| REPORT TO | ON |
|---|---|
| Governance Committee | 12th April 2017 |

Jan 2017

SOUTH RIBBLE BOROUGH COUNCIL forward with South Ribble

| TITLE | AUTHOR | Agenda item No. |
|---|---|---|
| **Capital Programme and 2016/17 Budget Efficiency Plan Performance** | **Susan Guinness** | **8** |

## 1. PURPOSE OF THE REPORT

The purpose of this report is to respond to a request from Members of Governance Committee to explain in detail the recurring underspend position with regard to the Capital Programme plus the delay in delivering some elements of the 2016/17 Budget Efficiency Plan as included in the 2016/17 Budget approved by Council on 2nd March 2016.

Importantly, looking forward from here, the report also includes the actions taken in the 2017/18 Budget Setting round to assist Budget Holders with profiling and so manage expectations of project delivery and also reduce the recurring underspend position within the Capital Programme. Given the nature of Capital Schemes it is unlikely that underspending can be eradicated completely as invariably work programme are subject to change throughout the year and can also be impacted on by factors outside of the Budget Holder's control e.g. weather conditions.

## 2. RECOMMENDATIONS

Members note and comment on the contents of the report.

## 3. CORPORATE PRIORITIES

The report relates to the following corporate priorities**:-**

| | | | |
|---|---|---|---|
| Clean, green and safe | | Strong and healthy communities | |
| Strong South Ribble in the heart of prosperous Lancashire | | Efficient, effective and exceptional council | X |

## 4. BACKGROUND TO THE REPORT

For a number of consecutive years the Capital Programme has reported a year-end out-turn position that results in an underspend against the Capital Programme Budget with projects being re-scheduled into the next financial year. This has been consistently challenged when Budget Management Reports have been scrutinised by members.

The more recent Budget Management Reports have also reported the re-profiling of some 2016/17 Budget Efficiency Plans into 2017/18 and the permanent suspension of another budget efficiency approved project.

A request was made by the Members of Governance Committee that a report be submitted that explains the reasons in more detail by the responsible Director, co-ordinated via Shared Financial Services.

Please note that the appendices attached to the report in respect of the Capital Programme, contain all projects for completeness. It has already been recognised and noted by members in previous Governance Committee meetings, however, that ICT Capital Projects are more often than the planning and earmarked financing of rolling replacement programme that may be intentionally delayed to 'max out' the working life of ICT assets to achieve maximum value for money. For example, if the equipment and functionality remain valid past the original estimated replacement date. As the re-profiling of these schemes to a later date does not constitute the non-delivery of a service or policy commitment, they have been excluded from this exercise and report.

## 5. CAPITAL PROGRAMME UNDERSPENDING 2015/16 and 2016/17

The immediate past two years have been taken as the most up to date and valid examples of unforeseen business matters arising in year that have brought about Capital Budget underspending.

In general terms the vast majority of underspends are caused by one or more of the following:-

- Greater Value for Money has been achieved than originally estimated and the cost of the project has been reduced.
- The project has been reduced with reference to scale and therefore not all the original budget has been required.
- The project specification has been amended or superseded by another piece of work.
- Capacity within the department delivering the scheme has not been sufficient to deliver outcomes in accordance with the original project timescales.
- Original Estimate overstated as some costs included have turned out to be revenue and therefore re-coded out of the Capital Account into the Revenue Account.

The table below provides a summary of the 2015/16 Capital Programme Out-turn position as set out in **Appendix One** and the 2016/17 Capital Programme Out-turn position (as estimated as at 29th March 2017) as set out in **Appendix Two**.

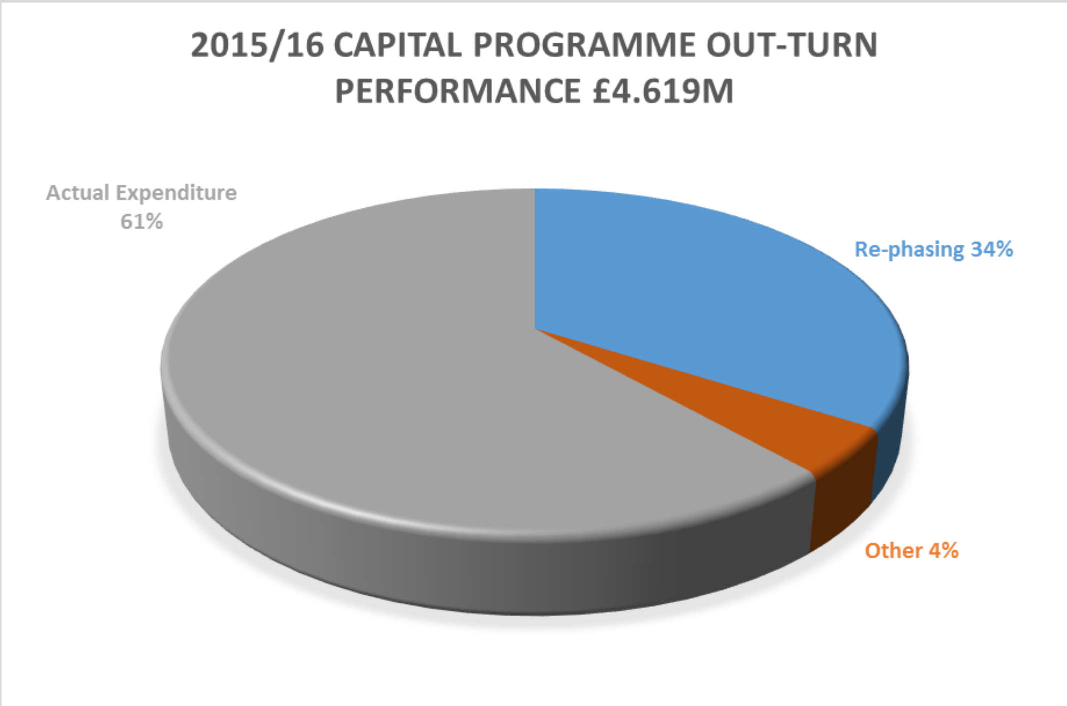
Also included is the latest version of the 2017/18 Capital Programme which is the most recently approved programme (as set out in **Appendix Three**) which has been updated for the anticipated re-phasing of schemes from 2016/17 to 2017/18 or even later years. Any significant variations between this report's dispatch and the Governance Committee, as the Closure of Account process moves forward, will be reported verbally in the Governance Committee meeting on 12th April 2017.

## 5.1 Summary of the Capital Programme Budgets to 2019/20 including Out-turn Budget Performance 2015/16 to 2016/17

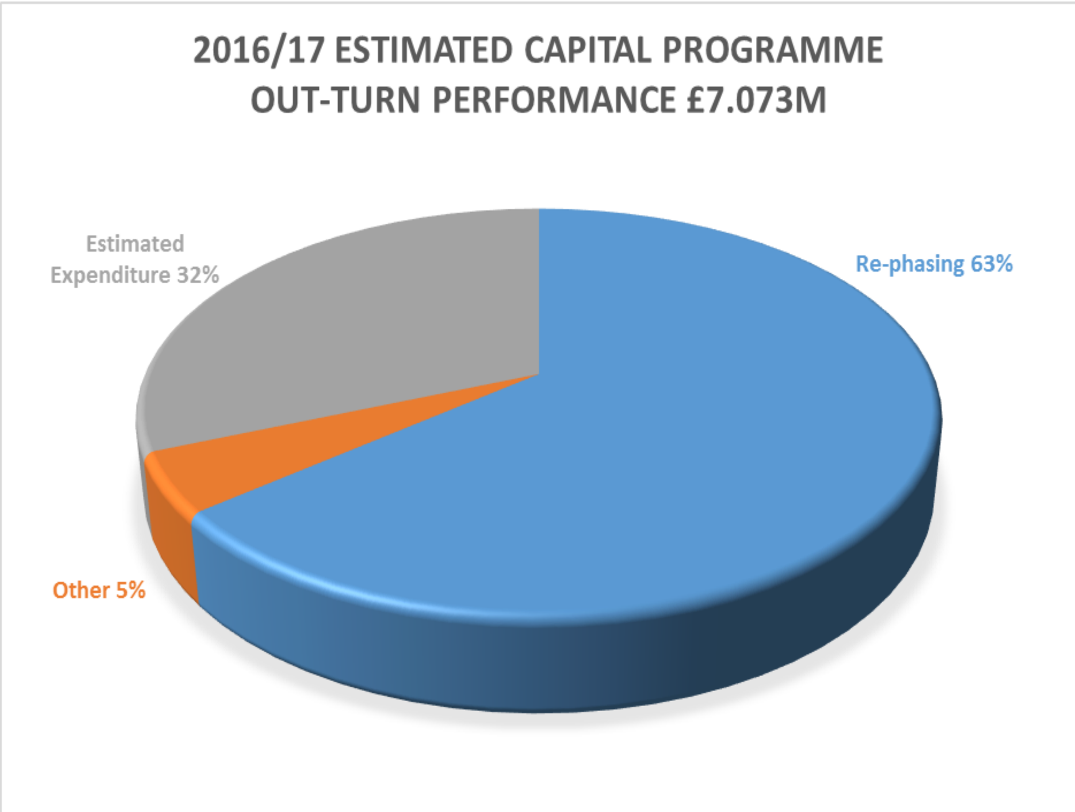
| | 2015/16 £ | 2016/17 £ | 2017/18 £ |
|---|---|---|---|
| Funded Capital Schemes – Externally Dependent for Planning Purposes and to Earmark Capital Financing – 2017/18 | | | 100,000 |
| Funded Capital Schemes – Externally Dependent for Planning Purposes and to Earmark Capital Financing – 2018/19 & 2019/20 | | | 2,379,355 |
| **TOTAL - Externally Dependent Capital Schemes 2017/18 MTFS** | | | **2,479,355** |
| 2017/18 Budget – Approved New Capital Schemes | | | 213,460 |
| Re-pricing of Existing Capital Programme | | | 145,707 |
| Mainstream Capital Schemes from 2016/17 Budget | | | 1,151,941 |
| **Original Budget** | **3,831,441** | **4,527,023** | **1,511,108** |
| plus Slippage from Previous Year at Budget Setting | 371,821 | **893,593** | **2,116,326** |
| plus Slippage from Previous Year at Out-turn | | **681,568** | **463,628** |
| plus Other Adjustments | 415,305 | 970,578 | n/a |
| **Revised Budget (estimated for 2017/18)** | **4,618,567** | **7,072,762** | **4,091,062** |
| Less Slippage into Next Year | **(893,593)** | **(2,116,326)** | n/a |
| Less Slippage into Future Years | n/a | (1,969,187) | |
| Less Other Adjustments | (182,452) | (336,678) | n/a |
| **Projected Out-turn Budget** | **3,542,522** | **2,661,571** | **n/a** |
| Actual Out-turn 2015/16 | 2,839,085 | n/a | n/a |
| Estimated Out-turn 2016/17 | n/a | 2,197,671 | |
| **Budget Variation Under/(Over) Spend** | **703,437** | **463,900** | **n/a** |
| Slippage into Next Year | (681,568) | **(463,628)** | n/a |
| Other Variations | (21,870) | (272) | n/a |
| **Analysis of Actual Out-turn Variation** | **(703,437)** | **(332,848)** | **n/a** |

The graphs below provide an alternative visual presentation of Capital Budget Management Performance 2015/16 and 2016/17:

### 5.2 2015/16 Capital Programme Final Out-turn Budget




### 5.3 2016/17 Estimated Capital Programme Final Out-turn Budget



The appendices attached provide details of the financial performance of each Capital Scheme that have significant variations in performance highlighted in yellow. For these scheme the Director has inserted an explanation for the variation setting out technical reasons specific to the project where applicable. Where Capital Schemes have underspent and the budget re-profiled into a future year, the common theme that has impacted on capacity to deliver the approved budget is explained by each Director below.

**Director of Neighbourhoods, Asset Management and Environment**

The appendix for 2015/16 has been updated with comments where appropriate to explain a variance. If there are no comments then the scheme has either underspent or overspent for the reasons identified under part 5 of the report above or a more detailed explanation can be seen in the appendix for 2016/17. In 2015/16 additional monies were allocated to the parks programme to fund a major scheme at Worden Park. Whilst this was welcomed it did have an impact on capacity for other schemes.

A number of the schemes have not progressed due to technical reasons and/or circumstances outside the directorate's control. Capacity to deliver has been an issue in some cases and this is identified in the updates against the relevant projects. A number of other schemes have been reassessed as they were included in the programme some years ago. Where appropriate and when these works are not yet required the schemes have been rephrased to future years. It should be recognised, however, that some major schemes and procurements have been undertaken and delivered to a high standard.

It is usual for the budget for the vehicle replacement programme to be rephrased most years. A replacement vehicle is forecast at the point of purchase and included in the replacement programme typically in seven years' time. Whilst this is kept under continuous review it is often the case that an assessment is made part way through the planned year of replacement to see whether it is possible and economical to keep the vehicle running for longer before replacement. This may continue for a few years before it does eventually becomes more economical and viable for the vehicle to be replaced. Due to the risk of an older vehicle failing budgets may be retained in year prior to rephrasing. The key reason for rephrasing in 2015/16 and 2016/17 was due to a Business Transformation exercise planned for 2016/17 of which the outcomes are expected to impact on vehicle requirements. This was not progressed due to the issues which are explained further in part 6 of this report.

**Director of Development, Enterprise and Communities**

The last 12 months have been difficult for the Council, but the focus on delivery of key projects remained. The information below outlines the Capital budget projects within the Directorate.

<u>Community works, Regeneration & MyNeighbourhoods</u>

Despite a step change in scale of projects and delivery requirements caused by City Deal, the majority of regeneration projects have been delivered to budget and timescales. City Deal has brought some changes to delivery because of a need to align the City Deal plans, particularly the Infrastructure Delivery Programme, but these have been worked through during the year and delivery of key schemes, such as Bamber Bridge, have progressed extremely well. The main changes have been to the size/scope of the projects. Bamber Bridge progressed from a SRBC project budget of £100,000 to a SRBC/City Deal project of over £3million. Whilst SRBC has designed the vast majority of the Bamber Bridge scheme and overseen construction and completion of the central area, we have managed to maintain progress in other schemes.

Only two significant schemes were re-profiled as a result of work in Bamber Bridge reducing capacity of our engineering staff; the Iron Horse and Leyland Loop. These are now both on track to be delivered in 2017/18. Another minor delay occurred in Longton, but this was wholly due to a late payment from DCLG. This affected the financial profiling, but not the final delivery. Our ability to deliver and keep delivering high quality schemes on budget is testament to the whole Council team, but especially the Engineers' dedication and capability to step-up to the mark.

In parallel with Bamber Bridge a number of schemes have been completed including our first major park (St. Catherine's Park P1), improvement works in Longton centre, landmark features in Leyland and a number of village schemes including Hutton car park and start of works in Walmer Bridge to improve the village centre. These were completed within budget, except St. Catherine's Park which has seen cost savings due to improvements in the landscape design around the WW1 bridge.

Strategic Housing

Many of the Directorate's Strategic Housing capital projects have been dependent on Government Policy, which has been in state of flux for some months. This has meant decisions regarding expenditure have been delayed. Re-phasing has been undertaken in these cases. In other cases (such as the Disabled Facilities Grants), individual case management is robust with regular contact with customers and tight financial controls. The scheme is very customer focussed and capital expenditure is both demand led and reliant on customers' situations and choices, which are often health related and therefore unique to each individual.

## 6. 2016/17 BUDGET EFFICIENCY PLAN

The 2016/17 Budget Efficiency Plan (as set out in **Appendix Four**) has not been delivered in full by 31/03/17, in the main the targets that have not achieved the original target are the following:-

- Deletion pre-determined vacant posts.
- Business Transformation in the Neighbourhoods, Asset Management and Environment Directorate.

**Vacant Posts (£200k)** - The explanation for the non-delivery of the Deletion of Vacant Posts is not available as the lead implementation officer and the previous Chief Finance Officer are not available for comment, however, previous comments have focussed on the significant in-year workload commitment resulting from HR and service quality investigations. This report has therefore focussed on being forward looking and the improvements made to the 2017/18 Budget Efficiency Plan implementation process.

The implementation actions resulting from the 2017/18 Budget Efficiency Plan, approved by Council on 1st March 2017, are being translated into a delivery strategy that will be implemented by means of a robust and transparent project management framework and performance monitoring framework that will be reported to Senior Managers and Members.

**Business Transformation (£150k)** – It is important to note that this Budget Efficiency Target has not been deleted and will be delivered as soon as possible in the 2017/18 financial year. An explanation for this alternative schedule is provided by the Director below:

The reason that the project was re-scheduled to 2017/18 is largely due to the significantly reduced capacity at senior level during 2016/17 and the lead director having to spend time on other priorities. Also of relevance was that last year was not appropriate with regard to engaging with employees on progressing a restructure with potential significant change, bearing in mind the low levels of employee morale and other issues raised through the recent employee survey. Progress was made on some elements of the project, however, such as the introduction of remote technology for front line employees which has streamlined the process and reduced the reliance on paper based systems.

## 7. ACTION TAKEN SINCE OCTOBER 2016

There have been a number of actions taken since October 2016 that seek to improve the performance of the Capital programme and achieving the Budget Efficiency savings.

### Capital Programme

As referred to in comments, insufficient capacity to deliver all the Capital Schemes that have been committed to has been a recurring reason, therefore there has been Shared Financial Services intervention and challenge in order to place the project in futures years being mindful that the impact of re-phasing projects from previous year's results in a very much escalated programme.

Therefore both proposed schemes and re-phased schemes have been assessed for capacity to deliver before the Capital programme was put forward for approval. This has resulted in an increase in awareness of the impact of slipped projects and a change in approach of some Budget Holders in profiling their particular schemes.

As part of the 2017/18 Budget Setting process re-phased schemes were re-programmed into future years and not into the next immediate year by default.

The Capital programme has also been analysed into schemes that are to be undertaken outwith the Council own direct control e.g. Contribution to the Extra Care Scheme and therefore projects that do not progress as initially anticipated are not reported as a performance variation within the Council's mainstream programme of works.

The 2017/18 programme remains sizeable though as it contains some high value projects e.g. £1.0m for the Vehicle Replacement Programme (usually a moving and rolling project as referred to above); £0.5m for Worden park Improvements; £0.5m for Disabled Facilities Grant (DFG's) and £0.3m for Leyland Regeneration Scheme.

The table at 5.1 shows the impact on the amount of the Original Budget for 2017/18 due to the more informative presentation. It should be noted however that delivery to the new format and profiling techniques does require effective project management performance.

### Achieving Budget Efficiency Targets

As above, long term financial planning has undergone a step change for the 2017/18 Budget Setting round as a Medium Term Financial Strategy (MTFS) has been proposed by Cabinet and approved by Council. Delivery of the 2017/18 MTFS is being supported by a MTFS Delivery Strategy which includes working to a formal Project Management Framework including performance monitoring and management that also incorporates other key Corporate Plan projects for co-ordination purposes and more efficiency performance monitoring.

## 8. WIDER IMPLICATIONS AND BACKGROUND DOCUMENTATION

### 8.1 Comments of the Statutory Finance Officer

A number of improvements have been put in place since October 2016 to assist Budget Holders with financial planning in respect of the Capital Programme. Underspending on a significant level also means that the cash flow forecasts are understated and the Council has more cash to invest in accordance with the Treasury Strategy. As a result an average lower rate of return is achieve which impacts on Financial Key performance Indicators that are also reported to the Governance Committee within Treasury Reports on a periodic basis.

Delayed delivery of Budget Efficiency targets increases uncertainty for the Council's planning process and increases demands on achieving budget savings for the forthcoming year. It also impacts on the opinions formed by external inspection agencies e.g. The External Auditor's opinion on Value for Money and the formal opinions published with regard to strategic performance of the Council. Ultimately this may impact on the confidence of residents and also on front line services as other budget savings and income generation have to be increased or expanded to compensate for any target not achieved.

Additionally if the variation in the budget efficiency target cannot be offset by off-setting in-year underspends, a contribution would be required from the General Reserve which may also impact on the Reserves Strategy within the approved MTFS.

With regard to direct financial implications, it is confirmed that there are no cost generated as a result of the contents of this report.

### 8.2 Comments of the Monitoring Officer

There are no direct legal implications arising from this report.

Clearly though the importance of having an accurate and realistic Capital Programme is self-evident. Investment opportunities may be missed if projects are not delivered in accordance with the agreed programme. Likewise it is pressing that we deliver in full on our Budget Efficiency targets.

It is encouraging though to note the progress and improvements that have been made in this regard.

### 8.3 Other Implications

| | |
|---|---|
| • **Risk** | The Budget Setting process takes account of the Corporate Risk Register (CRR) for the relevant year. As this report is for note only there are no risks that need to be added to the CRR as a direct result of the contents of this report. With regard to the delivery of the Capital Programme, re-phasing of schemes may also delay the delivery of the Council's Corporate Plan priorities. |
| • **Equality** | The Equality Impact Assessment (EIA) process is applicable to the Budget Setting Process but this report is for noting only and therefore there are no EIA implications as a result of the contents of this report. |
| • **HR** | There are no HR implications as a direct result of the contents of this report. |

## 8. BACKGROUND DOCUMENTS

2016/17 Budget and Medium Term Financial Strategy reported and approved for referral to Council at Budget Cabinet on 10$^{th}$ February 2016 and approved by Council on 2$^{nd}$ March 2016.

2017/18 Budget and Medium Term Financial Strategy reported and approved for referral to Council at Budget Cabinet on 20$^{th}$ February 2017 and approved by Council on 1$^{st}$ March 2017.

## 9. APPENDICES

Appendix One - 2015/16 Capital Programme Out-turn
Appendix Two - 2016/17 Projected Capital Out-turn (as at 29th March 2017)
Appendix Three - 2017/18 Capital Programme Estimates and Financing
Appendix Four - 2016/17 Budget Efficiency Programme