

FINANCIAL CONTROL OF CAPITAL SCHEMES IN PROPERTY SERVICES

Report By: **DIRECTOR OF RESOURCES**

Wards Affected

County-wide

Purpose

To advise Members of the financial planning and controls used in the monitoring of Capital schemes.

Financial Implications

As detailed in the report.

Background

1. Following concerns expressed by Members on the financial position of a number of capital schemes a paper was requested on how the financial aspects of a contract are prepared and monitored.
2. The process is noted in the next section.

Considerations

1. Projects are prepared in accordance with the Royal Institute of British Architects (RIBA) stages of engagement for the larger schemes and the Royal Institute of Chartered Surveyors (RICS) stages of engagement for the smaller projects.
2. The initial costing is prepared after a brief of the client's requirements has been established. At this stage often the actual site is not known so the cost is based purely on the gross floor area of the proposed building with additions for site works and fees. The rate allowed per m² is from one of the national cost data organisations that monitor average costs of projects e.g. Building Cost Information Service.
3. As the client's brief is developed in more detail using techniques, such as room data sheets, additional cost plans are prepared. This is often still on a floor area basis but with specific additions for design features required.
4. Once an actual site has been identified a more realistic cost plan can be prepared. This will take into account the site abnormalities such as pile foundations, site services or specific landscaping requirements of the planning officer.

5. Once the detailed design has been prepared an elemental cost plan is produced. This costs the project in terms of the principal elements of the building i.e. roof, walls, flooring, etc. and provides a more accurate cost plan for the development.
6. Where unknown costs are included such as connection of statutory services like drainage, electrics and gas, provisional costs and contingencies are included, which are a professional estimate of known works that cannot be clearly defined, detailed or described.
7. For a traditionally procured scheme the project team will then prepare the working details for the project (and either a Bill of Quantities or a specification, depending on the type of work). For a design and build project outline performance requirements are prepared.
8. A detailed project cost is then prepared prior to inviting tenders, usually on an elemental basis.
9. Tenders are sought from a selected list of contractors and once received and opened these are compared against the detailed project cost. Checks are made for arithmetical and technical errors.
10. A tender report is prepared and submitted to the client Directorate for approval or a recommendation is made not to proceed, if it does not represent value for money.
11. Once the contract has been placed, costs are monitored on a monthly basis when interim valuations for payments are made. This involves the contractor's Quantity Surveyor and the Council's Quantity Surveyor (or representative) measuring work on site and agreeing a valuation which would then have a retention of normally 5% omitted from it. The Council's Quantity Surveyor will indicate each month an anticipated final contract figure depending on problems encountered and variation to the work. (It should be noted that this post is currently vacant and being advertised. The work is currently being undertaken by the Property Operations Manager.)
12. When the project reaches a stage known as practical completion both Quantity Surveyors (detailed in 11 above) would prepare a draft final account. At this stage once the Architect/Surveyor has issued the practical completion certificate giving the client Directorate access to the building the retention amount is reduced, normally from 5% to 2.5% (it does vary depending on type of contract).
13. This retention amount is then held for 12 months for what is known as a defects liability period. At the end of this period a completion certificate is issued and the retention is released providing the contractor has completed what are known as 'snagging items'.
14. At the final account stage omissions and additions are audited to ensure each has an audit trail. If the contract has a Liquidated and Ascertainable Damages clause (where the client Directorate has suffered loss because the project was not completed on time), these are deducted at this stage.

15. On selected contracts an external audit on the final account is undertaken.

Performance Against Funding

16. The attached Appendix outlines the performance of the capital programme against funding over financial years 2004/05, 2005/06 and 2006/07.

17. The following table summarises the year end position for each of the these financial years against the original budget:

Financial Year	Original Budget £000	Outturn £000	Underspend £000
2006/07	58,977	39,542	19,435
2005/06	37,131	31,845	5,286
2004/05	40,100	33,198	6,902

18. This indicates that over the three years there has been a pattern of underspending against capital budget varying from £19.435m in 2006/07 to £5.286m in 2005/06. In percentage terms this was a 33% underspend in 2006/07 and 14% in 2005/06.

19. The appendix also highlights individual schemes where a 10% variation (and a minimum £250k variation) occurred when compared with the original funding.

20. The reasons for the variances range from the slippage in corporate projects against original timetables (Herefordshire Connects being one such example) to delays in specific individual projects such as the Hereford Crematorium. The latter was caused by issues around land purchase.

21. In some cases the capital programme is affected by the allocation of grants part way through the year. These additional resources represent additional funding and end up as an underspend because the expenditure cannot be made in the year in which the grant is received. In these cases the grant is carried forward.

RECOMMENDATION

THAT the contents of this report be noted

BACKGROUND PAPERS

- Summary paper on specific contracts