Briefing Note

milton keynes council

Review of Capital Programme June 2020

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Purpose

The purpose of the report is to update the Committee on the findings of the review that was undertaken by the Corporate Portfolio Board in June 2020 into the high levels of slippage in the 2019/20 Capital Programme and the impact that COVID-19 was having on the delivery of the 2020/21 programme.

Background

The 2019/20 outturn reported to Cabinet, 3 June 2020, reflected a spend in year of £108.346m compared to in year budget of £165.637m, an underspend of £57.292m. Financing adjustments of £2.899m were required in 2019/20 to reflect expenditure on schemes that was in addition to that already in the approved programme, bringing the total underspend in year to £60.190m.

The Corporate Portfolio Board has undertaken a review of all schemes within the programme, to investigate the reasons for the high levels of slippage in 2019/20 and any lessons learnt, to put action plans in place for programmes that required additional funding in year, and to recommend revised profiling of all schemes for 2020/21.

In addition, the impact of COVID-19 on the delivery of schemes has also been challenged to ensure that there is sufficient funding within the programme to meet any additional costs, resources are available to deliver the schemes, and that procurement has not been impacted.

Issue

Delivery of the capital programme has been a concern for several years. Resource allocation has been made to capital schemes, based on expenditure profiles from services, and whilst in most cases schemes are eventually delivered within budget, there have been significant delays in delivering the programme compared to planned completion dates. This has meant that there are risks that schemes will cost more than planned due to inflationary pressures, benefits are not being realised promptly and that resources are tied up preventing other schemes from progressing.

In 2019/20, following an in-year underspend from 2018/19 of £80.618m, services were asked to review the programme. This resulted in £40.890m being slipped into 2019/20 and £33.630m being rephased back into later years. Despite this reprofiling exercise, in 2019/20 there continued to be a significant underspend, of 64% of the total programme.

Table 1 shows a summary of the underspend in 2019/20.

Table 1: 2019/20 Outturn

Capital Programme by Service Area	2019/20 Outturn Position				
	2019/20 Approved Budget	Financing Adjustments	2019/20 Revised Budget	Outturn	Variance to Revised Budget
Service	**£m's**	**£m's**	**£m's**	**£m's**	**£m's**
Adult Social Care	0.643	0.193	0.836	0.301	(0.535)
Children Services	35.240	0.092	35.332	22.798	(12.534)
Corporate Core	3.360	0.984	4.344	3.770	(0.574)
Housing and Regeneration - HRA	70.893	0.064	70.957	36.366	(34.591)
Housing and Regeneration - GF	2.261	(0.459)	1.802	1.802	0.000
Growth, Economy and Culture	6.917	0.204	7.121	1.414	(5.707)
Environment and Property	44.356	1.799	46.155	40.399	(5.756)
Resources	1.968	0.022	1.990	1.496	(0.494)
Capital Programme Requirements	**165.638**	**2.899**	**168.537**	**108.346**	**(60.191)**

Underspends were reported across all service areas, and in light of this the Corporate Portfolio Board asked for all capital schemes to be reviewed. The review required highlight reports to be prepared for all on going schemes, for the impact of Covid-19, both in time and cost to be assessed, explanations of the underspend to be provided, and for the profiling of each scheme to be reconsidered, including those schemes due to commence in 2020/21.

All service areas were asked to meet with the Corporate Portfolio Board who challenged the information provided.

Findings

The review of both the 2019/20 underspend and the new 2020/21 programme required significant work both by the services and the board.
In total, 330 projects from the 2019/20 were reviewed of which 169 projects were continuing into 2020/21.

Where schemes were not due to complete in 19/20 and had funding allocated in 2020/21, the revised spend profile was reviewed to reflect the current delivery programme. The total value of continuing projects is £153m of which £78m is planned to be spent in 2020/21.

A further 92 projects, with a total value of £202m were approved as part of the 2020/21 capital programme. These have also been reviewed to ensure that spend profiles are realistic.

This results in a revised capital programme of £128m in 2020/21, subject to approval in a delegated decision on the 28th July 2020.

Delivery of the Programme
The challenge sessions highlighted various issues in the delivery of the programme. The range of projects within the programme, both in terms of size and nature of the work, mean that it is difficult to make comparisons. Each project has its own unique issues. Some group together as 'business as usual' programmes, e.g. Highways improvements, HRA asset management, and Schools asset management, whilst others as are one off. The size of the projects varies from individual schemes of £20k to the largest currently over £30m. Each year types of projects within the capital programme changes depending on the council's investment needs.

Some common themes were highlighted through the challenge process that had impacted on the delivery of the programme:

- Resources

  The complexity of many of our projects should not be underestimated.

  When planning the delivery of projects resources need to be in put in place, there needs to be a full objective assessment of what is needed to deliver the scheme, not only in terms of project management but also in terms of collaborative working across the council. Previous years capital programmes have contained an element of optimism bias where the full resourcing of the programme has not been fully considered.

  Assessments need to be made on who is best placed to deliver the project. In some instances, it maybe that the delivery of the project is not be best placed with the client department, but with other teams more experienced in delivering projects of that nature and scale.

  Project Boards need to include people with the correct specialisms for the projects being delivered.

- External Factors

  Many of the projects have been delayed due to external factors such as the pace of housing development, other land issues or weather-related difficulties. Realistic timelines and contingency planning need to be carefully considered when planning projects.

- Procurement

Sufficient time needs to be built into project plans for procurement and the mobilisation of contractors.

- Quality of Profiling and Forecasting.

The quality of information in both profiling the original project plan and the in-year forecasting needs to improve. Throughout 2019/20 the forecast outturn position reflected an increased level of slippage. The final outturn was £30m higher than that reported at Period 9, and £16m more than that reported internally at Period 11.

Contractor valuations of works completed to date need to be regularly reviewed and considered when completing the monthly forecast outturn reporting.

The commentary reported by project managers in the capital monitoring report needs to be improved, so that it is both reflective of the current status of the project, and meaningful to external readers.

The scope of the project needs to be fully considered at the planning stage to ensure all costs and related activities required to deliver the project are included from the beginning.

- COVID-19 has impacted on project delivery.

Several projects encountered delays due to COVID-19 in March 2020, with impacts continuing in April and May 2020. Contractors are now working, and except for 1 project additional costs have not been claimed. In some instances, such as the HRA asset management programme, it has been necessary to realign the type of work being completed so that access to properties can be minimised. In highways and transport, the demand of additional work to enable the opening of high streets and increased active travel has meant that resources previously working on the planned capital programme are having to deliver additional projects. Considering this, the programme has been reprofiled to reflect to the resources available. The impact of COVID-19 on the procurement of new contracts has also been considered and this has factored into the revised capital programme.

Financial Control

In addition to identifying factors which lead to slippage of the programme the Corporate Portfolio Board also identified a general theme on the overall financial control of projects.

As part of the financing of the 2019/20 outturn, a net increase of £2.889m was added to the in-year programme. Included within this figure £1.057m was removed from the programme where a scheme funded from borrowing was withdrawn, and £0.537m was added as a technical accounting adjustment in relation to a land disposal, meaning that overall £3.409m related to additional in-year project spend. In some cases, this was where project expenditure had accelerated against profile, and existing funding that was already allocated to that project was brought forward, but in total, £1.407m was needed to be added to the programme to fund overspending projects.

As the capital programme must be financed in the year that the expenditure was actually incurred, overspending projects mean that additional funding must be found. With all resources fully allocated, the reality of this, is that unless additional receipts have been received, funding has to be taken from elsewhere within the programme. In some areas, projects are managed within bigger programmes of work, e.g. HRA, Children's and Highways. Where this is the case funding can be moved between projects, however if underspending projects are not complete this can have an impact on delivery in future years.

The HRA programme had significant variations to budget. Whilst the outturn was £35m lower than budget, some areas within the programme did overspend. Additional funding was required to be vired from elsewhere within the programme to cover this unplanned work.

In Highways and Transport, there were significant overspends against the approved programme. Funding was reallocated within the 2019/20 programme, and other funding temporarily 'borrowed' from other projects which were planned to be delivered in 2020/21. An action plan has been developed to address the reasons for the overspend, and funding has been reduced within the revised 2020/21 programme to cover the shortfall.

Within the Children's programme however, several projects were completed under budget, enabling funding to be returned to a ring-fenced pot, to be reallocated to other Children's projects.

Next steps

The 2020/21 Capital Programme has been reprofiled taking into account what can reasonably be delivered in the remainder of this financial year. A delegated decision is being taken on the 28th July to approve the revised programme.

Financial Management has a strong focus in the Council Plan, approved in June 2020. This related to both revenue and capital budgets. Finance will be working with services to challenge forecasts and improve reporting in 2020/21, and the Corporate Portfolio Board will continue to have an overview on the delivery of the capital programme.

Directors will be required to attend the Corporate Portfolio Board each quarter to provide a detailed update on their programmes to provide assurance on delivery, risks and the accuracy of the financial forecasts within their areas of responsibility.

To review with Directors the capacity and skills of Project Teams and to consider whether projects should be reallocated to other parts of the Council to deliver.

Background Papers

Cabinet June 2020 – Annex F Capital outturn report