Report to the Finance & Performance Management Scrutiny Panel

Report reference:
Date of meeting: 20 September 2011

Portfolio: Finance & Economic Development

Subject: Capital Projects Cost former LPI 23

Officer contact for further information: Peter Maddock (01992 - 56 4602).

Democratic Services Officer: Adrian Hendry (01992 – 56 4246)

Recommendations/Decisions Required:

That the Panel note outturn for LPI23 for the year 2010/11.

Executive Summary

This report provides the outturn position for the Capital Projects cost performance indicator (LPI23) for the financial year 2010/11 and a commentary on the difficulties providing meaningful information in relation to this indicator.

Reasons for proposed decision

To note the outturn for LPI23 for 2010/11.

Other options for action

No other options available.

Report:

1. The indicator LPI23 was created in an attempt to measure how successful the Council is in ensuring that the cost of major capital schemes undertaken was within acceptable limits when compared to the budget set for that scheme.

2. The original definition of 'major' capital schemes was to include schemes where expenditure was expected to exceed £2 million. Also in order to meet the definition of what variance might be considered acceptable it was agreed that 90% of schemes final actual cost should be within + or – 5% of the budget set for that scheme. This was an updated figure agreed by the panel after the original 75% set by officers was felt to be too low.

3. There has only ever been a maximum of four schemes undertaken at the same time that meet the definition, and the measurement can only take place at the conclusion of a scheme. So unless all schemes that were completed were within the tolerance levels set the indicator could not be achieved. It also became apparent that there was no definition of 'budget' within the indicator and whilst the original budget was used it was clear that in some instances (e.g. Bobbingworth Tip) the original budget set was based on a different scheme to the one that was eventually pursued. It was also noted that the major capital schemes section of the quarterly monitoring report had a commentary on each scheme along with details of progress against the expected timeline, and a comparison between actual and estimated costs. This information is arguably more useful than a percentage measurement at

the year end.

4. During 2008/09 there were no schemes completed that fell within the set definition and in 2009/10 there were three. It was recognised that the indicator in its original form was of limited value, and it was proposed that a new definition be worked up. This was agreed by the panel at its meeting of 23 February 2010 and applies to 2010/11.

5. The revised definition for 2010/11 set is that 90% of Capital Schemes completed with an expected cost of £500,000 should be within + or – 10% of the agreed budget. The agreed budget being the budget that reflects the scheme actually carried out. The difficulty here is that elements of the capital programme, particularly Housing Revenue Account (HRA), are based on annual contract renewals so it is not entirely clear when the definition of completed is met. For these contracts it has been assumed an end date at the end of each year.

6. During 2010/11 there were seven schemes that met the definition. Of these two were General Fund Schemes and five were HRA Schemes. The General Fund and three of the HRA schemes were within the target set. The outturn was therefore 71 % and missed the target.

7. Whilst the previous paragraph gives the factual picture for the financial year it still does not tell the full story. There are regular capital monitoring meetings particularly between Finance and Housing given the size of the HRA capital programme. These meetings will identify where slippage in the Capital Programme is occurring and what action should be taken as a result. It can often be the case that the best use of resources is to bring work forward from the following financial year to plug the gap left by slippage identified in the current year. In 2010/11 the overspend as a result of carrying out work earlier than anticipated was less than the underspend due to slippage. If the seven schemes were taken as a whole or the General Fund and HRA schemes were put together then the target would have been met in all three instances. Whilst the new definition is probably slightly more useful in that it at least captures a larger number of schemes it still demonstrates the limited value of the indicator due to other considerations that are not entirely financial that can influence the timing of expenditure.

8. The indicator is not included in the KPI set for 2011/12 and the capital schemes will continue to be monitored by this panel on a quarterly basis. This seems to be the best approach as detailed comments can be included on each scheme explaining the reasons for slippage or indeed acceleration of expenditure.

Conclusion

9. The Outturn for 2011/12 has been calculated based on a comparison of estimate and actual expenditure giving a figure of 71%. Whilst on the face of it this does not seem particularly good it does not give the full picture as other factors need to be taken into consideration when managing the capital programme.

Consultations Undertaken

Some consultation has been carried out with other Council officers.

Resource Implications

Within existing resources.

Legal and Governance Implications

Performance indicator measurement forms part of the monitoring process which is an important aspect of good governance.

Safer, Cleaner, Greener Implications

Nothing particularly relevant.

Background Papers

Various working papers held in Accountancy.

Impact Assessments

<u>Risk Management</u>

Monitoring of expenditure to estimates is an important process that helps to reduce the risk of unexpected over or under spends. Also where a variance looks likely it can be flagged early and necessary remedial action can then be taken.

<u>Equality and Diversity:</u>

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	No
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	No

What equality implications were identified through the Equality Impact Assessment process?
None

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A