit and then to project level.

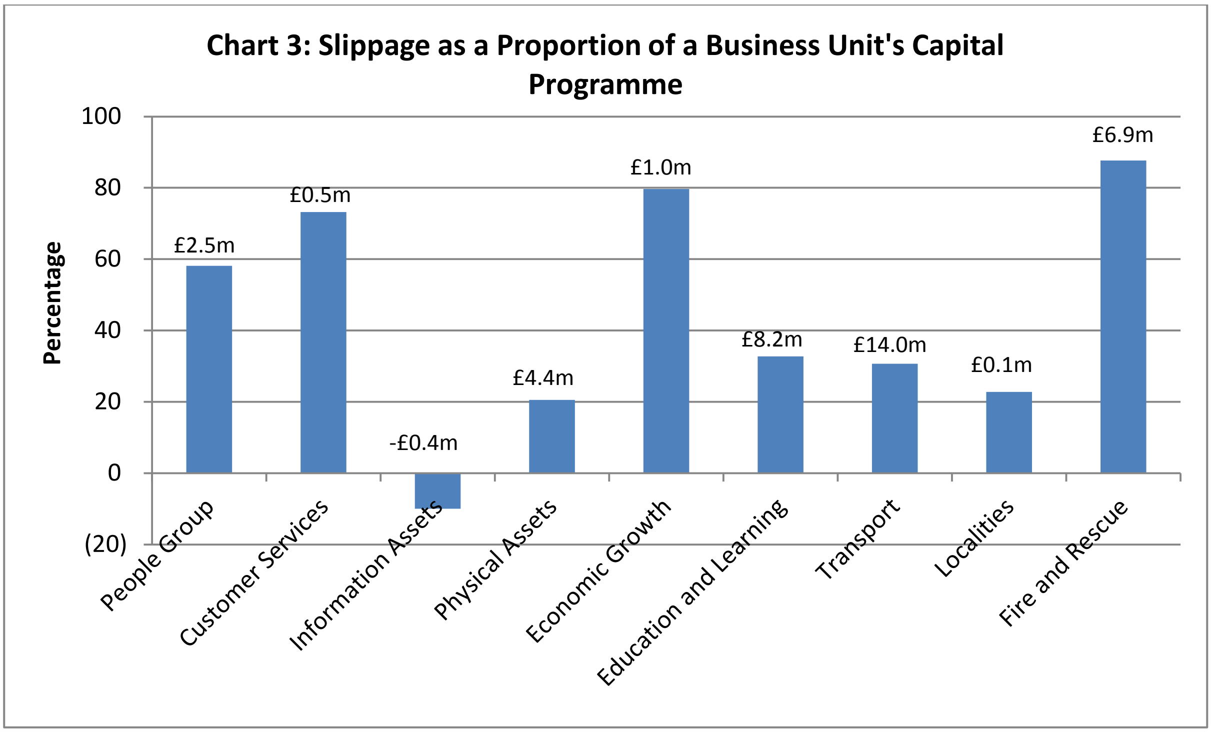
3.4. The importance of the performance of an individual Business Unit to the county-wide position is a combination of two factors: the overall size of the Business Unit's capital programme and then the level of slippage in that capital programme. This is expressed in the two charts below.

3.5. Chart 2 shows the contribution to total slippage in 2014/15 from each Business Unit. This is directly linked to the size of the programme as Transport and Highways, Education and Learning and Physical Assets have the biggest capital programmes and would therefore, if slippage occurred evenly across the authority, be expected to have the highest levels of capital slippage.

Chart 2: Proportion of Total Slippage in 2014/15 from each Business Unit



3.6. Chart 3 shows slippage as a proportion of each individual Business Unit's 2014/15 capital programme. Four Business Units/Groups – People Group, Customer Services, Economic Growth and Fire and Rescue had slippage of over 50% of the budgeted spend for the year. However, the impact of these figures on overall slippage is partly due to the relative size of their programme. For example, Economic Growth's capital slippage was 80% of their £1.3 million capital budget, but as their budget was only 1.8% of the County total the Business Unit only made up 3% of the total slippage.



3.7. To fully examine the pattern of slippage it is also important to consider it at individual scheme level. It is at this level that the starkest picture emerges. Analysis shows £27.4 million or 73% of financial slippage was attributable to just 18 schemes that each had slippage of at least £500,000. The slippage on these schemes was an average of 77%, compared to 13% across the rest of the capital programme. These 18 schemes are listed in **Appendix A**, including a brief summary of the reasons for the slippage.

4. The Consequences of Slippage

4.1. Section 3 quantified and analysed the financial slippage in 2014/15. However, before going on to consider why slippage happens and the arrangements in place to manage and monitor it; it is important to consider whether, and if so why, capital slippage matters. There are a range of financial consequences that arise as a result of slippage in the capital programme but, much more significant, is the effect on the organisation and the services we provide. This section considers both of these aspects.

4.2. Financial Planning

Uncertainty and risk is inherent in long term capital planning, making it difficult to estimate both the scale of expenditure and its timing at the outset of projects. However, there are a number of things we must be able to do in relation to the financial aspects of capital planning:

- We need to have a reasonably accurate profile of capital projects and their related expenditure to allow us to make decisions about new investments in light of the financial resources available.
- We need to be able to estimate our likely borrowing requirements to allow the treasury management team to then action the borrowing at the time and rates most advantageous to the authority.
- We need to be able to estimate with reasonable accuracy the impact of capital spending on the revenue budget. The impact arises from three sources: the costs of servicing any debt used to finance capital spending, any consequent running costs and the loss of interest on funds, such as capital receipts, used to fund capital expenditure.

All of these factors require planned capital spend to be phased across financial years, ideally as closely to the pace of actual delivery as possible, to enable the most appropriate decisions to be taken.

4.3. Impact on the Revenue Budget

The need to be able to estimate the impact on the revenue budget for financial planning purposes has already been mentioned. The impact of these on the revenue budget can be both positive and negative.

In financial terms slippage in the delivery of the capital programme is not necessarily a bad thing. In recent years slippage has resulted in one-off revenue savings in capital financing costs as a result of borrowing being lower than anticipated. These savings have been used for a range of purposes including meeting the revenue overspends in the Safeguarding and Education and Learning Business Units and before that funding Going for Growth projects such as the apprenticeship programme, investment in skills and the initial County Council contribution to delivering superfast broadband across Warwickshire. Without this revenue funding there would have been a need to increase savings targets to ensure the One Organisation Plan remains in balance and/or the one-off investment would not have taken place.

On the negative side, although it has not been an issue in recent years, slippage (and hence the deferral of borrowing) can carry a longer term risk of increased revenue costs should the cost of borrowing increase through higher interest rates. On the other hand, where we take out additional borrowing and then it is not needed for a period because spend is delayed there is a cost because the interest we can earn on any temporary cash surplus is lower than the interest cost of borrowing.

4.4. Construction Inflation

If a project is delayed, with the ongoing buoyancy of the market and increased costs from the supply chain, the overall cost of a project can increase. The cost of a project that was estimated at a point in time can exceed its budget as a result of delays. Also delays due to access issues around the occupier's normal business can result in increased costs due to the need to pay for out-of-hours working.

4.5. Temporary Accommodation

For some projects, especially in relation to the provision of school places, the required completion date for a project remains fixed. If a project is delayed, in order to accommodate the occupiers to the original timescales, temporary accommodation may be required, resulting in increased costs for the project, less than optimum accommodation for a temporary period through which the service is delivered and the subsequent second upheaval when the move to permanent accommodation is possible.

4.6. Increased Consequential Works

If planned maintenance projects are delayed due to the asset (primarily property assets) having an uncertain future there can be 'maintenance blight'. This can result in increased deterioration, additional costs for short term minor patch-up work and may eventually result in works becoming urgent and attracting a premium cost due to the short lead in time.

4.7. Reputational Damage

There can be reputational damage to the authority where projects are not delivered as publicised or where they seem to take longer on site than expected. The late delivery can result in end user dissatisfaction, creating tensions both externally with service users but also internally with service providers. This can result in poor client feedback and impact on the overall Key Performance Indicators for the service.

5. The Causes of Slippage

5.1. Section 4 outlined why delivering the capital programme as planned is important and the potential impacts of not doing so. Many of these impacts can be managed or adjusted for as schemes progress, but this requires knowing a delay is occurring and understanding why, so mitigating action can be taken. The following two sections outline those issues that may cause slippage in the delivery of the capital programme and then the arrangements currently in place for monitoring and reporting on progress in the delivery of the capital programme. The issues raised here are consistent with the explanations provided for the schemes with most slippage in 2014/15 that are detailed in Appendix A.

5.2. Planning Consent

Receiving planning consent can be a lengthy process and it can be hard to predict timescales due to potential objections, the time needed to respond to requests for additional information being requested and referrals by the Regulatory Committee and the appeals process.

5.3. Timing of Third Party Funding Contributions

A significant proportion of the capital programme is funded from third party contributions, primarily from developers. We receive funding from developers via planning obligations and Section 106 or Section 278 agreements for the construction of infrastructure. The start of work on such projects is dependent on when funding is received from developers. Slippage can occur when such funding is not received as expected when the scheme was added to the capital programme and therefore work is paused until the funding arrives. Slippage of this nature has no financial impact on the authority.

5.4. Central Government Intervention

More recently, in relation to schools, there has been Central Government intervention to cancel projects and require funding to be reallocated where schools have received poor Ofsted inspections. This can result in abortive work on the original project and time to identify, consult, design and seek approval for an alternative project.

5.5. Tender Returns and Value Engineering Exercise

Following receipt of tenders, in some instances these are outside of the allocated funding and therefore a significant (and sometimes, protracted) value engineering exercise is required. This can result in increased timescales for redesign, costing and validation.

5.6. Access Issues

Access to carry out works when it is taking place alongside the continuation of full-time normal service delivery can be an issue and result in slippage/delays. For work in schools the holiday period is a prime time for capital works to be carried out. If a window of opportunity is missed this can result in compounded delays. Access to work on operational property is an ongoing issue which cannot always be fully anticipated and planned for.

5.7. Final Accounts and Snagging

Following practical completion of a project there can be snagging/defects to attend to. Where these are not resolved in a timely manner, this can result in holding back small amounts of funding for final payments and resolution of defects. This can appear as small amounts of slippage in the overall programme.

5.8. Pre-project Planning and Timelines

The factors that cause slippage in the delivery of the capital programme outlined above are all technical/operational issues. Sitting alongside these are a range of behavioural and cultural issues present in Warwickshire in common with other local authorities and indeed most major capital investment projects.

There is a natural tendency to be optimistic when making assumptions about project start and end dates at the outset of a project. For example, the risks to receiving a smooth and relatively quick planning consent may be included in a project risk register but not the project financial timeline because on most occasions the risk is not expected to materialise and therefore funding needs to be available for the optimistic timeline.

Secondly, costs identified at an initial feasibility stage can result in a scheme being re-briefed after it has initially been added to the capital programme causing delays. There is, however, a ‘balance’ between ensuring that as much work as possible is done upfront and undertaking feasibility work in advance of knowing whether there is wider Member support to taking the project forward. There is a general underestimate of the time required for the detailed design work and tender process.

Thirdly, for individual project managers there is an emphasis on getting any project through the approval process, with the accurate phasing of spend between financial years and the imposed cut-off of 31 March being seen as a technical issue of relevance for finance and not the delivery of the project. This is reinforced by the fact that although in recent years there has always been an underspend against the approved capital programme, subject to Member approval, funds are rolled forward into the next financial year in order to complete projects with little scrutiny and challenge.

6. Monitoring and Reporting on Delivery of the Capital Programme

6.1. Capital spending and its financing are probably some of the most regulated areas of local authority finance, with many of the rules and best practice guidance which should be followed specified in legislation. Projects pass through six broad steps from inception to completion. These steps include undertaking initial feasibility studies; budget approval (by Members); approval for work to be carried out on detailed design; approval for tenders to be let/construction begin (by Members); on-going monitoring and approval of any budget/spending profile changes (by Members); handover and post contract review.

6.2. Unlike the revenue budget, where judgements can be made about the forecast year end position based on previous analysis and year to date expenditure, capital monitoring is heavily reliant on the professional advice of project managers on anticipated spend within the financial year. Project managers are required to provide new forecasts for the multi-year spending on their projects and propose new sources of funding to cover any overspends that they predict, at least on a quarterly basis.

6.3. At a corporate level monitoring of the capital programme takes place on a quarterly basis as part of the One Organisation Plan Progress report. This provides a high level summary of capital expenditure against budget and highlights any significant variation. The report is reviewed every quarter by Corporate Board, Cabinet and Overview and Scrutiny Committees. Significant projects also report to Project Boards and some programmes of investment are overseen by service-led scrutiny groups. As part of this process Project Managers are required to provide an explanation of any slippage from the current financial year into future years of over £100,000 and this commentary is included as part of the background information to the quarterly One Organisation Plan Progress report.

6.4. Finally to ensure the capital programme remains focussed on the corporate priorities, as part of the development of the One Organisation Plan there is a ‘carry forward’ regime for capital, similar to that for revenue, whereby, at the end of each financial year, Heads of Service and Strategic Directors review the reasons for capital slippage and recommend to Members which are legitimate and the resources are still required and which are no longer a priority and funding could be returned to corporate resources.

6.5. Through this process all significant variations to the capital programme that result in slippage or cost overruns have been fully and appropriately reported to Cabinet.

6.6. Earlier in 2015 Internal Audit undertook a review to provide an assurance opinion on the management of capital spending as part of the 2014/15 Annual Audit Plan. The scope of this audit included: the process for allocating and approving the capital programme, the process for monitoring the expenditure and the overall capital programme, authorisation and allocation of expenditure to include how variations to the budget are approved and capital expenditure programme reporting to Senior Management and Members. Overall, their opinion was that controls provide **Substantial Assurance** that risks are being managed.

7. Summary and Next Steps

7.1. The conclusions from the analysis in the report are:

- The level of financial slippage in the delivery of the capital programme is significant
- It is more than likely that some slippage will occur across the entirety of the capital programme on an on-going basis, primarily as a result of issues outside the control of individual project managers.
- The absolute level of slippage is dominated by the performance on the delivery of a small number of major capital investment projects.
- Slippage is not necessarily a bad thing as, whilst it may result in additional costs, it does allow for the reappraisal of capital spending plans in light of the current corporate priorities on a regular basis and provides access to short term revenue funds to manage financial pressures or meet urgent one-off investment needs.
- It is important for financial planning and to ensure the most appropriate long term treasury management decisions are made that the best estimate of spend in any financial year at any point in time is known and is accurate in the best professional judgement of project managers.

7.2. Given that the controls in place to manage and monitor the programme are assessed as providing reasonable assurance there is little more that can practically be done in terms of additional controls and rules. Instead, except where slippage is the result of unforeseen and externally driven changes in circumstances, it is primarily about changing behaviours and mind-sets so the importance of pace in the delivery of the capital programme is raised.

7.3. There are a range of possible approaches Members may wish to consider:

- To reiterate to Corporate Board:
    - That priority should be given to the timely delivery of the capital programme and that slippage is not an acceptable way of operation in normal circumstances
    - The importance of ensuring strong project management in place, including the need for an independent review and challenge of the project timelines, allowing sufficient time for key procedures such as approval, procurement and consultation
    - The importance of ensuring there is adequate supervision of project managers by project and programme boards
    - The expectation that sufficient work is done at the feasibility stage to anticipate risks and potential problems, to reduce the risk of having to redesign at a later stage.
    - Ensure that even where there has been no change to the project itself cost assessments are updated on a regular basis.

- Recommending that the relevant Overview and Scrutiny Committee be asked to scrutinise major projects where material slippage occurs.
- Any additional ways of incentivising the prompt delivery of projects.

8. Background Papers

8.1. None

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Slippage on Major Capital Investment Schemes in 2014/15

Business Unit	Scheme Title	Annual Budget £'000	Slippage £'000	Commentary and Explanation
Fire and Rescue	Fire and Rescue Centre, Leamington Spa and Training Centre	6,514	6,514	The original project was for the refurbishment and/or relocation of Fire Service HQ and Leamington Fire Station and the provision of a new training centre. In 2014/15 a decision was taken to remain at the current site and the programme was redesigned to meet the current and future needs of the service. As a result the spending was rephased, with the major works are now expected to commence in 2016/17. The training centre is still being progressed but has been delayed due to difficulties in securing a suitable site with a realistic chance of planning permission.
Transport and Highways	M40 Junction 12	5,070	3,094	This slippage occurred because of a delay in obtaining a license from Natural England to carry out ecology work. The delay doesn't have any service implications for the Council.
Education and Learning	New Additional Educational Need School, Nuneaton	2,742	2,530	When the 2014/15 budget was set, the project was a new-build school on the playing fields site, programmed to start on site in November 2014. However, there were delays caused by significant ground contamination issues. Project options were then re-assessed to find alternative solutions. A final options report was taken to Cabinet on 11 December 2014 where Cabinet approved to change the project to the refurbishment of former Manor Park School site. The effect is that overall programme slipped and didn't start on site until April 2015. The School will open as planned in September 2015 in temporary accommodation and the main works will be completed for February 2016.
Transport and Highways	Kenilworth Station	2,594	1,789	The project has incurred some delays to the original programme due to the concerns over the availability of rolling stock and the delivery of infrastructure works by Network Rail. This change to the programme has resulted in the start of construction works being delayed. Although the delays have re-programmed

				the spend profile, the opening of the station is still planned for December 2016.
Business Unit	Scheme Title	Annual Budget £'000	Slippage £'000	Commentary and Explanation
Physical Assets	Renewable Energy – various properties	1,677	1,608	The approved funding is self-financed borrowing meaning the Physical Assets Business Unit is required to meet the financing costs from the savings generated. As a result spend will only be incurred when the Business Unit is confident sufficient savings can be made. To date no single project has been able to meet all the necessary investment criteria: • Low gas prices, sites having no traditional caretaker and insistence that every biomass heating system should have full gas or oil boiler back up have meant that no further biomass heating systems have proven viable. • A lack of revenue capacity for design and feasibility work slowed going out to tender for the metering needed for claiming the Renewable Heat Incentive. • Wind projects have proven politically too difficult to deliver. • An anaerobic digestion project is on hold as small holding tenancy arrangements would need to change to minimise risk to the farmer. • 12 Building Integrated Photovoltaic (BIPV) schemes have gone ahead but many others were not possible where roofs were not strong enough. • 20-25 possible sites for Ground Mounted Solar (GMS) were identified. Initial screening reduced this down to 8–10 sites. There could have been more but for grid capacity and connection issues. A further 4-6 sites are likely to be excluded because of costs of available connection, planning constraints, public consultation, exclusion of agricultural grade land and ecological reasons. A report on Ground Mounted Solar Report is planned for Cabinet in September 2015. When a significant project can go ahead a majority of the available self-financing monies will be required.
Physical Assets	Rationalisation of County Storage	4,000	1,305	The space planning process with users has taken longer than planned to reach

				an agreed solution. Despite the delay plans are still on target to vacate the Montague Road depot, as originally planned.
Business Unit	**Scheme Title**	**Annual Budget £'000**	**Slippage £'000**	**Commentary and Explanation**
Education and Learning	Cawston Grange extension	1,838	1,241	When 2014/15 budget was originally set, the project was programmed to start on site in July 2014. However, there were delays caused by value engineering exercise to redesign the project to ensure it could be delivered within the resources available. As a result works were delayed and started on site in November 2014. The required classrooms have been completed as planned for September 2015 and the remainder of the works will be completed for January 2016.
Transport and Highways	Ansty Business Park Phase 3	1,265	1,220	This is a developer funded scheme which was added to the capital programme to meet the developer's timescales. Since that time, further design work has identified significant issues which need to be addressed before construction can commence. This will not have any implications to the Council as any increase in costs will be borne by the developer.
Social Care and Support	CAF Development Team - Social Care IT	1,176	1,176	The Common Assessment Framework system developments across health and social care originally aspired to facilitate delivery of integrated health and social care assessments and recording. Unfortunately, the national building blocks were not in place at the time and so investment in local solutions was delayed, as it was nationally. A new integrated health and social care ICT infrastructure vision has now been developed through the Department of Health's Framework for Action: 'Personalised Health and Care 2020 - Using Data and Technology to Transform Outcomes for Patients and Citizens'. It is anticipated that significant capital investment will be needed in the next few years, to progress these integration ambitions and those associated with the Better Care Fund. Elements include integrated health and care records, kit upgrades, citizen access, and the

Business Unit	Scheme Title	Annual Budget £'000	Slippage £'000	Commentary and Explanation
				development of integrated health and care assessment tools. This funding remains necessary to progress these developments.
Professional Practice and Governance	Client Information Systems Review	1,360	1,024	The project scope for the client information systems review includes a social care system and an education system. Following the successful procurement of Corelogic Mosaic as the social care system, detailed scoping and configuration work has further clarified the project scope and facilitated the refinement of the project plan. This has led to some rephasing of the capital spend allocated to the project. In addition, the outcome of the education procurement was inconclusive with no preferred supplier. Further work is therefore required to identify a solution for the education areas of functionality which has also impacted on phasing of the capital spending profile. The funding is therefore still required to support the reshaped project plan.
Physical Assets	Reducing Energy – various properties	1,044	981	The approved funding is self-financed borrowing, with the financing costs to be met by Physical Assets. As with the renewable energy projects spend will only be incurred when the Business Unit is confident sufficient savings to cover the financing costs can be made.
Education and Learning	Bishopton School extension	870	772	When the 2014/15 budget was originally set, the project was programmed to start on site in January 2015. However, there were delays caused by the contractor during the value engineering exercise to redesign the project to budget, which resulted in a non-feasible outcome. The decision was then taken to change contractor and restart value engineering and redesign project. Also, trying to obtain planning permission for the project has been a lengthy process. The effect is that works have been delayed and are now due to start on site in October 2015. The works and additional classrooms are now programmed to be complete for September 2016.
Transport and Highways	Safer routes to schools and 20mph	750	743	Now known as Home to School Routes. A safe routes policy must be adopted

	school safety zones 2014/15			before progress can be made on this project. Education and Learning are currently consulting on this as part of the Home to School Transport policy which Cabinet will consider in October 2015.
Business Unit	**Scheme Title**	**Annual Budget £'000**	**Slippage £'000**	**Commentary and Explanation**
Education and Learning	Paddox School extension	1,028	738	When the 2014/15 budget was originally set, the project was programmed to start on site in November 2014. However, there were delays caused in obtaining planning permission and resulting redesign work, which was a lengthy process and involved reporting to two separate Regulatory Committee meetings. The effect was works were delayed, starting on site in February 2015. The school will have temporary accommodation ready for September 2015 as planned and the main works and additional classrooms will be completed for January 2016.
Physical Assets	Refurbishment of Old Shire Hall	750	720	The external tender process is under way, with presentations from tenderers on 12th August. It is envisaged that a preferred bidder will be identified by the end of September 2015. Old Shire Hall works should commence in Spring 2016, with spend committed by end March 2016.
Transport and Highways	Footbridge at Stratford Town Station	943	653	The contractor failed to meet Network Rail design standards leading to a significant delay in approval of design and construction.
Education and Learning	Henry Hinde Infant School extension	523	532	After it had been included in the programme the project was cancelled, as the school withdrew their support. The funding was reallocated to another project at Cawston Grange Primary School, as reported to Cabinet on 27 January 2015. The effect is that no works took place on site at Henry Hinde Infant School.
	Total	34,144	26.640	