BCD 12

# CAPITAL & ASSET MANAGEMENT

## BUILDING CONTRACT DIRECTIVE

**DATE**: July 2012

REFERENCE

## MONTHLY CONTRACT REPORTS AND BUDGET MONITORING

1. **Generally**

For the purposes of monitoring expenditure the Lead Consultant is required to submit a report each month which provides information on the currently assessed final cost, and a forecast of the anticipated flow of expenditure in the various financial years. On most schemes the cost information will be provided by the Quantity Surveyor but it is essential that the Lead Consultant is jointly involved in providing the additional information required to give an overall assessment of the financial position on behalf of the professional team. It is the responsibility of the Lead Consultant to ensure that the report reflects the situation as he sees it and that the regular flow of reports is maintained. A vital element of the reports is the contribution required of the Engineering Consultants in that the work for which they are responsible represents a substantial part of the contract sum and may account for a substantial proportion of any variation in cost.

**See Also BCD. 11**

2. **Format:**

Reports are to be presented on form E101 (2 pages) along with a separate Appendix which is to show the detailed build up similar to that shown.

**Form E101**

The Format of the Appendix does not have to be identical but MUST show the following as a minimum:

a) A clear summary of the various elements of cost adjustments and anticipated final account figure.
b) A list of all Direct Orders and an anticipated overall final expenditure figure.
c) A statement highlighting reasons for a significant change in the anticipated final account figure from previous month.
d) A reconciliation of Client Funded items and variations between the level of funding being provided and the anticipated cost of the works.
e) List and description of work included for Dayworks, PC Sums, Provisional Sums, Architect's Instructions / Change Orders, Confirmation of Verbal Instructions, showing agreed or anticipated costs.
f) List and description of allowances for claims and an indication of whether agreed or anticipated costs.
g) List and description of other items affecting the project costs.

3. **Period of Submissions**

Commencing at the end of the first Valuation period of the construction and continuing each month thereafter, until Practical Completion is achieved. Ideally the reports should be submitted with the monthly interim valuations but the valuations must not be held up for the Cost Reports. An updated Report must be submitted each and every month until Practical Completion has been achieved

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and then with each valuation issued thereafter until the final account is submitted to WSCC.

4. **Period covered by each statement**

Each report relates to the current anticipated final cost as seen towards the end of that month.

5. **General Approach to forecasts**

(i) The contract reports including cash flow profiles are intended to provide the best and **most realistic** assessments that the Consultancy Team are able to make at the time they are submitted. They are to include allowances for **all** the factors which are likely to affect the scheme. At any one time, some factors will be very uncertain but the consultants should, none the less, use their judgement so as to provide as realistic an assessment as possible under the circumstances prevailing.

(ii) The report requires an entry for the project based upon an assessment of the best available information at the time and the "anticipated final expenditure" is to include allowances for any further expenditure likely to be incurred during the remainder of the contract. See (iii) and (iv) below.

(iii) If there are indications that a claim for loss and expense is likely to be incurred due allowance should be made in the calculation of "anticipated final account" with an identification of the reason. The claim may not materialise but the anticipated final account figures should reflect the probability that it will.

(iv) Reports which leave the authority to make allowances for imponderables are of little value as they do not provide a complete view of the situation. Judgement of the outcome of some factors is extremely difficult but only the professionals dealing with each particular scheme have sufficient knowledge of the works to be able to make a reasonable assessment. It may be appropriate to qualify a particular report in order to provide advice to the authority but such qualifications should relate to assessments of possible situations made in the reports and not to exclusions from the report.

(v) In calculating cash flow, if construction is not up to programme, the report should reflect this immediately it becomes apparent without waiting to see if the progress improves. The Contractor may, of course, subsequently make up time lost but, in the majority of cases, this does not happen. In the event of the works accelerating later the forecast can be amended to reflected this in subsequent reports.

(vi) It is important for cash flow profiles to reflect that which experience shows really happens on schemes as distinct from what ought to happen. For example, at practical completion, the only outstanding payment ought to be one half of the retention, but a realistic assessment should recognise that, in practice, for a variety of reasons, there are always other (sometimes considerable) amounts outstanding.

(vii) In the same context, the forecasts of payments relating to any one financial year should recognise that payments of certificates issued in the latter half of March are unlikely to occur before 31st March and, therefore, payment can be expected to fall in the following financial year.

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(viii) In almost all cases where the scheme balance or progress deteriorates the trend will be difficult to reverse and the report should reflect the problems as soon as possible.

(ix) It is to be emphasised that the monitoring of cash flows on schemes in the Capital Programme within financial years is an exercise of MAJOR IMPORTANCE carried out by the Section 151 Officer in consultation with other Departments with regular reports being presented to the Chief Officers at the Capital Appraisal Working Party meetings. **Cash flow predictions from the Monthly Report form part of this monitoring process and it is vital that the figures reflect realistic assessments of the situation.**

6. **Direct Orders**

The Lead Consultant must ensure that he is aware of all financial commitments placed against the approved financial provisions for the works.

The anticipated expenditure on reports should take proper account of WSCC purchase orders or other commitments, which may have been issued and are chargeable to the scheme. In cases where essential elements (eg service mains) have been omitted from the main contract it will be obvious that the work is likely to be the subject of a purchase order and the consultant should establish whether or not this is the case, and make allowance in the report.

Allowances for purchase orders that are chargeable against the finances available for the project should be reflected in the cash flow forecasts of expenditure for each financial year in the same way that expenditure under the main contract is forecast. This will involve regular liaising with the Project Manager.

7. **Action to restore the financial balance**

Where a report indicates that the contingencies balance on the contract has reduced significantly **the Lead Consultant must immediately take steps to correct the situation.** He should not await a request from the authority for explanations but should consider in consultation with the Quantity Surveyor and Engineers what savings can be made on the scheme and advise the Project Manager of his proposals. The Project Manager will submit these to the client department for approval before the modifications are implemented. If the client department does not approve some of the proposals it will, of course, be necessary to submit further savings for consideration.

8. **Approved Expenditure**

**Consultants are reminded that expenditure must be contained within the monies approved for the scheme. No authority exists to exceed this level of expenditure without prior written approval from the County Council.**

***CONCLUSION***