LEADERSHIP GROUP

Project Cash Flow Forecasting

Executive summary

1. At its meeting on 20\textsuperscript{th} September 2010, OMG discussed the tendency for projects to show an under spend in the first half of the financial year. OMG asked for a discussion paper to be prepared in order to consider how to reduce the gap between predicted and actual spend on projects.

Issues

2. In order to enable the most efficient use of the overall funds available for projects, it is important that the overall portfolio is managed and monitored in a way that allows maximum flexibility and agility in the reallocation of funds between projects. This is an issue that will be increasingly important as the overall Parliamentary budget reduces.

3. The two following tables show the trend of predicted and actual cash flows in both the 09/10 and 10/11 financial years.
Analysis

4. As can be seen throughout both of the years shown there has been a persistent under spend in the first three quarters of the year, in spite of the reforecasting exercises in September and November which include an opportunity to change cash flow / phasing projections. The spike of expenditure in the last quarter of both years is very significant. In both years almost half of all project expenditure occurs (or is now due to occur) in the last 2 months of the year.

5. It is possible to identify a number of interrelated causes of the trend in under spending against forecast throughout the year.

Budgeting

6. A comparison of projects in the leadership portfolio in 10/11 in terms of original budget to current forecast outturn is shown over the page.
## 2010/2011 Project Budget Analysis

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Original</th>
<th>Latest</th>
<th>Change</th>
<th>%</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Election 2011</td>
<td>35</td>
<td>10</td>
<td>-25</td>
<td>71.43%</td>
<td>Costs this financial year are less than expected.</td>
</tr>
<tr>
<td>Web Project</td>
<td>420</td>
<td>420</td>
<td>0</td>
<td>0.00%</td>
<td>On budget in terms of financial expenditure.</td>
</tr>
<tr>
<td>IT Infrastructure Programme</td>
<td>1535</td>
<td>887</td>
<td>-648</td>
<td>42.21%</td>
<td>The initial budget for the programme was set on the basis of the previous tech refresh, prior to detailed planning on the actual solutions to be implemented.</td>
</tr>
<tr>
<td>Broadcast infrastructure programme</td>
<td>65</td>
<td>375</td>
<td>310</td>
<td>476.92%</td>
<td>The budget this year has increased due to various aspects of the programme being brought forward from the next financial year, as well as some additional investment as part of FRP savings.</td>
</tr>
<tr>
<td>Finance Change Programme Phase II</td>
<td>240</td>
<td>174</td>
<td>-66</td>
<td>27.50%</td>
<td>Budget for the programme was set before tenders had been received for the new expenses system or technical solutions for some of the projects having been agreed.</td>
</tr>
<tr>
<td>e-petitioning system</td>
<td>130</td>
<td>133</td>
<td>3</td>
<td>2.31%</td>
<td>Small authorised increase in budget due to additional functionality being included in the system design.</td>
</tr>
<tr>
<td>Debate Recording System</td>
<td>0</td>
<td>84</td>
<td>-84</td>
<td>100.00%</td>
<td>This was a new project that had not been budgeted for this year. It was brought forward in order to increase the financial savings brought with the new system.</td>
</tr>
<tr>
<td>Security Programme</td>
<td>390</td>
<td>200</td>
<td>-190</td>
<td>48.72%</td>
<td>The initial budget was set before tenders were received for design services, and progress has been slower than originally planned.</td>
</tr>
<tr>
<td>SPCB Carbon Management Plan</td>
<td>110</td>
<td>390</td>
<td>280</td>
<td>254.55%</td>
<td>Budget was added to this programme to allow for the installation of a replacement chiller system that will provide year on year electricity savings.</td>
</tr>
<tr>
<td>Chamber Desk systems</td>
<td>70</td>
<td>67</td>
<td>-3</td>
<td>4.29%</td>
<td>On budget</td>
</tr>
<tr>
<td>HR Change Programme</td>
<td>620</td>
<td>555</td>
<td>-65</td>
<td>10.48%</td>
<td>The budget was set prior to the receipt of tenders for the new HR system.</td>
</tr>
<tr>
<td>Enquiries Database</td>
<td>0</td>
<td>21</td>
<td>-21</td>
<td>100.00%</td>
<td>The enquiries database was approved after the budgeting process was completed.</td>
</tr>
<tr>
<td>OR Phase III</td>
<td>55</td>
<td>20</td>
<td>-35</td>
<td>63.64%</td>
<td>The majority of the project was cancelled.</td>
</tr>
<tr>
<td>Members Needs/CCP</td>
<td>80</td>
<td>80</td>
<td>0</td>
<td>0.00%</td>
<td>On budget.</td>
</tr>
</tbody>
</table>
7. As can be seen there has been, in some cases, a quite dramatic movement in the budgets for these projects between the original budget approval and the present time. It should be noted that, in overall terms, none of these projects is significantly above budget. The changes are either due to spend being accelerated from next year, because projects have been delayed, or because new projects have been approved through the portfolio management process after the initial budgeting timeframe.

8. The spend profile graphs show a general under spend trend across all months, but this position recovers in the last quarter as either new projects are carried out or projects from the next financial year are brought forward.

Timing of budgeting and reforecasting

9. A significant factor in accurately estimating cash flow is in the timing of the budgeting process and the opportunities to reforecast both the budgets and the cash flow estimates. In general, the budgets for the projects are put together by business areas in July of the year preceding that in which the money will be required. Although cash flows are not established until the start of the financial year, there is then no opportunity to alter either the project budgets or cash flow estimates until the first reforecast in September.

10. One inherent weakness is that projects that have been pulled forward into the previous financial year do not have the total budget requirement reduced at the start of the new financial year. This then sets the overall trend of underspend into the next financial year from the start.

Planning

11. There are two main areas where changes in project plans have an effect on the cash flow.

12. Firstly, the estimated phasing of project expenditure is generated at the beginning of the financial year, where many of the projects may not yet have gone through the formal PID stage and therefore do not have developed plans on which a reliable cash flow forecast can be readily based.

13. Secondly, there is deviation from planned project timescales resulting in a change from the projected phasing. This may be because the original plan was not good in the first place, or the result of unforeseen issues affecting the project.
Reporting

14. There is an opportunity for variance against predicted cash flow to be seen as a measure of organisational health. Should the leadership group adopt this stance then increased scrutiny will have an important part to play along with a more flexible system in driving any improvement.

Recommendation for making improvements

15. It is important to note that the improvement of project spend against cash flow budgets represents only approx 10% of the directly controllable SPCB costs. Performance against phased budget has also been an issue for certain categories of line budgets within the SPS, but the fluctuations are less marked than for projects. It may be that changes in the process for project forecasting could also help to drive improvements in line budget forecasts.

16. The Leadership Group is invited to discuss the recommendations below:

- It is recommended that an interim reforecasting exercise is carried out at the start of the financial year. This will give a much earlier opportunity to rebalance the budget for the year and allow more time for planning of any new or revised projects/activities. The information will be available with the first formal finance report (ie period 2) of the year. Adjustments to budgets would be made at this stage to reflect project expenditure accelerated into the previous financial year.

- It is recommended that all significant projects carry out a monthly cash flow reforecasting exercise, with a return being submitted to the Finance Office as part of the month end closedown process. This should allow for a much more accurate short term forecast with opportunity to change longer term forecasts as project planning accuracy develops through the year. We suggest there should be materiality limits on such changes and the Leadership Group is invited to consider a starting figure of £10k in any month.

- It is recommended that the monthly finance reports to LG include a specific section on variance against planned expenditure, in addition to this being reported in the quarterly portfolio reports for projects.

Resource Implications

17. Resource implications for Project managers would be quite low, and the activities expected in terms of good project management. There will be a requirement for increased collation and analysis of the results in Finance,
and how this will be achieved will be addressed in the Finance review that is part of the change management programme. There will also be a small amount of additional work for the PBV Manager in monitoring and reporting on the information to LG and following up any significant variances in tandem with the finance team.

**Dependencies**

18. There are no direct dependencies, possibly other than the finance review in terms of the work required to implement the changes and run the system.

**Governance issues**

19. Improved financial governance – nothing else affected

**Publication Scheme**

20. This paper should be published.

**Next steps**

21. Implement the new systems to support the recommendations in order to be implemented for the start of the 2011/12 financial year.

22. Guidance would be issued as part of the cash flow exercise at the start of the year.

**Decision**

23. LG is invited to endorse the recommendations set out in para 16 in respect of:
   - an interim reforecast at the start of the year
   - monthly re-forecasts of significant project expenditure and
   - monthly reporting of project expenditure variances

William Heigh
Projects and Best Value Manager
Financial Resources Group
February 2011