MANAGEMENT BOARD

Facilities Review of Capital Forecasting

Take Note paper from Head of Management Accounting on behalf of DG Facilities

For the meeting on 1 May 2014

Purpose

1. The purpose of this report is to inform Management Board of the findings and recommendations arising from the recent Facilities Review of Capital Forecasting. The report from the review is attached.

Action for the Board

2. The Board is asked to take note.

Background

3. The review was commissioned in response to the forecast underspend on capital programmes of 25% reported in Quarter 3.

4. The terms of reference for the review have been communicated to the F&S Committee, and Mr Clifton-Brown, MP was nominated to act as the Committees representative on the review. Mr Clifton-Brown has been kept informed of the emerging findings, and has also been sent a copy the report.

Next Steps

5. PEB will consider the Reviews recommendations at its meeting on the 28 April.

6. The report will also be considered by:

- F&S Committee at their meeting on 14 May
- Audit Committee at their meeting on 16 July

23 April 2014

FACILITIES CAPITAL PROGRAMME: REVIEW OF FORECASTING

1 EXECUTIVE SUMMARY

1.1 The scope of the Forecasting Review (the Review) was to identify the causes of underspending on the Facilities Capital projects budget. It was not within the scope of the Review to identify, or propose mitigation strategies, to overcome the causes of project delay. The Review Team is aware of the 2012 Deloitte's "Review of causes of project delay" and has not replicated this work. The focus of the Review is on improving the forecasting and understanding of delay which inevitably has an impact on capital spend profiles.

1.2 The forecast underspend on the Facilities capital programme is significant, and is also a recurring issue. As at February 2014, the capital portfolio was forecast to underspend by 29% against the agreed 2013/14 MTIP budget; in each of the four years since 2009/10 the capital underspend has been between 18 and 40%.

1.3 The key finding from the Review is that the budget setting and in-year forecasting processes need greater scrutiny, challenge and ownership. There is no common understanding of over-programming, which does not work as intended.

1.4 The Review has found that although the expected techniques are in place for budget setting and forecasting (including an assessment of likely project delivery, oversight meetings and monitoring), to be effective those techniques need to be sharpened, coordinated and applied consistently. The Review recognises both that in many instances this has been identified by the Estates team and that in some areas work has started to improve the current processes.

1.5 There is a clear focus on ensuring that Projects are delivered within their overall business case budgets. In the future there also needs to be greater emphasis on the identification and achievement of the annual budgeted spend.

1.6 The report sets out the Review Team's findings and makes recommendations for consideration and adoption by the DG, Facilities. As noted in para 1.1, the Review was set up as a result of continuing underspends, but the proposed recommendations would also be relevant for scrutiny and understanding in a tighter budgetary environment to predict and avoid overspends.

1.7 The Review Team would like to express its thanks to all of those who participated in the Review for their open and honest input.

2 BACKGROUND TO THE REVIEW

2.1 The Review was commissioned by John Borley, DG Facilities, in response to the House of Commons 2013/14 Q3 forecast capital underspend of 25%. The Terms of Reference for the Review can be found at **Appendix 1**.

3 KEY OBJECTIVES AND SCOPE OF REVIEW

3.1 The Review outcome should enable the Parliamentary Estate Board to recommend the delivery of a programme of annual capital works projects as part of the annual Medium Term Investment Plan (MTIP) exercise with confidence that it will be delivered within the forecast tolerances agreed by the Management Boards and Member Committees. The current agreed tolerance is an out-turn annual spend within 5% of the agreed capital works budget.

3.2 The scope of the Review was to consider the effectiveness of project and programme management within the Parliamentary Estate Directorate as it relates to budgeting, forecasting, and reporting. The Review was asked to make recommendations on:

- Steps to address any common causes of underspend; and
- Steps to address any weaknesses identified in the forecasting, review, oversight or project management processes.

4 REVIEW TEAM

4.1 The Review Team consisted of:

Conducting Interviews / Recommendations:

External Member (Gardiner and Theobald), External Member of PEB, Role: subject matter expert (industry experience)

(Team Leader): Head of Management Accounts HoC, Role: subject matter expert (Finance)

Secretary to M&E Board Role: Review Quality Assurance

Advisory/ Recommendations

Senior Project Leader HoC, Role: subject matter expert (Project Management)

External Member (Defence Infrastructure Organisation), Role: subject matter expert (capital portfolio management)

F&S Committee Representative

Geoffrey Clifton-Brown MP was consulted on the emerging findings.

5 REVIEW METHODOLOGY

5.1 The Review Team adopted a similar approach to that used for independent Gateway reviews. The Review Team has:

- Reviewed relevant documentation; and
- Interviewed a range of staff from Parliamentary Estates Department. Interviews have addressed both overall approach to budgeting and forecasting, and budgeting and forecasting in practice based on a sample of projects where underspends have been identified in 2013/14.

5.2 The following code of conduct has informed the approach of the Review:

- Challenging but constructive style from the Review Team (critical friend approach);
- Robust management of time;
- Confidentiality and non-attribution of interview comments;
- Openness and honesty from all participants;
- No surprises at the end – regular feedback throughout to the Review's Sponsor, DG Facilities; and
- Forward looking to improve forecasting, and not a retrospective audit.

5.3 This approach has provided a snapshot of the current approach and issues arising, but it has not been intended to be a full audit. The Review Team is willing to undertake further scrutiny if considered necessary by the DG Facilities.

6 REVIEW REPORTING

6.1 This report will be submitted to the DG Facilities. The Review Team understand that it will be shared with the Parliamentary Estate

Board, the House of Commons Management Board and the House of Commons Finance and Services Committee.

7 FINDINGS: BACKGROUND AND 2013/14 PROCESSES

7.1 Background: Capital Spend

7.1.1 The table below details the level of spend and variance to budget over the last five years:

	2009/10 Actual £m	2010/11 Actual £m	2011/12 Actual £m	2012/13 Actual £m	2013/14 Forecast £m
HoC					
Budget	16.9	14.7	16.3	27.9	30.4
Actual	12.9	12.6	8.9	15.1	22.9
Variance Under / (Over) Spend	4.0	2.1	7.4	12.8	7.5
	24%	14%	46%	46%	25%
HoL					
Budget	14.0	21.3	16.9	14.6	16.2
Actual	10.0	16.8	13.1	10.3	10.8
Variance Under / (Over) Spend	4.0	4.5	3.8	4.2	5.4
	28%	21%	23%	29%	33%
Combined					
Budget	30.9	36.0	33.2	42.5	46.6
Actual	23.0	29.4	21.9	25.4	33.7
Variance Under / (Over) Spend	8.0	6.6	11.3	17.1	12.9
	26%	18%	34%	40%	28%

Note: Prior year figures are stated prior to final year-end balance sheet adjustments

7.1.2 Despite the on-going underspend the total level of forecast spend in 2013/14 (£33.7m) is an increase on the 2012/13 (£25.4m) level.

7.2 Budget Delegation

7.2.1 The 2013/14 capital budget is £46.6m (split £30.4m HoC and £16.2m HoL). The capital budget is delegated to the DG Facilities. Within the Department of Facilities there is further delegation to the Director of Parliamentary Estates and then to the Deputy Director of Estates/ Head of Projects.

7.3 Number and Value of Projects

Project Value	MTIP		Q3 2013/14	
	Number of Projects	Value of Projects £m	Number of Projects	Value of Projects £m
Greater than £1m	14	59.2	15	28.2
£500k - £1m	4	2.5	4	4.7
£250-£500k	11	3.9	16	2.5
£0k - £250k	25	3.3	91	4.5
Sub Total	**54**	68.8	**126**	39.9
Overprogramming/Delivery Confidence Adj.		**(22.2)**		**(5.2)**
Other				(0.9)
Budget / Forecast		**46.6**		**33.8**

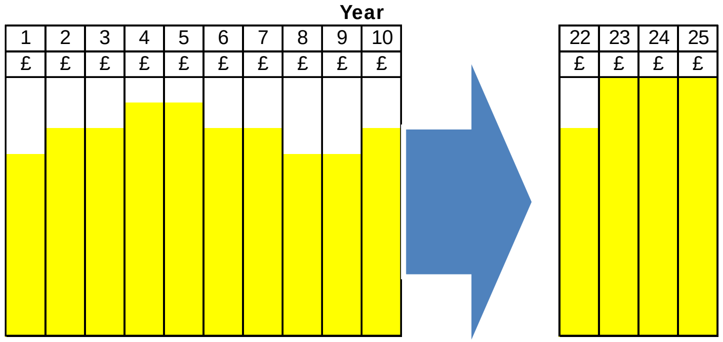
7.3.1 There were 54 projects in the 2013/14 MTIP; 14 of these represented 86% of the budget. At the Quarter 3 forecast there were 126 projects that had incurred spend in 2013/14. These additional 72 projects were either a) previous year Projects with spend in 2013/14, b) new Projects which have been identified in year or c) Projects that were only included at Programme level in the MTIP.

7.4 2013/14 Budget and Forecasting Processes

7.4.1 The 2013/14 budget and forecasting process is set out below in Figure 1.

Budget Setting Process (Real Data not used)

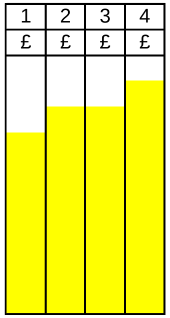
25 Year Plan
- Owned by the Asset Manager
- Updated every 6 weeks



Projects and type based on:
- Quandrennial Inspection data
- Condition surveys
- Backlog Maintenance estimates
- Known Operational projects

Orders of cost based on:
- £m²
- QS estimates where available

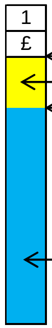
Medium Term Investment Plan
- Owned by Asset Manager and Facilities Director of Finance
- Initiated in September
- Year 1 becomes Annual Budget for April start



Refreshed costs based on:
- Project Leaders estimates where no business case exists
- Business Case estimates where an approved OBC/FBC exists
- Contract values when on site

Timings
- Based on Project Leader programmes

Annual Budget
- Owned by DG Facilities and Facilities Director of Finance
- Reviewed at monthly oversight meetings
- Updates transferred to HAIS by F1 process



Max spend defined by assessment of PED Capacity to deliver; validated by Delivery Confidence Assessment

Target Overprogramming balance

Bottom up assessment of activity based on DCA
- Green represents 80% of budget because an approved OBC exists
- Amber represents 60% of budget because OBC likely to be approved in-year
- Red represents 20% of budget because of concept status from 25 year plan

Balance of budgets transferred to Overprogramming

Target 'expected' spend

Forecasting Lifecycle – Typical Project

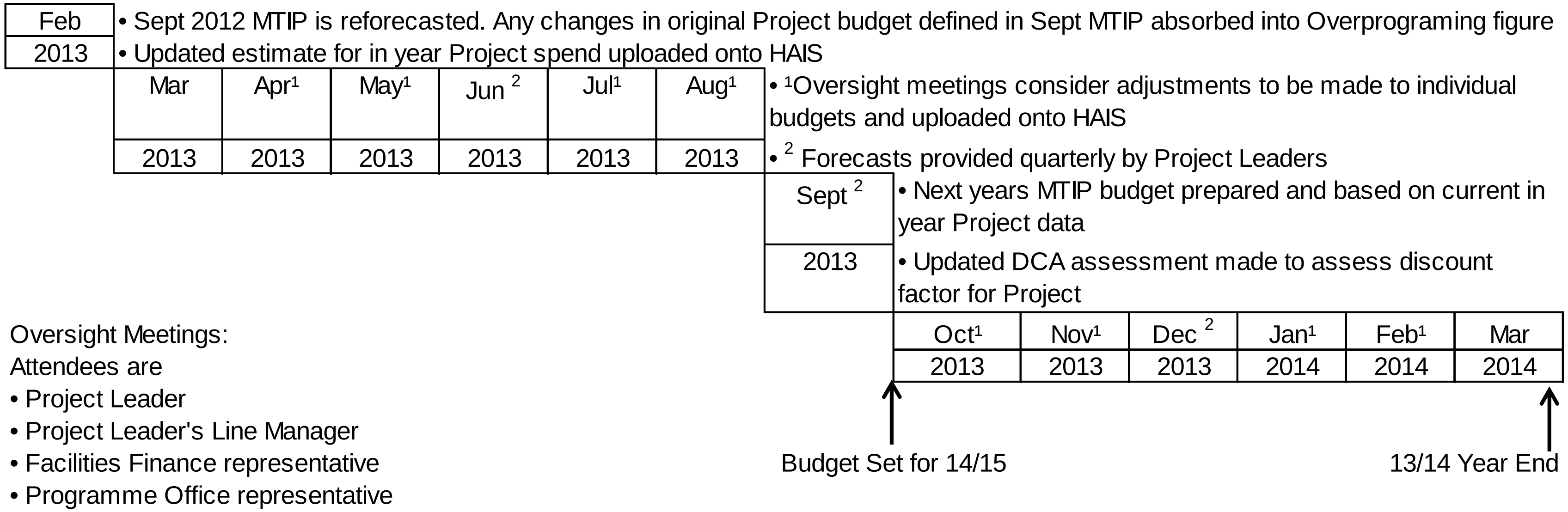


Figure 1 2013/14 budget and forecasting process

7.4.2 The 25 Year Plan is a planning tool which details the capital work required and likely order of costs over the next 25 years. This is a live document that is reviewed every 6 weeks and forms the basis for setting the MTIP, which in turn informs the annual budget. Project Leaders inform the process through providing forecasts for their projects.

7.4.3 The 2013/14 bottom line budget was set at £46.6m on the basis of assumed delivery capacity. The balance between the sum of the forecast spend on individual projects (£68.8m) and the proposed budget of £46.6m was accounted for as over-programming (£22.2m). The validity of the over-programming assumption was then tested through the process of assessing each project against a discount factor set to reflect uncertainty[1].

- Green Status: 20% discount applied to Projects with a Business Case, to reflect limited uncertainty;
- Amber Status: 40% discount applied to Projects with an assigned Project Leader developing the Business Case, to reflect a greater level of uncertainty; and
- Red Status: 60% discount applied to Projects to which a Project Leader is still to be assigned, to reflect the greatest level of uncertainty.

7.4.4 The MTIP process, in September, sets the bottom line annual budget for the following year. Project Leaders reforecast in the following February, which in 2013/14 formed the basis of the budget upload into the Finance (HAIS) system. This is the budget that Project Leaders use to monitor against. The Parliamentary Estates Board monitor project spends and forecasts against the original MTIP figure.

7.4.5 For example, the Fire Safety Programme in the 25 year plan assumed a total Programme budget of £60m in a straight spend profile of £10m p.a. for 6 years. In September 2012, during the MTIP process a Green status was applied to the Project, reflecting priority rather than Business Case status, so a discount of 20% was applied. £10m was therefore set as the programme budget with £2m of over-programming allowance. In February 2013 the Project Leader reforecast the programme spend for 2013/14 as £2.6m. This figure was loaded into the Finance system as the ‘budget’. The balance of £5.4m was accounted for as an offset against the over-programming allowance.

7.4.6 The table below sets out the forecast position from MTIP stage through to the Q3 forecast position. **Appendix 3** provides project level detail.

[1] In 14/15 the Delivery Confidence Assessment was undertaken in order to set the bottom line budget as opposed to validating it.

	MTIP Sep-12 £m	HAIS Budget Feb-13 £m	Forecast Jun-13 £m	Forecast Sep-13 £m	Forecast Dec-13 £m
HoCommons					
Sum of Projects	44.8	39.8	33.7	30.3	26.9
Overprogramming	(14.4)	(10.1)			
Delivery Confidence Adjustment			0.0	(3.6)	(3.5)
Other*	0.0	0.7	(0.9)	(0.6)	(0.5)
Total	**30.4**	**30.4**	**32.8**	**26.1**	**22.9**
Variance (Over) / Under Spend		**0.0**	**(2.4)**	**4.2**	**7.5**
HoLords					
Sum of Projects	24.1	18.2	17.5	14.0	13.0
Overprogramming	(7.8)	(2.4)			
Delivery Confidence Adjustment				(1.6)	(1.8)
Other*	0.0	0.4	(0.6)	(0.4)	(0.4)
Total	**16.2**	**16.2**	**16.9**	**12.0**	**10.8**
Variance (Over) / Under Spend		**0.0**	**(0.7)**	**4.3**	**5.4**
Total HoC and HoL					
Sum of Projects	68.8	58.0	51.2	44.3	39.9
Overprogramming	(22.2)	(12.5)	0.0	0.0	0.0
Delivery Confidence Adjustment	0.0	0.0	0.0	(5.2)	(5.2)
Other*	0.0	1.1	(1.4)	(1.0)	(0.9)
Total	**46.6**	**46.6**	**49.7**	**38.1**	**33.7**
Variance (Over) / Under Spend		**0.0**	**(3.1)**	**8.5**	**12.9**

* Obsolescence adjustment, R&R

8 ISSUES AND RECOMMENDATIONS

8.1 Set out below, in response to the questions that the Review was asked to address, are the issues arising and recommendations.

8.2 What, if any, are the common causes for the capital under spend across the various elements of the Estates portfolio.

8.2.1 For the Projects reviewed, the common theme was that the MTIP process is over- optimistic in its assessment of likely Project delivery timescales, especially where programmes are still in the development phase. The over-programming methodology does not effectively compensate for this.

8.2.2 In 2013/14 the DCA calculation whereby projects are discounted according to the level of project certainty, as described in Section 7.4.3, was applied retrospectively to confirm the bottom line budget. This provided assurance that the overall level of budget was correct, however a number of flaws in this process, set out in more detail in Section 8.3.1, suggest that a more detailed assessment of the required budget would have resulted in a lower portfolio budget than that agreed.

8.2.3 It should be noted that there is also a process in February to reassess the annual budget requirements for Projects, which in some, but not all, cases is a more realistic assessment of budget need in line with project plans.

8.2.4 The key recommendations to address these issues and amend the budgeting and scrutiny process are set out in **Section 8.4** of this report.

8.3 What, if any, are the systemic weaknesses in our forecasting, review or oversight processes: either at portfolio, programme or project level.

Budget Setting and Change Control

8.3.1 In practice, the Review found a number of issues with the methodology for conversion of the 25 Year Plan into the MTIP and annual budget:

- The spend profile of Projects is not sufficiently challenged. There were examples where straight line profiles had been used rather than more appropriate standard construction S curve profiles (reflecting lower spends at project initiation (fees) and higher spends post tender (works)).

- Double counting between estate wide projects (e.g. fire, amenities, lifts) and refurbishment projects that will deliver some of the proposed works (this issue was not assessed as material for 13/14).

- Over-optimistic assessment of project delivery. The Delivery Confidence Assessment (DCA), which discounts the project budgets to reflect uncertainty does not compensate for this over-optimism. It is not applied at a detailed enough level. Instances were noted of Projects where plans were still being developed being assigned a Green status on the basis of a Programme Business Case (M&E); or based on priority (Fire Safety). The methodology does not sufficiently differentiate between different Project stages. There is a difference between a Project at pre-tender Business Case stage and one at Final Business Case stage, but both of these would currently attract a green status. This leads to a lack of insight into the financial risk profile of the budget.

8.3.2 Given the issues identified above, it is clear that the detailed budgets do not attract the required level of scrutiny and challenge from the outset.

8.3.3 There is no formal change control between the MTIP process and the re-profiling of annual budgets in February. There are therefore no clear change control processes to reconcile the capital programme and budget, as signed off by the Commons Commission and the Lords House Committee, and the annual budgets being actively worked to by Project Leaders.

8.3.4 In year Project budgets are adjusted, through formal Change Control, where a Full Business Case (FBC) has been completed and agreed for a Project. The FBC reflects the actual likely costs established through a works tender exercise. However, if a Project is budgeted at less than £10m, no FBC is required and budgets are not rebased to reflect the tender report (unless more funding is required and change control is then applied). An instance of this issue has been identified by the Internal Audit team where £1m remained in the Project budget and the forecast out-turn despite a favourable tender return.

In Year Forecasting

8.3.5 Project Leaders reforecast the spend profiles quarterly with Facilities Finance updating the forecasts in the intervening months based on information provided in monthly oversight meetings. The Review comments in more detail on the effectiveness (or otherwise) of these monthly oversight meetings in Section 8.3.8. The forecast position is not necessarily therefore either the most up to date position, or owned by the Project Leader.

8.3.6 Since September 2013 a Delivery Confidence Assessment (DCA) has been completed by Finance as part of the monthly forecasting process; which is discussed and agreed retrospectively with the PED Management Team. This compensates for the on-going optimism in Project Leaders' forecasting. It has been a useful indicator of likely underspend, nonetheless responsibility to provide accurate forecasts needs to remain with Project Leaders.

Reporting

8.3.7 A number of issues have been identified:

- Reporting focuses on the overall Project or Programme position. There is less focus on reporting cashflow and the in-year position.

- The required data is available but not necessarily co-ordinated or reconciled. Commercial Project Quantity Surveyor reports and Facilities Finance (HAIS) reporting are prepared on a different basis: for example Quantity Surveyors, often report cashflows net of VAT but HAIS reports include VAT. Project Leaders are often keeping their own stand-alone 'tracking' systems to reconcile the information. Examples of some co-ordinated reporting were seen but in general greater use needs to be made of Quantity Surveyor reports and more effort put into preparing data on a consistent and compatible basis. Prior to the start of the financial year (in February), Projects are reforecast and this data is entered into the Facilities Finance (HAIS) system to form the annual working budget. In year monitoring and reporting are not consistent between monitoring against the MTIP and the annual budget loaded into the Facilities Finance (HAIS) system. Project Leaders are monitoring against the HAIS budget (i.e. the February position) whilst reporting to PEB monitors against the MTIP position.
- The EPM (the PED project management system) which records current Project progress is also used for reporting purposes. The EPM reports do not hold the correct forecast position. There is a technical issue with the EPM link to the Facilities Finance (HAIS) system which renders the link no longer fit for purpose.

Review / Oversight

8.3.8 Oversight meetings are held to review each Project Leaders projects. The Oversight meetings are attended by the Project Leader, the Project Leaders line manager, a representative from Facilities Finance and a representative from the PED Programme and Planning team. The feedback to the Review Team was that these meetings are not necessarily adding value: they are used more to reconcile data held on different systems than to scrutinise and challenge plans. There is no additional or more detailed scrutiny of the largest spending or high risk Projects and Programmes.

Accountability

8.3.9 There is dispersed ownership and accountability for Project spend forecasting Project Lead accountability for in-year spend forecasting and spend monitoring is clear. Senior Responsible Owners (SROs) have responsibility for Project or Programme delivery but do not hold and are not currently accountable for the relevant budget(s). Project Leader oversight meetings are held with line managers, a Programme and Planning office representative and a Facilities Finance representative who do not necessarily have the delegated accountability for the Project and Programme budgets under review.

8.4 Recommendations to address systemic weaknesses in forecasting, review and oversight processes

Budget Setting:

8.4.1 Budgets need to be more realistic, and transparency is required around the budget risk and likely levels of in-year spend associated with Projects which are still being developed and are therefore subject to a greater level of uncertainty. The budget also needs to remain flexible enough to allow for Projects that are identified and arise in year to accommodate operational business requirements.

8.4.2 The following methodology is proposed for consideration (see **Figure 2 – Budget Setting**).

	PROJECT STAGE	BASIS of BUDGET		
		25 YEAR PLAN	**4 YEAR MTIP**	**ANNUAL BUDGET**
Increasing level of uncertainty	**Committed projects:** Projects where build contracts are in place	Based on latest QS report, ensuring cashflow has been converted into appropriate accounting periods.	Based on latest QS report, ensuring cashflow has been converted into appropriate accounting periods.	Based on latest QS report, ensuring cashflow has been converted into appropriate accounting periods. No discounting to be applied.
	High priority projects in development with an OBC: Projects that have an OBC but are pre-tender, or where planning and other permissions are still required	Based on latest QS report, ensuring cashflow has been converted into appropriate accounting periods	Based on latest QS report, ensuring cashflow has been converted into appropriate accounting periods	Set budget on QS latest estimate and cash flow profile, following scrutiny and challenge of likely milestone dates. In-year adjustment once tender process completed. Following scrutiny a discount may be applied for level of uncertainty in delivery dates until contract is awarded and work begins on site.
	High priority projects in development but without an OBC: Projects that have a project leader but the OBC is still in development	Project Leaders best estimate of likely project costs (as current), with project cashflow based on a standard construction S curve (to allow for lead in times)	Project Leaders best estimate of likely project costs (as current), with project cashflow based on a standard construction S curve (to allow for lead in times)	The first year of the MTIP (which sets the annual budget) should only be for required fees.
	High priority projects in business case development: projects that require a project leader and a scoping exercise	Best estimate of likely project costs (as current), to be based on likely estimate of when the project will be assigned to a Project Leader, with project cashflow based on a standard construction S curve.	Best estimate of likely project costs (as current), to be based on likely estimate of when the project will be assigned to a Project Leader, with project cashflow based on a standard construction S curve.	The first year of the MTIP (which sets the annual budget) should only be for required fees if there is a level of certainty that a Project Lead will be assigned in the year and that a fee spend will be required.
	Budget for smaller projects	Allowance to be made for projects; based on assessment of historical / likely future need.	Allowance to be made for projects; based on assessment of historical / likely future need.	Process to be put in place to identify, as far as possible during the planning round, potential organisational calls on the capital budget, recognising that an allowance also needs to be made for those projects that cannot be identified in advance.

Figure 2 – Budget Setting

8.4.3 This would result in:

- More transparent budgets against individual projects, and only projects where an OBC is in place but procurement and permissions are still to be completed would have a discount factor applied.

- A smaller budget with a higher delivery confidence; any potential acceleration in programme, for example moving from OBC to delivery sooner than expected, would be funded either from slippage elsewhere in the programme or RCOB allowances that are no longer required. It may also potentially require a request for Supplementary Estimates where there is a clear need to do so.

8.4.4 It is recommended that this methodology is tested against the 2014/15 budgets to determine how it would work in practice and allow for further refinement for consideration by the Parliamentary Estates Board.

8.4.5 In addition to the proposed methodology set out above, it is also recommended that:

- The status of the February validation of budgets should be clarified to ensure that plans remain in line with those agreed by the Commission and House Committee and that ownership and reporting of budgets is clear.

- Change Control at tender stage needs to be for all projects, not just those subject to a FBC.

- Facilities Finance need to ensure that cashflows are translated into the required accounting periods.

- There is a greater level of scrutiny and sign off by the SRO, or senior accountable budget holder. (The Review Team notes a recent initiative to strengthen SROs responsibilities for in-year spend monitoring).

- A process be put in place to identify, as far as possible, likely business requirements for smaller projects during the planning round.

Reporting and Monitoring:

8.4.6 A standard form of reporting from the commercial Project Quantity Surveyors should be agreed, ensuring that all Project costs are reported, reconciled to the Facilities Finance system and inclusive of VAT. Project Quantity Surveyors should be included in the monthly oversight meetings to help improve data quality, scrutiny and challenge.

8.4.7 Financial data held in EPM must be accurate to be useful. It is understood that a technical solution is being worked on to remedy the link between EPM and HAIS. In the short term, it is recommended that, until a robust technical solution is found, financial data on EPM is removed for reporting purposes.

Forecasting:

8.4.8 Robust individual Project forecasting should be undertaken monthly, supported by the new integrated reporting, with involvement from the Project Quantity Surveyors to ensure the most up to date information is reported and owned by the Project Leader.

Oversight and Challenge

8.4.9 The Review Team recommends that that enhanced scrutiny should be given to the major Projects and Programmes that contribute (at present) between 80% and 85% of annual budgets. Oversight meetings should be held monthly, led by a senior PED Manager accountable for project delivery, budget and spend. The Quantity Surveyors should be involved to improve data, understanding and financial scrutiny. Data should be validated and verified outside of this forum in preparation for a meeting focussed on progress and financial status. For the high spending Projects and Programmes it is also recommended that, at key stages in the planning and budgeting cycle, challenge meetings are held to ensure ownership from all those accountable for the planning and budgeting assumptions.

8.5 Whether our over-programming approach provides effective mitigation against underspend.

8.5.1 The Review revealed no common understanding of over-programming.

8.5.2 In essence, over-programming allowances have become a balancing figure between forecast spends and the MTIP budget figure agreed in the previous December.

8.5.3 Given the current level of underspend it is clearly not working as intended.

8.5.4 In budget terms, the sum total of project estimates is revised downwards to reflect both delivery capacity and to recognise that individual projects will not spend the total allowed in a given year given the stage of programme development that they have or will reach. As a management tool, it is not effective and there is no evidence that it is possible to allocate the surpluses to alternative Projects that are capable of consuming significant spend at short notice to achieve an in-year annual expenditure target.

8.6 Recommendation on over-programming approach

8.6.1 As set out in the recommendations for budget setting, it is recommended that the current over-programming methodology ceases.

8.6.2 Parliamentary Estates Department should continue to explore ways in which to effect worthwhile in-year fast-track spends at short notice. The increasing use of Framework procurements for Consultants is positive and the use of Contractor frameworks has been suggested to the Review Team as a mechanism that might accelerate procurement timetables. Contractor Frameworks could therefore help bring forward approved business case spends and introduce a degree of partnership, familiarity and greater delivery confidence.

8.7 Whether our capital forecast accuracy target is reasonable and achievable.

8.7.1 The current target is for capital outturn is to be within 5% of the agreed budget.

8.7.2 Given the inability in practice to bring forward Projects to absorb underspends and also given the timescales and uncertainty relating to business case development and procurement, there will always be variance on agreed budgets. There is scope for improvement in this respect for PED. The Review Team believes, however, that accuracy will only be improved once robust improvements in forecasting and reporting are achieved and embedded.

8.7.3 The Review has been unable to conclude what a reasonable tolerance level might be but setting a higher tolerance level and incremental improvements might be an appropriate way forward.

9 CONCLUSION AND PRIORITY RECOMMENDATIONS

9.1 The Review Team is aware of other initiatives and reports with a consequence for budgeting and forecasting that require implementation by PED. These include:

- A current initiative to review SRO responsibilities and accountabilities
- An Internal Audit report on Projects and Programmes reporting
- A recent review of RCOB processes

9.2 The Review Team believes that there are no inconsistencies in these initiatives but recognise that the recommendations arising from this Review need to be considered in the context of those of the other initiatives

9.3 This Forecasting Review has made a number of recommendations for consideration by the DG Facilities. In order of priority:

Immediate

9.4 The 2014/15 forecast should be reviewed, focusing on the largest sending projects, to ensure oversight of the financial risk profile associated with the budgets. A view can then be taken as to the appropriateness of the level of 2014/15 budget. The scrutiny should involve those senior managers with delegated budget authority, Facilities Finance, PED Programme and Planning office and the relevant Project Leaders and their Quantity Surveyors.

9.5 Budgets at risk should be identified as such, and a decision taken at PEB as to how to manage this position.

9.6 The proposed budget methodology should be tested against the 2014/15 projects to refine the proposal and make a recommendation to PEB before the start of the 2015/16 MTIP round.

9.7 Until a robust technical solution is found, financial data on EPM is removed for reporting purposes.

For action as soon as possible

9.8 Agree which Projects should be subject to enhanced monthly and quarterly scrutiny.

9.9 Agree terms of reference for monthly and quarterly oversight meetings and implement. Attributes of the meetings should include:

- Senior budget holder challenge.

- Agreed accurate data in advance.
- Must include commercial Project Managers and Quantity Surveyors for independent input.

9.10 Implement recommendations to improve data quality

- A standard form of reporting from commercial Quantity Surveyors should be agreed, ensuring that all Project costs are reported, reconciled to the Facilities Finance system and are inclusive of VAT.

For next MTIP process

9.11 Implement new budget setting process in line with suggestion following testing against the 2014/15 position.

9.12 The status of the February validation of budgets should be clarified to ensure that plans remain in line with those agreed by the Commission and that ownership and reporting of budgets is clear.

9.13 Change Control at tender stage needs to be for all projects not just those subject to a FBC.

9.14 Facilities Finance need to ensure that cashflows are translating into the required accounting periods.

9.15 A greater level of scrutiny and sign off by the SRO, or senior accountable budget holder, is required.

9.16 A process needs to be put in place to identify, as far as possible, likely business requirements for smaller projects.

Longer Term

9.17 PED should continue to explore ways in which to effect worthwhile in-year fast-track spends at short notice.

APPENDIX 1: TERMS OF REFERENCE

CAPITAL PROGRAMME FORECASTING REVIEW

Introduction

The 2013/2014 Period 6 Estates Financial Forecast shows a substantial Capital underspend forecast, for both Houses. This is due in large part to delays in key elements of 3 particular programmes: M&E Medium Term, Fire Safety, and Cast Iron Roofs; but almost all other areas show significant underspends, too. Previous forecasts had shown a slight overspend.

Previous underspends have been attributed to a serious shortfall in the number of Project Leaders. Staffing levels are now much improved, although there are still a number of vacancies. M&E, Fire, Roofs and Conservation have though benefitted from continuity of Senior Project Leaders over a considerable period.

Purpose

It seems therefore that something is wrong, either with our forecasting or with our expectations of its accuracy. The purpose of this review is to establish the causes of the problem, and if possible to offer suggestions for overcoming them.

Objective

The review outcome should enable PEB to recommend an Estate portfolio as part of the annual MTIP exercise with confidence that it will be delivered within the forecast tolerances agreed by the Management Boards and Member Committees.

Output

The Review should establish:

a. What, if any, are the common causes for the capital underspend across the various elements of the Estates portfolio?

b. What, if any, are the systemic weaknesses in our forecasting, review or oversight processes: either at portfolio, programme or project level?

c. Whether our over-programming approach provides effective mitigation against underspend.

d. Whether our capital forecast accuracy target is reasonable and achievable.

The Review should make any recommendations that it sees fit, including:

e. Steps to address any common causes of underspend.

f. Steps to address any weaknesses identified in our forecasting, review, oversight or project management processes.

The Review should also provide some context, by determining both the amount of capital investment achieved through the portfolio over each of the last 4 years, and the level of underspend. It would be helpful, too, to obtain benchmark figures for forecasting accuracy from other public sector areas, perhaps MoD and the NHS.

Reporting
The Review should report its findings to the PEB, for onward submission to the Accounting Officers and, should they so choose, to appropriate Member Committees.

This work will inform the 2014 MTIP planning round. It would helpful for it to complete by the end of financial year 2013/2014.

John Borley
PEB Chairman

APPENDIX 3: 2013/14 BUDGET AND FORECAST

	MTIP RAG Status	MTIP Prog/ Project Budgets	Over Programming	Adjusted MTIP by Prog./ Proj.	Reforecast / HAIS Budget	Q3 Forecast	Project Programme Variance Compared to:		
		Sep-12	Sep-12	Sep-12	Feb-13	Dec-13	MTIP	Adjusted MTIP	HAIS Budget
		£m	£m	£m	£m	£m	£m	£m	£m
Fit out 53 Parliament Street	Green	3.4	(0.7)	2.7	6.7	4.5	(1.1)	(1.7)	2.3
Cast Iron Roofs Overhaul - P1 STH RTR	Green	7.6	(1.6)	6.0	5.0	1.4	6.2	4.6	3.6
Amenities Refurbishment Programme - 7 Millbank	Green	1.2	(0.2)	1.0	1.3	1.7	(0.5)	(0.7)	(0.3)
Stone Conservation Westminster Hall	Green	2.5	(0.5)	2.0	2.8	1.2	1.3	0.8	1.6
Encaustic Tiles	Green	1.5	(0.3)	1.2	1.5	1.3	0.2	(0.1)	0.2
Fire Safety Programme	Green	10.1	(2.0)	8.1	2.6	2.3	7.8	5.8	0.4
M&E: WP1 Plant Room	Green	5.8	(1.2)	4.6	4.5	3.5	2.3	1.1	1.0
M&E: WP3 HV / LV Infras upgrdae	Green	9.0	(1.8)	7.2	1.5	0.6	8.4	6.6	0.9
M&E: WP4 Plant Rooms	Green	7.1	(1.4)	5.7	10.1	6.4	0.7	(0.7)	3.7
M&E: WP5 Capacity and condition	Green	1.0	(0.2)	0.8	1.0	0.2	0.9	0.7	0.9
M&E: WP7 Upgrade to chilled water system	Green	2.0	(0.4)	1.6	2.0	1.5	0.5	0.1	0.5
Major Refurbishment Cannon Row	Amber	3.9	(1.6)	2.4	4.5	0.3	3.6	2.0	4.1
Strategic Plan	Amber	0.7	(1.6)	(0.9)	2.0	1.4	(0.7)	(2.3)	0.6
Northern Estate -Security Works	Amber	1.9	(1.6)	0.4	0.0	0.0	1.9	0.4	0.0
Amenities Refurbishment Programme - Estate Wide	Red	2.0	(1.6)	0.4	1.0	0.1	1.9	0.3	0.9
Education Centre	n/a	0.0		0.0	0.0	1.3	(1.3)	(1.3)	(1.3)
Other		9.0	(5.6)	3.4	11.3	12.3	(3.3)	(8.9)	(1.0)
Total Projects		**68.8**	**-22.2**	**46.6**	**58.0**	**39.9**	**28.9**	**6.7**	**18.1**
Overprogramming / DCA		(22.2)			(12.5)	(5.2)	(17.0)	5.2	(7.3)
Other					1.1	(0.9)	0.9	0.9	2.0
		46.6	**-22.2**	**46.6**	**46.6**	**33.8**	**12.8**	**12.8**	**12.8**