Appendix 4

Scottish Borders Council Review of Capital Slippage

In recent years the Capital Investment programme has been characterised by significant slippage during the financial year with a large unspent budget carry forward being required at each year end.

The delivery of successful Capital projects is a complicated logistical process. There are many reasons why projects may be delayed and require the carry forward of budget. It is also important however that the process of projecting expenditure associated with capital projects is as accurate as possible to ensure that:

- the receipt and application of grant income;
- the profiling any capital borrowing required; and,
- the disposal of assets contributing to funding new developments is as efficient as possible.

The table below provides a review of the main reasons for slippage in the anticipated profile of capital expenditure and sets out a number of recommended actions to enhance project delivery.

Reason Identified For Slippage	Recommended Action
Lack of Robust Costing	The costing of all capital projects and the formulation of capital budgets should be undertaken by appropriately qualified costing professionals. In this regard the council is now looking to employ a qualified Quantity Surveyor to undertake the costing of all capital projects in-house both property and infrastructure related, to ensure a consistent methodology as a further development of Corporate Landlord.
Under budgeting **The project is included in the capital programme without completion of suitably rigorous cost plan commensurate with the scope of the project proposed.**	A detailed cost plan should be prepared by suitably qualified staff before projects are included in the Capital Plan. This should be undertaken ideally at PBC stage or before any necessary approvals are required out with the standard PBC process or are placed before any committee where a substantive decision may be taken.
Partial Funding **Projects are included within the CIP with the expectation that political support will ensure the project will attract further funding in future years to complete the scheme envisaged.**	Only schemes which can be delivered in full within the available budget should be included within the plan, with appropriate consideration of inflation using BCIS indices.
Technical site Issues emerge after scheme approval **Technical problems such as underlying site conditions. Legal ownership of sites, planning conditions or the need for statutory approvals may impact upon scheme delivery.**	All necessary technical due diligence should be undertaken before projects commence including detailed site surveys and where appropriate intrusive testing of building fabric.

External Funding **Projects are reliant on external grant funding. The external approval process for grant funding is not reflected fully in the capital plan**	Wherever possible the necessary technical diligence to maximise the potential of grant funding and minimise delays should have completed before grant applications are submitted. Lead in times for the award of grant funding should be reflected in the phasing of the capital plan
Tender prices exceed available budget requiring time consuming value engineering.	This is a common problem with large complex projects whereby tender prices exceed available finance and a value engineering exercise is required. It is recommended that all projects above £1m undertake a detailed business case assessment and project budget should contain an appropriate level of risk allocation/contingency to address this issue.
Scope Creep **Once projects are on site requests are made to enhance the scope of project delivery beyond the originally intended brief.**	The scope of works should be fixed prior to commence on site. All aspects of a projects should be part of the initial scope. Further revisions should only be considered as an exception. Appropriate operating tolerances 'in project' will be applied to the Project Managers / Contract Administrators ensure that any variation within the agreed project value will be escalated for prior approval depending on value of any potential variation through the rigorous application of a suitable Change Control mechanism.
Incorrect Inflation assumptions **Projects do not contain sufficient budget to fund the price base in the year of project commencement.**	The level of future inflation included in capital project budgets should be clear in every project to ensure an appropriate allowance is made to uplift required to reflect the intended year of project delivery. Implement a mechanism to apply year on year BCIS inflation, which is the industry standard, and not RPI or CPI. At present capital projects do not always get inflated automatically as a rule, particularly those in later years or through the PBC process, although for large schemes we do try to determine costs to the mid-point in construction period.
Procurement Issues identified after commencement of tender process delay project commencement **The process for procuring projects can often be complicated and fraught with legal difficulty. As a public body it is essential that**	The route to market for projects should be properly scoped as part of the project initiation process. Procurement experts within the council should be fully engaged for the earliest stage of a project to ensure project delivery timescales

we comply with all applicable legislation and ensure openness and transparency in our procurement processes	fully reflect the reality of the procurement processes the council is bound to follow.
Capacity to deliver **The capital programme has grown significantly in scope an d complexity in recent years. The organisation has a limited capacity to respond to ever greater demands being placed upon it by the capital programme**	Before the start of each financial year a formal review of the resources required to deliver the capital plan should be reported to CMT with the actions required to recruit staff and external consultants to deliver the project fully understood and approved.
Delays caused by Utility Companies and statutory Undertakers	The project plan for each major scheme should include appropriate allowance for the work that is required by statutory undertakers. Failure to reflect this issue in project plans may result in significant delay.
Timing Movements	The timing and programming of complex capital projects typically do not align with financial reporting periods; particularly financial year ends. Any timing movement, while having a financial implication from a technical accountancy perspective, does not always have any impact on the successful delivery of a capital project. Main contractors will profile project spend to suit their own delivery programme and this is often not reflected back into the original assumed profile in the capital programme. Where possible capital project should be re-profiled once cash flows are received from main contractors.
Circumstances beyond the Control of the Council	In many instances, any delay in capital expenditure can be attributed to third party delays beyond the control of the Council, from example in the award of funding from partners and other agencies, third party ownerships or when multiple agencies are involved.
Political Interest	Projects which have political scrutiny can often be set challenging and potentially unrealistic target completion dates, not recognising some of the underlying complexity which may exist. This can have a fundamental impact on the risk profile of the project. Audit Scotland have regularly recognised this as a significant risk to successful project delivery.